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INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 26, 2015

The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement

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Results in Brief

The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement

February 26, 2015

Objective

We determined whether the Combined Security Transition Command–Afghanistan (CSTC-A) and the Government of Islamic Republic of the Afghanistan's (GIRoA's) Ministries of Defense and Interior (MoD and MoI) have established effective controls over the contract management process.

Finding

GIRoA MoI and MoD did not have effective controls over the contract management process for U.S. direct assistance funding provided to sustain the Afghan National Security Forces. Specifically, the ministries did not adequately develop, award, execute, or monitor individual contracts funded with U.S. direct assistance. This occurred because the Ministry of Finance (MoF) did not sufficiently oversee MoD and MoI's planning, accounting, and expenditure of U.S. direct assistance funding, and MoD and MoI did not develop internal compliance functions within the ministries to ensure adherence to the Procurement Law and Bilateral Financial Commitment Letters (commitment letters).

MoD and MoI Inspectors General did not adequately oversee the contract management process. This occurred because the Inspectors General did not: identify areas of high risk within the process, conduct compliance audits or inspections, or investigate senior ministry officials.

Furthermore, CSTC-A has not fully developed the capacity of the ministries to operate effectively, independently, and transparently. This occurred because CSTC-A did not hold the ministries

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Finding (cont'd)

accountable for not instituting the necessary controls over the contract management process and did not enforce the requirements within the commitment letters.

As a result, future direct assistance funds are vulnerable to increased fraud and abuse because GIRoA had numerous contract award and execution irregularities and Procurement Law and commitment letter violations. Until CSTC-A mitigates these challenges, GIRoA will continue to depend on Coalition-provided capabilities.

Management Actions Taken

During the audit, we made observations and several suggestions to improve GIRoA and CSTC-A controls over U.S. direct assistance. CSTC-A reported several initiatives either planned or implemented to provide stronger controls over U.S. direct assistance. These initiatives included stricter language added to the commitment letters, improving the ministry IGs' oversight, and building ministerial capacity.

Recommendation

We recommend the Commander, Combined Security Transition Command–Afghanistan, use the ministerial advisory contract to place subject matter experts within the ministries to develop and increase the capacity to independently develop, award, execute, and monitor contracts funded with U.S. direct assistance to sustain the Afghan National Security Forces.

Management Comments and Our Response

The Commander, Combined Security Transition Command–Afghanistan, fully addressed all specifics of the recommendation, and no further comments are required. Please see the Recommendation Table on the next page.

Recommendation Table

Management	Recommendation Requiring Comment
Commander, Combined Security Transition Command–Afghanistan	No

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

February 26, 2015

MEMORANDUM FOR COMMANDER, UNITED STATES FORCES–AFGHANISTAN
COMMANDER, COMBINED SECURITY TRANSITION
COMMAND–AFGHANISTAN

SUBJECT: The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement (DODIG-2015-082)

We are providing this report for your information and use. The Government of Islamic Republic of Afghanistan Ministries of Defense and Interior did not have effective controls over the contract management process for U.S. direct assistance funding provided to sustain the Afghan National Security Forces. Specifically, the ministries did not adequately develop, award, execute, or monitor contracts funded with U.S. direct assistance. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Commander, Combined Security Transition Command–Afghanistan addressed all specifics of the recommendation and conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187.

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

Contents

Introduction

Objective

Our objective was to determine whether the Combined Security Transition Command–Afghanistan (CSTC-A) and the Government of Islamic Republic of the Afghanistan's (GIRoA's) Ministries of Defense and Interior (MoD and MoI) have established effective controls over the contract management process.[1] See the Appendix for the scope and methodology and prior coverage related to the objective.

We announced this audit as one in a series in anticipation of an FY 2015 National Defense Authorization Act requirement that the DoD Inspector General assess the capacity of GIRoA's MoD and MoI to manage and account for U.S. direct assistance, and to provide a briefing on the results to the House Armed Services Committee by December 31, 2014. This audit focused on the GIRoA contract management processes for contracts awarded with funds provided by U.S. direct assistance.

Background

In a February 2011 policy memorandum, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, authorized CSTC-A to provide Afghanistan Security Forces Fund (ASFF) resources to sustain the Afghan National Security Forces (ANSF)[2] directly to the Afghanistan ministries. The goal of this support was to develop ministerial capability and capacity in the areas of budget development and execution, payment of salaries, acquisition planning, and procurement. Establishing a formal process to manage these contributions ensures the Afghanistan ministries develop the skills and experience to provide security independently and operate successfully within the GIRoA. Furthermore, the process ensures contributions are provided and executed responsibly directly benefit the ANSF. DoD provided approximately $3.3 billion in ASFF direct contributions from October 2010 through October 2013 and expects to contribute an additional $13 billion between FY 2015 and FY 2019.

[1] For this report, we consider the contract management process to include requirements' development through the contract award, execution, and closeout phases.

[2] The ANSF consists of the Afghan National Army and Afghan National Police.

Roles and Responsibilities

Combined Security Transition Command–Afghanistan

CSTC-A is the DoD command that directs U.S. efforts to organize, train, and equip the ANSF. It is responsible for providing oversight and ensuring adequate fiscal controls are in place to safeguard appropriated ASFF direct contributions provided to the Afghanistan ministries. CSTC-A provides trained staff to collaborate with the Ministry of Finance (MoF), MoD, and MoI for budgeting, acquisition planning, procurement, financial management, and contract management and oversight. Finally, CSTC-A must ensure MoF, MoD, and MoI establish standard operating procedures and maintain adequate fiscal controls and auditable records to oversee ASFF direct contributions.

CSTC-A's CJ8 Directorate (CJ8) provides financial management oversight for U.S. direct assistance funding to GIRoA. Essential Function 1 is responsible for building sustainable financial management capabilities in the ministries to provide transparent oversight and controls. CJ8's Financial Management Oversight Division provides financial oversight and manages development of the commitment letters, monitors expenditures, and processes realignments; while the Audit Division, established in December 2013, provides independent, reasonable assurance GIRoA has transparent and accountable business processes, and executes direct assistance funding in accordance with CSTC-A's commitment letter and applicable laws. Specifically, the CJ8 Audit Division conducts internal audits of U.S. direct assistance funding transferred into the GIRoA financial systems.

Transition to the Resolute Support Mission

The NATO-led International Security Assistance Force (ISAF) has been helping the ANSF conduct security operations throughout the country. Since 2011, responsibility for security has gradually been given to the Afghans, and ISAF's mission has shifted from a combat role to an enabling role focused on training, advising, and assisting. With the launch of the final stage of the transition process in June 2013, the ANSF have taken the lead for security across the whole country. Thus, ISAF will complete its mission at the end of 2014.

In 2015, a new, smaller, noncombat mission (Resolute Support) will train, advise, and assist MoD, MoI, MoF and ANSF at the ministerial, institutional, and operational levels. Specifically, the emphasis of the Resolute Support mission will be to improve the capacity of the MoD and MoI to execute functions such as planning, programming, and budgeting processes; resource management; and procurement. Advisors will align with Afghan components performing eight essential functions and associated sub-functions.

Most notably, Essential Function 1 is focused on the ANSF's resource management and procurement departments, with an emphasis to generate funding requirements, develop a resource-informed budget, and follow through by responsibly executing the spending plan.

Essential Function 2 will ensure transparency, accountability, and oversight in the ANSF's financial and nonfinancial processes. The focus of capacity development efforts on eight essential functions is intended to develop the long-term sustainability of the Afghan security institutions and security forces.

Afghanistan Ministry of Finance

The Afghanistan MoF is responsible for the receipt, accounting, and expenditure of U.S. direct contributions. MoF is the Chief Financial Officer of GIRoA and is responsible for financial operations. MoF established the Procurement Policy Unit (PPU) to prescribe policies and propose improvements in procurement practices. MoF also established the Contract Management Office to regulate and coordinate the management of GIRoA's contracts, including procurement contracts, and to exercise GIRoA's contract management powers included in those contracts.

Afghanistan Ministries of Defense and Interior

MoD and MoI are responsible for managing the Afghan National Army and the Afghan National Police, respectively. The Afghanistan MoD and MoI are responsible for developing, validating, and justifying requirements for their annual budget, to include the use of ASFF direct contributions. The ministries must also design and implement internal controls to ensure that the ASFF direct contributions are used as intended. MoD and MoI are required to build the capacity and capability to manage the commitment, obligation, and expenditure of ASFF direct contributions, to include the development and maintenance of supporting documentation.

Bilateral Financial Commitment Letters

CSTC-A and GIRoA sign annual agreements called Bilateral Financial Commitment Letters (commitment letters) that commit CSTC-A to fund specified portions of the MoD and MoI budget. Under international law, these commitment letters do not bind CSTC-A and GIRoA, but serve as bilateral agreements intended to assist GIRoA in implementing the necessary management and controls to enhance the transparency and accountability of U.S. direct assistance. In addition, the commitment letters establish the responsibilities for all parties that sign the commitment letter.

GIRoA Procurement Law

MoF's Procurement Law of 2008 (as amended in 2009) governs public procurement in Afghanistan. This law was enacted to regulate the public procurement of goods, services, and coordination of works, both domestic and foreign, for administrations, institutions, and mixed companies. The purposes of the law are to ensure transparency in procurement proceedings, provide effective control of financial affairs and public expenditures, and provide tendering opportunities for participation to all eligible bidders in procurement proceedings. The Procurement Law is supplemented by the Rules of Procedure for Public Procurement in Afghanistan and a series of circulars providing supplementary guidelines and implementing procedures.

Transition of ANSF Service Contract Requirements

As of December 2014, CSTC-A managed 83 contracts supporting GIRoA, valued at approximately $1.54 billion, required to sustain the ANSF. However, by 2029, 37 of these contracted requirements, valued at approximately $525.6 million, are expected to transition to GIRoA to award and manage.

Table. CSTC-A Managed ANSF-Support Contracts Transitioning to GIRoA

2015-2029 TRANSITION OF REQUIREMENTS		
Year	# Contracts	Total Dollar Amount
2015	16	$143,726,997
2016	8	$187,512,182
2017	10	$75,585,392
2018	0	$0
2019	0	$0
2020	0	$0
2021	0	$0
2022	1	$5,375,245
2023-2029	2	$113,400,000
Total	**37**	**$525,599,816**

Source: CSTC-A

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses related to development, awarding, execution, and monitoring of GIRoA-awarded contracts funded with U.S. direct assistance. Specifically, we identified internal control weaknesses related to improperly developing contract requirements, potential improper awarding of contracts, and lack of oversight to monitor contractor performance. We will provide a copy of the report to the senior officials responsible for internal controls at CSTC-A and the Afghanistan MoF, MoD, and MoI.

Finding

GIRoA Needs to Improve the Controls Over the Contract Management Process for U.S. Direct Assistance Funding

GIRoA MoI and MoD did not have effective controls over the contract management process to develop requirements, award, execute, or monitor contracts funded with U.S. direct assistance to sustain the ANSF. This occurred because MoF did not sufficiently oversee MoD and MoI's planning, accounting, and expenditure of U.S. direct assistance funding. Additionally, MoD and MoI did not develop internal compliance functions within the ministries to ensure adherence to the Procurement Law and commitment letters.

In addition, MoD and MoI Inspectors General (IGs) did not adequately oversee the contract management process. This occurred because the IGs did not: identify areas of high risk within the process, conduct compliance audits or inspections, or investigate senior ministry officials.

Furthermore, CSTC-A has not fully developed the capacity of the ministries to operate effectively, independently, and transparently for contracting. This occurred because CSTC-A did not hold the ministries accountable for not instituting the necessary controls over the contract management process and did not consistently enforce the requirements within the commitment letters.

As a result, future direct assistance funds are vulnerable to fraud and abuse because GIRoA had numerous contract award and execution irregularities and Procurement Law and commitment letter violations. For example, the MoD significantly overestimated fuel requirements, accepted both late and altered bids for a fuel contract award, and could not provide sufficient documentation to support $76 million in fuel requirements and deliveries on a previously MoD-awarded contract.[3] CSTC-A does have initiatives underway to address the capacity shortfalls for contract management within the ministries; however, until it mitigates these challenges, GIRoA will continue to depend on Coalition-provided capabilities.

[3] According to CSTC-A officials, the base contract was awarded for $61 million; however, GIRoA immediately increased the contract by 25 percent ($15 million).

GIRoA Has Not Fully Established or Effectively Managed the Contract Management Process

The GIRoA ministries have not fully instituted or effectively managed the process for awarding, executing, or monitoring contracts funded with U.S. direct assistance. CSTC-A's efforts to mentor and advise focused to establish and develop the capabilities of MoD and MoI to manage the contracting process for U.S. direct assistance in support of the ANSF. CSTC-A's goal is to increase ministerial capacity to the point where MoD and MoI can demonstrate that U.S. direct assistance is being appropriately used. CSTC-A then plans to transfer the management of large service contracts, such as fuels and vehicle maintenance, to CSTC-A-funded, ministry-awarded and managed contracts. To make progress to achieve those goals, GIRoA could improve its controls over the contracting process by complying with legal and commitment letter requirements and performing more robust contract oversight.

GIRoA Did Not Properly Develop Requirements, Award Contracts, or Monitor Contractor Performance

The ministries do not have the ability to adequately develop, award, execute, or monitor contracts funded with U.S. direct assistance. CSTC-A assisted MoD and MoI with budget development, execution, payment, and internal operations to ensure transparency and efficiency. However, the ministries continue to remain heavily dependent upon CSTC-A for contract management assistance. Specifically, improvements are needed for defining the contract management process, accurately defining requirements, justifying contract value increases, and monitoring contractor performance.

MoI Did Not Have a Defined and Documented Contract Management Process

According to CSTC-A officials, MoI did not establish a defined and documented contract management process from requirements development through invoice and payment for its goods and services. A defined and documented process is critical for ensuring that all goods and services are ordered, delivered, and received in accordance with the procurement plan, and that the contractor's performance is adequately managed. In addition, it provides transparency and accountability, ensures compliance with procurement regulations, and establishes a monitoring and payment system.

CSTC-A officials stated that they did not know if standardized processes within the budgetary units and provincial procurement offices of MoI were in place. As a result, CSTC-A officials are not certain whether MoI consistently complied with the GIRoA Procurement Law. From an advisory standpoint, CSTC-A officials stated the absence of a documented process did not allow CSTC-A's senior advisors the opportunity to review a process to identify risks and vulnerabilities and make the required corrections and recommendations.

MoD Did Not Accurately Develop Fuel Requirements

MoD did not consistently develop accurate contract requirements. For example, the ministry did not develop accurate fuel requirements for the FY 1394[4] fuel contract awarded in September 2014. MoD has a recurring requirement to provide fuel to support MoD training and operating sites and operational forces. Previously, CSTC-A purchased the fuel to power MoD vehicles, generators, and power plants. In FY 1394, the MoD fuel requirement transitioned from a CSTC-A-awarded and managed contract to a ministry-awarded and managed contract.

MoD projected annual fuel requirements of $461.2 million; however, a CSTC-A analysis determined that this projected amount far exceeded the actual demand.

MoD projected annual fuel requirements of $461.2 million; however, a CSTC-A analysis determined that this projected amount far exceeded the actual demand. For example, MoD's projection included an allowance of 100 kilometers per day for every vehicle and for operating every generator continuously. However, according to CSTC-A officials, approximately 30 percent of MoD vehicles are unserviceable, and generators do not operate continuously. The CSTC-A analysis calculated the MoD fuel requirement at approximately $152 million. The ministry ultimately awarded the contract for $280 million, which included reserves of $80 million and $48 million for a potential increase in the tempo of operations and fluctuations in fuel prices, respectively. Therefore, MoD overestimated its requirements by at least $181.2 million.

Ministries Increased Contract Prices by 25 percent Without Justification

CSTC-A officials stated that GIRoA increased some of its contracts by 25 percent without providing supporting documentation to justify the increase. Article 48 of the GIRoA Procurement Law, "Contract Modification and Price Adjustment," states

[4] The Afghanistan fiscal year is December 21 through December 20; therefore, fiscal year 1394 is from December 21, 2014, through December 20, 2015.

that a contract modification exceeding a 25-percent increase in value requires the initiation of a new procurement proceeding. However, the Special Procurement Commission,[5] or appropriate award authority, can modify the contract modifications for increases up to 25 percent.

For example, the Special Procurement Commission increased the previously awarded MoD 1/3 Fuel contract by more than $15 million (25 percent) within 5 days of the original contract award date and asked CSTC-A to pay for it. According to CSTC-A officials, MoD did not have any operational or financial requirements to support the increase. Ultimately, because CSTC-A officials determined the increase to be "unjustified" and a "possible vehicle for corruption," they refused to pay for the $15 million increase.

Ministries Did Not Properly Monitor Contractor Performance

According to CSTC-A officials, the ministries did not actively monitor and document contractor performance. GIRoA-developed guidance titled "The Rules of Procedure for Public Procurement" and the Procurement Law require ministry verification of goods and services procured to ensure the correct quantity was received, met the technical standards defined in the contract, and was delivered on time. However, CSTC-A officials stated the GIRoA contracting process lacked a contracting officer's representative function;[6] instead, the ministries may appoint an inspection committee for each contract to ensure qualitative and quantitative procurement performance. Yet, the inspection committee is not provided with defined procedures to ensure contractor performance. As a result, CSTC-A officials stated that ministry inspections are ineffective. For example, when CSTC-A officials attempted to reconcile documentation for the MoD 1/3 Fuel contract, they determined that MoD had not started the inspections and that it had no forms to document how much fuel it received from the contractors.

GIRoA Did Not Comply with Procurement Law and Commitment Letters

GIRoA Procurement Law regulates the public procurement of goods and services and ensures transparency in procurement proceedings, while the commitment letters between GIRoA and CSTC-A implement internal controls over the contract

[5] The Special Procurement Commission consists of the Minister of Justice, the Minister of Finance, and the Minister of Economy. The Minister of Finance serves as the Commission Chairman. When the monetary value of the supply and procurement of goods and services exceeds specific threshold limits set by Article 91 of the Procurement Law, the Special Procurement Commission must approve the contract.

[6] According to CSTC-A officials, a contracting officer's representative is responsible for technical monitoring or administration of a contract, such as verifying that the contractor performed the technical and management requirements of the contract in accordance with the contract terms, conditions, and specifications.

management process to improve transparency and accountability. However, in several instances, the ministries did not comply with the requirements and conditions in Procurement Law and commitment letters.

Procurement Law Violations

The ministries violated several GIRoA Procurement Law provisions when awarding contracts. GIRoA Procurement Law provides detailed guidance on the bid submission and evaluation processes of potential contractor bids. Article 32, "Submission of Bids," stated that bids submitted after the deadlines are rejected. Furthermore, Article 33, "Opening and Evaluation of Bids," stated the procuring entity will not accept any requests for changes in, or negotiate any terms of the bids with the potential bidders.

According to CSTC-A officials, the MoD Acquisition Agency accepted late bids and allowed vendors to alter their bids after submission. For example, a bidder on the previously awarded MoD 1/3 Fuel contract submitted a bid within the established timeframe. However, according to CSTC-A officials, the bidder was allowed to submit two bids after the bidding process closed; both bids were lower each time and eventually, the bidder won the $76 million contract.

Commitment Letter Violations

The ministries violated several commitment letter requirements. For example, the commitment letter required that the ministries maintain auditable records of all disbursements, including supporting documentation. CSTC-A CJ8 audits determined that the ministries did not consistently maintain contracts, invoices, and disbursement documents. Specifically, for the MoI's Municipal Services contract, CJ8 auditors stated MoI could not locate contracts to allow auditors to validate performance requirements against the goods received. In addition, MoI could not provide supporting documentation for M-16[7] payment orders, valued at $3.1 million. As a result, CJ8 recommended withholding $3.1 million from MoI for the unaccountable and unsupported M-16 payment orders.

[7] According to CSTC-A officials, the M-16 is a GIROA Request for Payment form required for the payment of goods and services. No government payment is to be made without a properly prepared and authorized M-16 with appropriate supporting documentation.

Oversight of the Contract Management Process Needs Improvement

GIRoA did not adequately monitor the ministries' use of U.S. direct assistance. The Procurement Law and the Rules of Procedure for Public Procurement regulate the GIRoA contract management process. These documents outline the general policies and procedures for the ministries to follow to award and administer contracts consistently and transparently. MoD and MoI need internal and independent oversight to improve the contract management process that identifies and corrects instances of ministry noncompliance. However, according to CSTC-A officials, the GIRoA offices responsible for providing this oversight—the internal audit offices of MoF, MoD, MoI—did not perform this function.

Ministry of Finance Oversight

CSTC-A officials stated the MoF's PPU did not adequately oversee the ministries' contract management process. Article 80 of the Procurement Law created PPU within MoF as a performance monitor in the field of procurement. PPU issued guidelines (referred to as circulars) for the general interpretation and application of the Procurement Law. For example, PPU Circular 1 required the ministries to prepare an annual procurement plan and directed PPU to supervise and monitor how their procurement plans were executed. PPU Circular 7 required PPU to monitor the ministry's proceedings to determine efficiency and compliance. Specifically, PPU is required to conduct audits to ensure compliance with the GIRoA Procurement Law. In addition, PPU Circular 3 created the Contract Management Office as the authority to regulate and coordinate the management of procurement contracts.

Although this office was responsible for contract management, CSTC-A officials stated PPU did not detect that MoD contracts were often not in line with the procurement plan and included many unanticipated requirements, often significantly overstated, and that contract irregularities existed.

Ministries Need to Conduct Internal Audits

CSTC-A officials stated that the ministry internal audit offices were ineffective. According to MoF, a key role of internal auditing is providing assurance that internal controls are in place and designed to reduce risks and achieve program goals and objectives. MoF envisioned an internal audit office within each ministry to:

- determine the level of compliance with established laws, policies, procedures, and plans;

- appraise the soundness, adequacy, and application of accounting, financial, and other controls in place; and
- ensure the integrity and reliability of financial and operational information produced by each ministry.

CSTC-A officials said they were unaware of any ministry internal audits or the capacity of the offices to conduct them. For example, the ministries' internal audit office did not detect the significant internal control problems identified by routine CJ8 audits. For example, one CJ8 audit determined that MoD "lacked controls to provide reasonable assurance it appropriately spent 6,247,677,672 Afghani ($120,564,988) for clothing requirements." To address these concerns, the CJ8 audit made several recommendations to MoD, including establishing a secondary review process to ensure all payment orders are entered into Afghanistan Financial Management Information System (AFMIS). In addition, CJ8 recommended CSTC-A withhold more than $32 million from future disbursements for noncompliant purchases, and has withheld the funding from the FY 1394 MoD commitment letter.

One CJ8 audit determined that MoD "lacked controls to provide reasonable assurance it appropriately spent 6,247,677,672 Afghani ($120,564,988) for clothing requirements."

GIRoA Ministry Inspectors General Did Not Identify Areas of High Risk and Did Not Conduct Compliance Audits

The MoD and MoI IGs did not adequately oversee the contract management process. This occurred because the IGs did not: identify areas of high risk within the process, conduct compliance audits or inspections, or investigate senior ministry officials.

According to CSTC-A officials, the ministry IGs did not conduct risk assessments to determine the highest risk areas in the contract management process. This step is critical to effective oversight because it identifies areas the IGs need to focus on to determine whether GIRoA has adequate internal controls in place to protect U.S. direct assistance funding from fraud, waste, and abuse.

GIRoA has issued policies, procedures, and guidance addressing the contract management process; however, CSTC-A officials continue to identify recurring deficiencies and weaknesses in the process during their audits. Consistent,

comprehensive, and effective oversight of the high-risk areas will improve the process, reduce corruption, and ensure that contractor performance is in accordance with contract requirements, that overpayments do not occur, and that services were provided.

Furthermore, the ministry IGs did not investigate senior ministry officials. For example, CSTC-A officials provided a letter from the GIRoA Office of National Security Council, Executive Office, alleging "blatant and gross violations of the Procurement Law" with respect to the MoD 1/3 Fuel contract. The National Security Council provided this letter to the MoD and MoD IG in March 2014; however, according to CSTC-A officials, the MoD and MoD IG did not investigate the matter. According to CSTC-A officials, the IGs were not independent from ministry officials, which made them reluctant to identify and investigate any allegations of fraudulent activities. As a result, CSTC-A officials stated that the IGs did not report a single case of fraud or abuse by a general officer to the GIRoA Attorney General's office for prosecution.

During our meeting with MoD IG officials in September 2014, they stated their office inspected ministry operations, including the previously awarded MoD 1/3 Fuel contract. We requested copies of their inspection and audit reports. MoD IG officials stated they would translate the reports and provide them to CSTC-A for us. In addition, MoD IG officials stated they have previously provided CSTC-A with their inspection and audit reports. However, CSTC-A officials stated they have repeatedly requested copies of any MoD IG reports; yet, the MoD IG has not provided any reports. As of December 2014, the MoD IG had not provided the reports we requested. CSTC-A officials need the MoD IG reports to gage the capacity and willingness of the IG offices to identify fraud, waste, and abuse.

CSTC-A Has Not Developed the Required Level of Ministerial Capacity

CSTC-A has not adequately developed the ministries' capacity to manage U.S. direct assistance. CSTC-A's U.S. Direct Assistance Standard Operating Procedure stated its senior advisors were required to ensure the ministries established appropriate standard operating procedures and maintained adequate fiscal controls and auditable records of all disbursements, including supporting documentation. In addition, CSTC-A sought to develop ministerial capacity by assisting and overseeing the ministries' budget development, execution, payment, and internal operations to ensure transparency and efficiency.

(U//REL TO NATO/ISAF) According to CSTC-A officials, one of the main reasons the ministries did not develop the required level of capacity was internal pressure to not allow the Afghans to fail. Furthermore, CSTC-A officials stated that pressure to maintain hard-fought gains and not compromise ANSF operations resulted in the Coalition overlooking ministerial shortcomings. A June 2013 CSTC-A briefing on Functional Advising of the ministries stated:

> We cannot let the Afghans fail. When required, we must be prepared to step in and 'do' what needs to be done to insure [sic] failure does not occur.

Because of this approach, CSTC-A officials often performed ministerial functions, did not enforce commitment letter requirements, and allowed MoF to exclude their mentoring presence.

CSTC-A Often Performed Ministerial Functions

According to CSTC-A officials, to prevent future ANSF operational failures, such as the lack of fuel for military vehicles to conduct patrols, CSTC-A often developed the requirements and procurement plans for the ministries. By developing and validating the ministries' requirements and procurement plans, CSTC-A ensured timeliness and accuracy; however, it also created a continued dependence by the ministries on CSTC-A.

CSTC-A Assisted with Requirements Development

(U//REL TO NATO/ISAF/AFG) CSTC-A's Direct Assistance Standard Operating Procedure required CSTC-A officials to provide advice during the requirements development, validation, and delivery phases. CSTC-A officials stated they often developed and validated requirements for the ministries, because in many instances, ministry officials did not analyze consumption data or identify ANSF priorities to determine the exact amount required. The ministries instead took the last year's requirements and added 10 percent when developing requirement projections.

In addition, CSTC-A officials stated the ministries frequently provided requirements packages that were not executable. For example, MoD senior advisors stated that approximately 100 packages were rejected, and MoD had to resubmit the packages, which resulted in delays. CSTC-A officials stated that it was easier for them to do the analysis and develop an accurate requirements projection. CSTC-A officials stated they performed the analysis, which resulted in more timely and accurate requirements, and better protected U.S. direct assistance funding.

CSTC-A Assisted Developing Ministry Procurement Plan

The Procurement Plan defines each ministry's spending priorities for force sustainment. CSTC-A officials stated the ministries were continually late with their procurement plan submissions and did not develop meaningful procurement plans. For example, CSTC-A officials stated that MoI developed its annual procurement plan without considering the requirements necessary to support the National Police Strategy. According to CSTC-A officials, this occurred because the ministries relied upon CSTC-A's review to identify inconsistencies and gaps within their plans. Consequently, CSTC-A officials stated it was easier and faster to develop the plans for the ministries. However, this approach did not increase the capacity within the ministries to independently develop their plans.

CSTC-A Did Not Consistently Enforce Internal Controls in the Commitment Letters

CSTC-A did not enforce the ministries' compliance with commitment letter requirements that established key internal controls over U.S. direct assistance. CSTC-A agreed to fund MoD and MoI as long as the ministries demonstrated continued progress in improving transparency, accountability, and oversight of direct assistance by following multiple conditions. According to CSTC-A officials, commitment letter conditions were to help GIRoA implement the necessary oversight and controls to satisfy independent auditors and the International Community. The ministries struggled to comply with two commitment letter requirements on the use of the AFMIS and maintaining auditable records of disbursements.

Afghanistan Financial Management Information System

The commitment letters contained conditional requirements for the ministries, such as the mandatory use of the AFMIS Purchasing model before contract award. According to CSTC-A officials, AFMIS is a critical internal control feature for CSTC-A because it provides data to conduct internal audits and identify ineligible disbursements. In addition, CSTC-A officials stated that AFMIS, if fully implemented, would help build confidence in the ministries' management of U.S. direct assistance. The commitment letters stated that any contract awarded and payment made outside of these systems will not be funded with direct assistance. However, CSTC-A officials acknowledged that the ministries did not consistently abide by this commitment letter requirement.

Maintaining Auditable Records

The commitment letters required that the ministries maintain auditable records of all disbursements and supporting documentation; however, CSTC-A officials stated that the ministries did not maintain the required documentation. For example, GIRoA payments require a properly prepared and authorized M-16, with appropriate supporting documentation. CJ8 audits identified instances where payments were made without the M-16s. CJ8 audits also determined internal control weaknesses with identifying M-16s containing incorrect object codes that could not be linked to the correct contracts. This is a significant internal control issue that, if not corrected, could allow multiple payments to vendors for the same goods or services. Furthermore, CSTC-A officials stated that in many cases, the ministries could not provide the contract, invoice, or disbursement documents.

Ministerial Oversight Capacity Suffered Because the MoF Removed CSTC-A Advisors

According to CSTC-A officials, the limited oversight capacity of MoF was a direct result of its decision to remove CSTC-A advisors from its offices approximately 3 years ago. The Procurement Law established PPU to monitor the GIRoA's procurement process. Specifically, PPU oversaw the ministries' procurement plans, procurement proceedings, and contract management. However, CSTC-A officials stated that PPU did not perform this oversight. Without this oversight, the ministries awarded and managed contracts that did not comply with the provisions of GIRoA's Procurement Law.

CSTC-A officials stated their advisors could have improved ministerial oversight capacity to help the MoF and PPU identify risk areas within the contract management process, develop audit plans, and conduct audits to determine whether the ministries complied with applicable GIRoA Procurement Law and regulations.

To Build Capacity and Transparency, CSTC-A Officials Must Hold GIRoA Accountable

As a result, future direct assistance funds are vulnerable to fraud and abuse because GIRoA had numerous contract award and execution irregularities and Procurement Law and commitment letter violations. CSTC-A officials' past concerns focused on maintaining gains made by the ANSF; therefore, they allowed the ministries to violate commitment letter requirements and Procurement Laws without financial repercussions. However, this approach resulted in the continued

reliance upon CSTC-A and a potential increase of fraudulent activities within the ministries. CSTC-A officials acknowledged this approach worked in the short term; however, it did not build the ministerial capacity required for GIRoA to manage U.S. direct assistance.

Providing senior advisors to mentor the ministries and including strict internal controls within the commitment letters will help build capacity and transparency as long as CSTC-A officials hold GIRoA accountable. Specifically, CSTC-A needs to require that the three ministries (MoD, MoI, and MoF) and their IGs perform the internal and external oversight roles necessary to identify, report, and correct contract irregularities; and investigate corruption and fraudulent activities.

CSTC-A officials stated they are now using a "controlled failure" approach. This approach allows GIRoA officials to struggle so they learn to cope with the consequences. For example, CSTC-A is committed to holding the ministry and contractor accountable for providing the required documentation to substantiate delivery and consumption for the recently awarded MoD Fuel contract. If the required documentation is not available, CSTC-A will deduct 25 percent, and MoD will have to determine how to accommodate the shortage. CSTC-A officials stated, for instance, if the 207th Corps cannot support a $16 million payment request for fuel, it would receive $12 million. MoD will have to determine how to make up for the shortage, which may involve shifting fuel from one Corps to another. According to CSTC-A officials, the message to GIRoA officials will be that they must solve their problems in the future and not rely on CSTC-A to do it for them.

CSTC-A Initiatives to Improve Controls for Direct Assistance

During the audit, we made several suggestions to improve GIRoA and CSTC-A controls over U.S. direct assistance. In November 2014, CSTC-A reported several initiatives were either planned or implemented to provide stronger controls over the management of U.S. direct assistance. These initiatives included stricter language added to the commitment letters, improving the ministry IGs' oversight, and building ministerial capacity.

Stricter Language Added to the Commitment Letters

CSTC-A officials agreed that the language in previous commitment letters provided the GIRoA ministries with too much room for interpretation. CSTC-A officials thoroughly reviewed previous commitment letters and the past performance of MoD, MoI, and MoF, and took steps to improve the GIRoA management of U.S. direct assistance. For example, CSTC-A officials reviewed the MoD 1/3 Fuel contract and discovered MoF put the original contract amount, $61 million, on a letter of credit (essentially an advance to the central bank that the vendor could draw on). MoF executed the letter of credit without CSTC-A knowledge and approval. CSTC-A mandated that all letters of credit using U.S. direct assistance require advance CSTC-A approval in the FY 1394 commitment letters.

Improved Oversight by Ministry Inspectors General

During our conversations with CSTC-A officials responsible for increasing the capacity of the ministry IGs, we expressed our concerns about their apparent lack of oversight and unwillingness to investigate instances of alleged fraud. CSTC-A officials stated they developed a comprehensive program that will help the IGs identify the high-risk areas within the contract management process. According to CSTC-A officials, the MoD IG, in November 2014, agreed to implement the program, with the expectation of full implementation by December 2015. After the ministry IGs identify the high-risk areas within the contract management process, CSTC-A's senior advisors to the ministries will then focus their efforts on mentoring their ministry counterparts to make the necessary adjustments to reduce the risks; while CSTC-A's senior advisors to the ministry IGs will mentor their counterparts to include these areas in their annual audit plans.

With respect to investigating senior GIRoA officials involved in potentially corrupt activities, in November 2014, CSTC-A officials mentioned the IGs had independently identified and investigated two cases against general officers and were referring those cases to the GIRoA Attorney General's office.

In addition, we suggested CSTC-A include a condition in the commitment letters requiring that ministry IGs provide CSTC-A with copies of all audits and inspections conducted over U.S. direct assistance. CSTC-A officials agreed with our suggestion; however, they indicated at the time of our suggestion, it was too late to include this condition in the FY 1394 commitment letters. CSTC-A officials stated they would include this requirement when GIRoA provides its list of carryover

contracts in January 2015. In addition, CSTC-A officials stated they will address the issue in the FY 1395 commitment letters. Furthermore, CSTC-A officials stated they would review the ministry IGs' audits and inspections to determine whether they provided reasonable assurance on the ministries' compliance with applicable laws and regulations.

Holding GIRoA Accountable for Procurement Law and Commitment Letters Violations

CSTC-A officials agreed with our assessment that they must hold GIRoA accountable for violations of the Procurement Law and commitment letters. CSTC-A officials provided several examples in which they held GIRoA accountable. For example, CSTC-A officials determined that MoD and MoI abused their FY 1392 food contracts. The ministries incurred more than $78 million in food bills over the mutually agreed-to commitment letter levels. The ministries continue to ask CSTC-A to pay this amount; however, CSTC-A has refused to pay.

Ministerial Capacity Building Efforts

CSTC-A officials acknowledged that MoD and MoI lacked the capacity and capability to manage U.S. direct assistance. However, with the change of mission to Resolute Support, CSTC-A is shifting its emphasis to "functionally based"[8] advising, with the intent of building the capability and capacity of MoD and MoI to manage U.S. direct assistance.

Subject Matter Experts

CSTC-A awarded a ministerial advisory contract to increase financial management capacity and internal control systems. This contract provides Western-educated Afghan nationals as subject matter experts (SMEs) and technical experts to train, advise, support, and enhance the operational and strategic capabilities of MoD and MoI with the intent of improving ministerial effectiveness. For example, CSTC-A officials stated that approximately 270 SMEs will be available in January 2015 and sent to the ministries to focus on improving program management, processes and systems development, and acquisition and procurement competencies.

During the audit, we suggested that CSTC-A use SMEs to improve the capacity and abilities of several offices within the ministries. For example, we suggested that SMEs be placed at the budgetary units to mentor the requirements development process, at the provincial level to define and document MoI's contract management process, and within the ministries to develop the capacity to audit internal

[8] According to CSTC-A officials, functionally based advising is assigning advisors to a functional category as opposed to an individual ministry office. Examples of functional categories include Human Resource Management, Logistics and Sustainment, Resource Management, Information Technology/Engineering/Communications, and Procurement.

controls. In November 2014, CSTC-A officials agreed and stated they will assign several SMEs to address these areas within the ministries. By implementing the report recommendation, CSTC-A could use the ministerial advisory contract to place SMEs within the ministries to develop and increase the capacity to independently develop, award, execute, and monitor contracts funded with U.S. direct assistance to sustain the ANSF.

Bi-Weekly Contractor Meetings

According to CSTC-A officials, the MoD and the contractor presented documentation in support of the $76 million MoD 1/3 Fuel contract, which CSTC-A determined to be both insufficient and fraudulent. Specifically, there was a lack of fuel requirements, and there was "doctored" documentation for the amount of fuel delivered. Even though CSTC-A refused to pay for the $15 million modification, CSTC-A officials stated they wanted to avoid that situation on future large dollar contracts. Therefore, CSTC-A established bi-weekly contractor meetings to vet contractor invoice documentation.

The meetings, consisting of CSTC-A, the contractor, and ministry officials, allow CSTC-A officials to review the contractor's documentation and evaluate its adequacy and completeness. CSTC-A officials stated they used this meeting to show the contractor and ministry officials the required documentation needed. With each successive meeting, CSTC-A officials stated they took on more of an advisory position and provided guidance as responsibility passed to ministry officials to review the contractor's documentation. As a testament to the success of the bi-weekly contractor meetings, CSTC-A officials pointed to the MoI fuel contract. According to CSTC-A officials, the contractor provided the required documentation, and both the contractor and ministry officials learned exactly what documentation was required for payment.

CSTC-A included in the FY 1394 MoD commitment letter mandatory bi-weekly fuel meetings between MoD, contracted vendors, and CSTC-A representatives. The focus of the meetings will be to determine whether MoD consumption and fuel deliveries have been documented transparently and to verify that fuel orders were based upon actual consumption needs of vehicles, equipment, and operations.

Re-Engaging Ministry of Finance

CSTC-A officials agreed with our assessment that MoF needed to provide more oversight of the contract management process. CSTC-A officials stated part of the problem was that CSTC-A did not have a senior advisor to MoF in several years to build its capacity to oversee the process. In late October 2014, CSTC-A officials re-engaged with MoF officials, who granted CSTC-A office space. In November 2014, CSTC-A officials appointed three liaisons to MoF and considered methods to further increase MoF's capacity with additional SMEs.

We suggested CSTC-A's MoF liaisons request the MoF's PPU conduct comprehensive assessments of the MoD and MoI contract management capacity, from requirements development through contract execution. These assessments will identify high-risk areas for the ministries, which will allow CSTC-A to dedicate advisors to those areas in need. CSTC-A officials agreed with our suggestion and stated it will be included within their capacity-building efforts.

Continued Oversight Presence Under the Resolute Support Mission

(U//FOUO) As agreed to at the Lisbon Summit in 2010, NATO allies and operational partners will end the ISAF mission on December 31, 2014, and transition to the Resolute Support mission on January 1, 2015. CSTC-A officials stated that the Resolute Support mission will provide further support for the continued development and sustainment of the ANSF and institutions until December 31, 2015. At the conclusion of the Resolute Support mission, Office of the Under Secretary of Defense for Policy officials stated that the Defense Security Cooperation Management Office–Afghanistan will be established.

The Defense Security Cooperation Management Office–Afghanistan will focus on three functional areas:

- train, advise, and assist;
- foreign military financing/pseudo foreign military sales; and
- grant program oversight.

The grant program oversight function will be responsible for oversight of continued direct assistance funding to GIRoA. The current CJ8 function will be absorbed into grant program oversight to provide increased transparency and accountability. The exact number, location, and types of positions for the office are still being

determined; however, CSTC-A and Office of the Under Secretary of Defense for Policy officials stated that an oversight function will exist within the Defense Security Cooperation Management Office–Afghanistan, regardless of the size.

Recommendation, Management Comments, and Our Response

Recommendation

We recommend the Commander, Combined Security Transition Command–Afghanistan, use the ministerial advisory contract to place subject matter experts within the ministries to develop and increase the capacity to independently develop, award, execute, and monitor contracts funded with U.S. direct assistance to sustain the Afghan National Security Forces.

Combined Security Transition Command–Afghanistan Comments

The Commander, Combined Security Transition Command–Afghanistan, agreed, stating that the Combined Security Transition Command–Afghanistan has implemented a number of programs and initiatives to address the concerns in this report. For example, in addition to providing subject matter experts to support the eight key functional areas, the Combined Security Transition Command–Afghanistan is developing the Corps and Provincial Specialists Program to provide Afghan experts as advisors at each of the Corps/Regional headquarters. The program will provide qualified expertise in several functional areas, such as contracting, budgeting, and rule of law. For more details on the Combined Security Transition Command–Afghanistan's programs and initiatives, see pages 26-28.

Furthermore, the Deputy Commander, United States Forces–Afghanistan, supported the Commander, Combined Security Transition Command–Afghanistan's response and approach.

Our Response

Comments from the Commander, Combined Security Transition Command–Afghanistan, addressed all specifics of the recommendation. The proposed actions meet the intent of the recommendation, and no further comments are required.

Appendix

Scope and Methodology

We conducted this performance audit from August 2014 through December 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the internal controls implemented within the GIRoA MoD and MoI for U.S. direct assistance provided for the sustainment of the ANSF. We reviewed MoF criteria to understand the GIRoA contract management process. Specifically, we reviewed the MoF's Procurement Law and Rules of Procedure for Public Procurement to document the contract management process in Afghanistan.

We conducted site visits to the International Security Assistance Force Headquarters and MoD in Kabul, Afghanistan. We interviewed officials from CSTC-A and MoD to discuss the GIRoA and CSTC-A controls over U.S. direct assistance. Specifically, we interviewed CSTC-A officials to identify potential internal control weaknesses for the direct funding provided for the continued sustainment of the MoD and MoI. We reviewed previous audits conducted by the CJ8 office to identify internal control weaknesses and Procurement Law and commitment letter violations. In addition, we reviewed CSTC-A documentation, including internal briefing charts, to determine whether CSTC-A addressed previously identified weaknesses within the GIRoA contract management process.

Use of Computer-Processed Data

We did not rely on computer-processed data to perform this audit.

Use of Technical Assistance

We did not use technical assistance in conducting this audit.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Inspector General (DoD IG), and the Special Inspector

General for Afghanistan Reconstruction (SIGAR), issued six reports related to the audit objective. Unrestricted GAO reports can be accessed at http://www.gao.gov. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm. Unrestricted SIGAR reports can be accessed at www.sigar.mil/audits/reports.html.

GAO

Report No. GAO-14-680T, "Afghanistan Oversight and Accountability of U.S. Assistance," June 10, 2014

Report No. GAO-13-218SP, "Afghanistan Key Oversight Issues," February 2013

Report No. GAO-11-710, "Afghanistan Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government," July 2011

DoD IG

Report No. DODIG-2014-102, "Government of the Islamic Republic of Afghanistan Needs to Provide Better Accountability and Transparency Over Direct Contributions," August 29, 2014

SIGAR

SIGAR Special Projects 15-14-SP, "Direct Assistance Review of Processes and Controls Used by CSTC-A, State, and USAID," October 2014

SIGAR Special Projects 14-12-SP, "Comprehensive Risk Assessments of MoD and MoI Financial Management Capacity could Improve Oversight of Over $4 Billion in Direct Assistance Funding," November 2013

Management Comments

United States Forces–Afghanistan

HEADQUARTERS
UNITED STATES FORCES-AFGHANISTAN
BAGRAM, AFGHANISTAN
APO AE 09354

USFOR-A DCDR-S

9 February 2015

MEMORANDUM FOR United States Central Command Inspector General (CCIG), MacDill Air Force Base, FL 33621

SUBJECT: Response DODIG's Draft Report, D2014-0213, "The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement"

1. I have read MG Semonite's response and support CSTC-A's initiatives for controls over the GIRoA contract management process. MG Semonite and his team are the right set of professionals to help lead the Ministries through fiscal challenges and implement initiatives that lead the Ministry leadership to tackle head-on: fiscal discipline, internal controls, and accountability.

2. We remain committed to U.S. taxpayers and donor countries to maintain accountability of our efforts to train, advise, and assist at the strategic level is an important aspect of our overall operations. DODIG's impact on identifying improvement areas has been an important tool for us to leverage accountability with all the Ministries.

3. The point of contact is [redacted].

Encl
CG CSTC-A's Response, 28 Jan 15

JOHN M. MURRAY
Major General, U.S. Army
Deputy Commander, Support
United States Forces-Afghanistan

Combined Security Transition Command–Afghanistan

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DEPUTY CHIEF OF STAFF SECURITY ASSISTANCE
COMBINED SECURITY TRANSITION COMMAND – AFGHANISTAN
KABUL, AFGHANISTAN
APO AE 09356

DCOS SA/CSTC-A 28 January 2015

MEMORANDUM THRU

United States Forces-Afghanistan (CJIG), APO AE 09356
United States Central Command (CCIG), MacDill AFB, FL 33621

FOR: Office of the Department of Defense - Inspector General, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: CSTC-A Draft Report Response on DoD Report **No. D2014-D000JB-0213.000** "The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement."

1. Reference: Discussion Draft for Proposed Report No. D2014-D000JB-0213.00; Department of Defense (DoD) Inspector General (IG).

2. The purpose of this memorandum is to provide a response to recommendations made in DoD Report **No. D2014-D000JB-0213.000** "The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement."

3. Combined Security Transition Command-Afghanistan (CSTC-A) commends the DoD IG's efforts to strengthen capacity of the Government of the Islamic Republic of Afghanistan (GIRoA) to develop, plan, execute, and monitor contracts funded with U.S. direct assistance. CSTC-A concurs with the DoD IG's recommendation and has already begun to take steps to develop capacity, while maintaining accountability, transparency, and oversight of U.S. funds. CSTC-A has developed three different programs aimed at placing personnel with specified expertise in key functional areas across GIRoA. Through these projects, CSTC-A expects increased capacity and capabilities at the ministries to independently develop, award, execute and monitor contracts to sustain the Afghan National Security Force. We continue to welcome a dialog between CSTC-A and the DoD IG to help not only strengthen our accountability, transparency, and oversight but to ensure the most efficient and effective use of American and donor nation funding.

4. The point of contact for this action is [redacted] or via e-mail at [redacted]

TODD T. SEMONITE
Major General, U.S. Army
Commanding

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Combined Security Transition Command–Afghanistan (cont'd)

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CSTC-A DRAFT REPORT RESPONSE
"The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement"
(DoD Draft Report 2014-0213)

1. Recommendation: We recommend the Commander, Combined Security Transition Command-Afghanistan, use the ministerial advisory contract to place subject matter experts within the ministries to develop and increase the capacity to independently develop, award, execute, and monitor contracts funded with U.S. direct assistance to sustain the Afghan National Security Forces.

Response:

Combined Security Transition Command-Afghanistan (CSTC-A) concurs with the Department of Defense (DoD) Inspector General's (IG) recommendation and has enacted a number of programs and initiatives to address the concerns. The Ministries' procurement system has not yet matured to an effective level and continues to struggle with both efficiency and the execution of internal controls. As a result, CSTC-A has implemented tighter controls and slowed the transition of procurement responsibilities until ministerial capacities and capabilities can be effective. The focus of CSTC-A's initiatives has been fiscal discipline, addressing internal controls, and overall accountability to improve confidence in direct funding execution. These initiatives address the high risk areas that currently effect critical systems in budget, procurement, and logistics.

CSTC-A has conducted thorough reviews of performance of the Ministry of Defense (MoD), the Ministry of Interior (MoI), and the Ministry of Finance (MoF) to improve their supervisory management of their budget. The 1394 Commitment Letters provide condition-based funding tied to requirements that must be met by the ministerial components. The ministries are required to utilize the Afghanistan Financial Management Information System (AFMIS) Purchasing Module and Procurement Management Information System (PMIS) for all contracts. In addition, Direct Contribution funds are not released until the Ministry issues its approved Procurement Plan and Spend Plan. These requirements not only help to provide accountability and oversight, but establish internal controls that can build ministerial capability to maintain effective oversight.

In addition to the Commitment Letters, CSTC-A has addressed the ministerial capability and capacity shortfalls by enacting a number of contracts to support our efforts. The General Support Contracting Center awarded a contract, on behalf of CSTC-A, for the Ministerial Advisory Contract Services (MACS) to support the MoI and the MoD. This program, sometimes referred to as the Oxus program, is named after the contractor executing the program. The Performance Work Statement requires strategic-level subject matter and technical expertise in five functional areas: Human Resource Management, Logistics and Sustainment, Resource Management, Information/Technology/Engineering, and Communications and Procurement. In each functional area, technical experts will train, advise, and assist ministerial leadership and employees to strengthen management and technical proficiencies. As a result of this contract, the types of improvements expected at the strategic level are capacity building, capability building, and enterprise process improvement. At the Operational level, improvement is expected in decision making, procurement of goods and services, and financial management. Under the MACS contract, 50 Afghans are employed and charged to support the five functional areas.

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Combined Security Transition Command–Afghanistan (cont'd)

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CSTC-A DRAFT REPORT RESPONSE
"The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement"
(DoD Draft Report 2014-0213)

In addition to MACS, the MoI has a subject matter expert (SME) program to provide strong and sustainable networks of knowledgeable, experienced, and trained personnel placed in key functional areas. The functional areas are Finance, Payroll, Procurement, Logistics, Engineering, Information and Communications Technology, Human Resources, and Programming. The SME Program, currently in the process of full implementation, will have experts working alongside Afghan National Police personnel to improve functional processes, procedures, and reporting at all levels. With 16 SMEs currently in the program aligned toward the functional areas of Finance and Procurement, the MoI plans to hire a total of 145 Finance and Procurement SMEs by Summer 2015 for Kabul and the Provinces. In addition, CSTC-A is currently investigating a SME program for the MoD.

Finally, CSTC-A is developing the Corps and Provincial Specialists (CAPS) Program to provide Afghan experts as advisors at each of the Corps/Regional headquarters. The program provides qualified expertise in the following specialized functions: Contracting, Budget, Rule of Law, Human Resources, Supply/Maintenance, Intelligence, Facility Management, and Engineering. The comprehensive training program includes orientation at the ministry level prior to beginning work at the Corps/Regional level. The training program familiarizes the contracted personnel with laws, policies, and procedures within their function prior to beginning work. CSTC-A coordinates and monitors progress through reporting requirements to the Resolute Support essential function offices. Through both of these projects, MACS and SME, CSTC-A expects increased capacity at the ministries to independently develop, award, execute and monitor contracts to sustain the Afghan National Security Forces.

In order to address improvements in the capability and capacity of GIRoA as suggested by the DoD IG findings, however, the cooperation of multiple agencies is necessary. As outlined in our response, we are working to improve upon the capability and capacity of the ministries as a part of the Afghan Security Institutions with the management of the Afghan Security Forces Fund and its fiscal leverage. We are also instituting new programs that will ensure train, advise, and assist efforts continue in the areas of procurement support, requirements planning, and budgeting. Moreover, initiatives to address and challenge institutional corruption have been integrated into our fiscal levers, as a means to promote transparency and improve oversight. These efforts, coupled with the work of a multitude of governmental agencies and departments, as well as the International Community, will aid in strengthening the ministerial capacity of GIRoA as a whole.

APPROVED BY: [redacted]

PREPARED BY: [redacted]

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Acronyms and Abbreviations

AFMIS	Afghanistan Financial Management Information System
ANSF	Afghan National Security Forces
ASFF	Afghanistan Security Forces Fund
CSTC-A	Combined Security Transition Command–Afghanistan
GIRoA	Government of Islamic Republic of Afghanistan
IG	Inspector General
ISAF	International Security Assistance Force
MoD	Ministry of Defense
MoF	Ministry of Finance
MoI	Ministry of Interior
PPU	Procurement Policy Unit
SME	Subject Matter Expert


INSPECTOR GENERAL
INTEGRITY
EFFICIENCY
DEPARTMENT OF DEFENSE

Whistleblower Protection
U.S. Department of Defense

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

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