

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR Audit 13-4

AFGHAN NATIONAL ARMY: CONTROLS OVER FUEL FOR VEHICLES, GENERATORS, AND POWER PLANTS NEED STRENGTHENING TO PREVENT FRAUD, WASTE, AND ABUSE



JANUARY
2013

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT SIGAR REVIEWED

Since 2005, Congress has appropriated more than \$50 billion to train, equip, and sustain the Afghan National Security Forces (ANSF), which include the Afghan National Army (ANA) and Afghan National Police. The NATO Training Mission-Afghanistan/ Combined Security Transition Command-Afghanistan (CSTC-A) has primary responsibility for purchasing ANA's petroleum, oil, and lubricants (POL) and works with top-level (above-Corp) ANA and Ministry of Defense (MOD) officials. The International Security Assistance Force Joint Command provides oversight and assistance to operational and tactical commands. The MOD is responsible for requesting, distributing and accounting for ANA fuel.

This report assesses (1) internal controls to account for ANA POL and prevent fraud, waste, and abuse; (2) whether funding requests for ANA POL were based on accurate data; and (3) CSTC-A's efforts to ensure the MOD has sufficient capacity to manage the purchase, delivery, storage, and consumption of ANA POL following the drawdown of U.S. and coalition forces by the end of 2014. SIGAR obtained data and met with officials from the International Security Assistance Force, CSTC-A, Task Force 2010, the Department of Defense Inspector General, U.S. Army Audit Agency, and the Defense Logistics Agency. This report builds on a September 2012 interim report and alert letter. SIGAR conducted this work in Kabul, Afghanistan from February 2012 to January 2013 in accordance with generally accepted government auditing standards.

January 2013

AFGHAN NATIONAL ARMY: CONTROLS OVER FUEL FOR VEHICLES, GENERATORS, AND POWER PLANTS NEED STRENGTHENING TO PREVENT FRAUD, WASTE, AND ABUSE

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WHAT SIGAR FOUND

CSTC-A lacked sufficient accountability in the process used to order, receive, and pay for POL for ANA vehicles, generators, and power plants. This lack of accountability increases the risk that U.S. funds and fuel will be stolen. Specifically, SIGAR found that

- CSTC-A records relating to fuel purchases paid for between March 2010 to February 2011 were missing;
- CSTC-A's data on fuel purchases covering the period March 2011 to March 2012, was inaccurate and incomplete; and
- CSTC-A could not account for fuel that was spilled or lost.

In addition, CSTC-A's processes for price approval, ordering, receipt, delivery and payment of fuel were beset by major vulnerabilities. For example:

- CSTC-A approved payments for fuel without verifying vendors' statements that they had made deliveries in full and of acceptable quality.
- CSTC-A fuel orders were not based on required



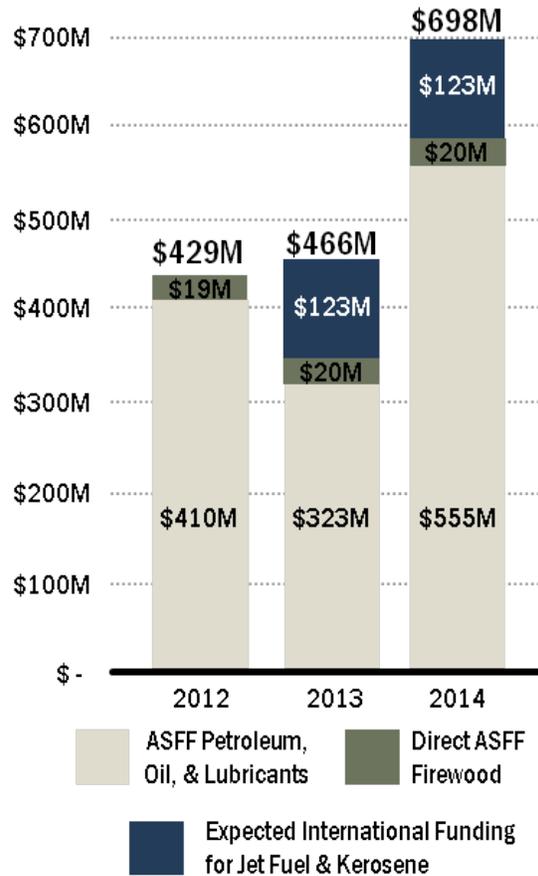
ANA 2,700 liter (700 gallons) fuel truck at Pol-e-Charkhi on May 23, 2012.

consumption data and, for power plants, the fuel orders did not follow the authorized process.

Second, SIGAR found that CSTC-A based its estimates for funding on unsupported data, which potentially overstates actual requirements. The approximately \$2.8 billion that CSTC-A estimates will be necessary to fund purchases of ANA POL between fiscal years 2014 and 2018 are based on questionable calculations. In addition, SIGAR estimates that CSTC-A should have more than \$266 million of fiscal year 2012 funds still available to purchase fuel in fiscal year 2013.

Lastly, despite concerns about ANA's capacity to purchase fuel, CSTC-A plans to directly contribute more than \$1 billion in U.S. funds to the Afghan government to purchase ANA fuel over the next 6 years. CSTC-A's assessments of MOD's capacity, coupled with SIGAR and the Army Audit Agency reports, have questioned whether MOD can adequately serve as a steward of public resources.

Estimated Current and Anticipated Annual ANA POL Funding Requirements (in million USD)



Source: Afghanistan Security Forces Fund enacted amount for fiscal year 2012, CSTC-A request for fiscal year 2013, and CSTC-A estimates for fiscal years 2014.

WHAT SIGAR RECOMMENDS

SIGAR makes six recommendations to the Commander, NTM-A/CSTC-A. Specifically, SIGAR recommends three actions to improve accountability of U.S. funds and purchased fuel through full compliance with required MOD logistics processes; two actions to develop more realistic fuel budget requests and future year funding estimates, with the potential for realizing substantial savings immediately and in the future; and one action to assure proper stewardship and transparency of U.S. funds and fuel purchases when fuel management responsibility is transferred to the MOD. CSTC-A generally concurred with the recommendations and provided comments, which are reproduced in this report.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 24, 2013

The Honorable Leon E. Panetta
Secretary of Defense

General James N. Mattis
Commander, U.S. Central Command

General John R. Allen
Commander, U.S. Forces-Afghanistan, and
Commander, International Security Assistance Force

Lieutenant General Daniel P. Bolger
Commanding General, NATO Training Mission-Afghanistan/
Combined Security Transition Command-Afghanistan

This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) audit of the Afghan National Army's (ANA) logistics capability for petroleum, oil, and lubricants. This report also expands on the issues discussed in our interim report (SIGAR 12-14) and alert letter (SIGAR Alert Letter 12-2), issued September 10, 2012. This report includes six recommendations to the Commanding General, CSTC-A, designed to improve the fuel purchasing process.

When preparing the final report, we considered comments from CSTC-A, which are reproduced in appendix III along with SIGAR's responses to them. CSTC-A and U.S. Army Central generally concurred with all six recommendations. SIGAR conducted this audit under the authority of Public Law No. 110-181, as amended, the Inspector General Act of 1978, and the Inspector General Reform Act of 2008 and in accordance with generally accepted government auditing standards.

A handwritten signature in black ink, appearing to read "John F. Sopko", enclosed in a rectangular box.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS & ACRONYMS

ANA	Afghan National Army
ANSF	Afghan National Security Forces
CSTC-A	Combined Security Transition Command-Afghanistan
DOD	Department of Defense
MMC-A	Material Management Center-Army
MOD	Ministry of Defense
POL	petroleum, oil, and lubricants
SIGAR	Special Inspector General for Afghanistan Reconstruction

The Combined Security Transition Command-Afghanistan (CSTC-A)¹ is responsible for equipping and training the Afghan National Army (ANA) through the Afghanistan Security Forces Fund. This fund was created by Congress to provide the Afghan National Security Forces (ANSF) with equipment, supplies, services, and training, as well as facility and infrastructure repair, renovation, and construction.

The Department of Defense (DOD) Inspector General reported significant concerns with the logistical readiness of the ANA, and other U.S. government audits and investigative units have cited significant concerns with the purchase of fuel for ANSF and Coalition Forces across Afghanistan. Specifically, in December 2011, the DOD Inspector General assessed that U.S. and coalition efforts to develop sustainable ANA logistics had been deficient in several areas including, among other things, fuel accountability and management internal controls.²

In September 2012, SIGAR issued an interim report on ANA petroleum, oil, and lubricants (POL) that addressed concerns on the impending transition of fuel responsibilities and funds to the Afghan government beginning January 1, 2013.³ Specifically, we found that

- CSTC-A does not have a valid method to estimate fuel requirements, and proposed ANA POL funding amounts are not supported by a systematic process to determine actual fuel needs; and
- CSTC-A has not addressed compliance and accountability challenges within the entire ANA fuel process.

Also in September 2012, we issued an alert letter addressing the possible destruction of financial documents from ANA POL purchases.⁴ The letter discussed the alleged shredding of ANA POL payment records totaling nearly \$475 million from October 2006 to February 2011. Subsequently, CSTC-A officials stated that a portion of these payment records—dating from March 2010 through February 2011—were actually converted to electronic media but, as of December 2012, CSTC-A had not located the electronic copies. We also conducted a separate investigation into the alleged document shredding and confirmed that two CSTC-A fuel ordering officers had shredded fuel records for the period of March 2010 through February 2011, citing efficiency and saving physical storage space as factors in deciding to scan and shred the documents. Although we found no evidence of criminal activity, we noted that the failure to retain these records violated certain federal regulations and DOD orders.⁵

This audit, which builds on our earlier interim report and alert letter, assesses U.S. efforts to develop ANA's capability to acquire, distribute, and account for POL supplies to its forces. Specifically, this audit assesses

- the internal controls in place to provide accountability for ANA POL and to prevent fraud, waste, and abuse;
- the extent to which CSTC-A's funding requests for ANA POL are based on accurate requirements data; and
- CSTC-A's efforts to ensure the Afghan Ministry of Defense (MOD) has sufficient capacity to manage the purchase, delivery, storage, and consumption of ANA POL following the drawdown of U.S. and coalition forces by the end of 2014.

¹ CSTC-A is a joint command with the NATO Training Mission-Afghanistan. Because CSTC-A distributes and manages all U.S. funding to support the ANSF, this report refers to CSTC-A.

² DOD IG Special Plans and Operations: *Assessment of U.S. Government and Coalition Efforts to Develop the Logistics Sustainment Capability of the Afghan National Army*, dated December 9, 2011 (Report No. DODIG-2012-028).

³ *Interim Report on Afghan National Army Petroleum, Oil, and Lubricants*, dated September 10, 2012 (SIGAR 12-14).

⁴ "Destruction of Operation Enduring Freedom Financial Documents Related to ANA POL Audit," dated September 10, 2012 (SIGAR Alert Letter 12-2).

⁵ *Afghan National Army: \$201 Million in DOD Fuel Purchases Still Unaccounted For because Records Were Shredded*, December 20, 2012 (SIGAR Investigative Report 13-1).

To accomplish our objectives, we reviewed relevant MOD guidance and financial and fuel-related documentation and interviewed officials at the International Security Assistance Force, CSTC-A, DOD Inspector General, U.S. Army Audit Agency, Defense Logistics Agency, and Task Force 2010.⁶ We reviewed a sample of ANA paid fuel orders for the 13-month period from March 2011 to March 2012. We conducted our work in Kabul, Afghanistan from February to December 2012, in accordance with generally accepted government auditing standards. A more detailed discussion of our scope and methodology is in appendix I.

BACKGROUND

Since 2005, Congress has appropriated almost \$50.7 billion to the Afghanistan Security Forces Fund to train, equip and sustain the ANSF, which include the ANA and the Afghan National Police. The appropriation includes funding for diesel, aviation, and packaged fuels, which CSTC-A purchases for the ANA.

Since 2007, CSTC-A has established and managed 10 blanket purchase agreements with vendors to provide fuel. In April 2012, CSTC-A noted that vendors delivered fuel to 754 ANSF fuel locations throughout Afghanistan, of which 254 were ANA facilities, including: two national depots in Kabul, six Regional Logistic Support Centers, and 26 power plants. Once vendors deliver CSTC-A-ordered fuel, the ANA is responsible for the allocation, storage, and consumption of all fuel intended for vehicles, generators, and power plants. CSTC-A and the International Security Assistance Force Joint Command provide limited oversight and accountability of fuel. CSTC-A works with ANA national and regional (above-Corps) levels and the Joint Command with Corps and below-Corps ANA units; the Joint Command also provides oversight and assistance to operational and tactical commands. Although CSTC-A manages blanket purchase agreements, Kabul Regional Contracting Center—within CENTCOM-Joint Theater Support Contracting Command—approves and issues the agreements.

In April 2009, CSTC-A created a checkbook—in Microsoft Access—to record details of fuel orders received from ANA units and power plants. Checkbook entries by fuel ordering officers include delivery location, order number, point of contact, type of fuel, invoice number, and other detailed information related to each order received. CSTC-A stated the fiscal year 2013 budget request and its estimates for fiscal years 2014-2018 are based on the prior years' fuel orders in the checkbook.

Funding for the Afghan National Army's Petroleum, Oil, and Lubricants

Congress authorizes CSTC-A to use a portion of Afghanistan Security Forces Funds for the purchase of fuel for ANA vehicles, generators, and power plants. During fiscal years 2007 through 2012, DOD received more than \$1.1 billion in Afghanistan Security Forces Fund assistance for POL, including \$429 million in fiscal year 2012 alone. For fiscal year 2013, DOD has requested \$343 million to fund ANA POL, with \$123 million (for jet fuel and kerosene) expected to be provided by international donors.⁷

For fiscal years 2014 through 2018, CSTC-A proposes to increase the Afghanistan Security Forces Fund portion of the ANA POL budget to \$555 million. Starting in 2013, CSTC-A plans to provide one-third of this funding directly to the Afghan government for it to purchase POL for the ANA itself.⁸ Figure 1 provides a breakdown of

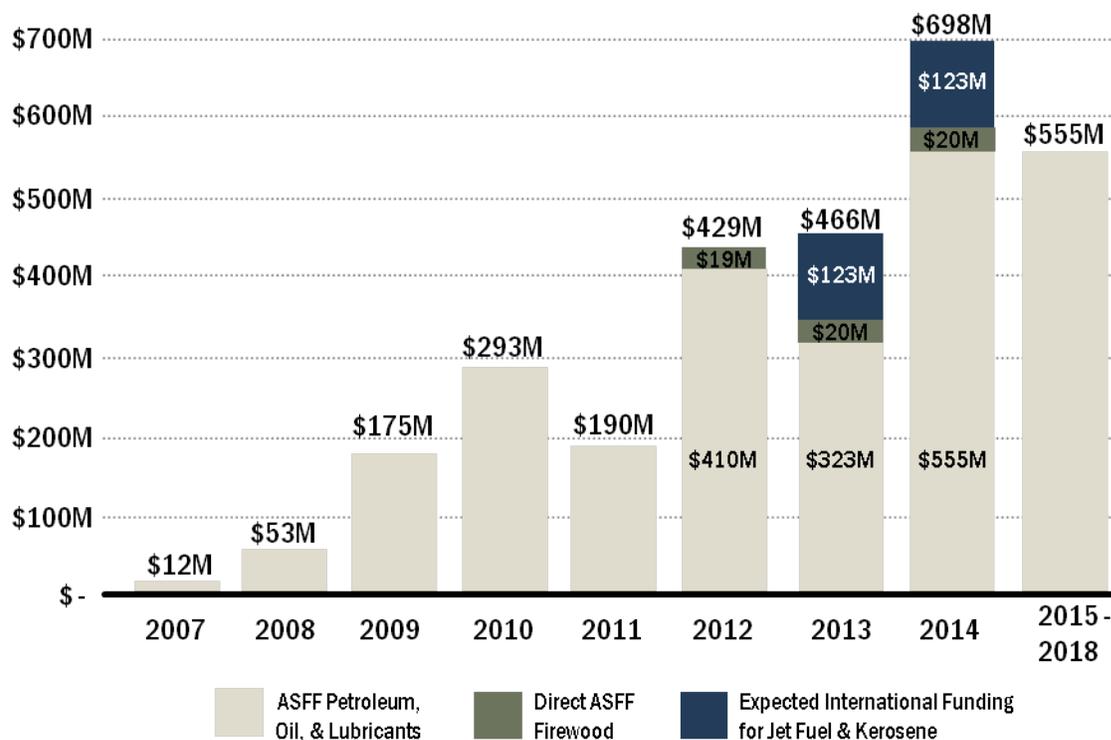
⁶ Task Force 2010 provides commanders and acquisition teams with situational understanding regarding the flow of contract funds and property losses and recommends actions to deny power brokers, criminal networks, and insurgents the opportunity to benefit from the stolen property or illicit revenue.

⁷ DOD funded jet fuel and kerosene at \$123 million for fiscal year 2012.

⁸ On June 13, 2012, CSTC-A introduced its plan to begin directing two-thirds of its funding from the Afghanistan Security Forces Fund to the Afghan government starting January 1, 2013. However, at the initial Bulk Fuel Transition Executive Committee meeting on September 12, 2012, CSTC-A proposed a change in direct contributions. Instead of providing two-thirds of the funds directly to the Afghan government, only one-third will initially be provided in direct funding with a proposed earliest starting date of March 2013.

annual ANA POL amounts received between fiscal years 2007 and 2012, requested for fiscal year 2013, and estimated for fiscal years 2014-2018.

Figure 1 - Annual Afghanistan Security Forces Fund and Other Funding for ANA POL (in million USD)



Source: Afghanistan Security Forces Fund section of annual Army fiscal year budget justifications, with enacted amounts through fiscal year 2012, requested for fiscal year 2013, and estimated for fiscal years 2014-18.

Ministry of Defense Logistics and Fuel Decrees

MOD issued decrees on procedures for ANA logistical operations, including POL. Additionally, the MOD Tashkil is the master ANA document listing authorized numbers of ANA personnel and equipment in military units throughout Afghanistan. MOD decrees serve as the basis for logistics regulations in Afghanistan and regulate policy and support procedures, materiel accountability, and POL management. The required processes and forms specified in MOD Decree 4.6 are intended to maintain accurate records of fuel orders, issues and receipts throughout the POL procurement process. The MOD has issued three decrees that specify policies, procedures, and forms to be used for ANA POL logistics operations:

Decree 4.0, *Supported and Supporting Unit Logistics Policy and Support Procedures* establishes ANA logistics procedures, formats, and forms to be used.

Decree 4.2, *Materiel Accountability Policy and Procedures* outlines accountability policies and procedures for all categories of materiel, equipment and supplies, and real property.

Decree 4.6, *ANA POL Section Organization, Responsibilities, and Procedure* describes the organization, responsibilities, and procedures for ANA POL activities. Four of the key MOD forms required by this decree are listed below:

- MOD Form 14—Materiel Request Form (used to request fuel);

- MOD Form 8—Materiel Receiving Report (used as a fuel receipt form at national and regional ANA depots. The form includes documentation of fuel quantity delivered);
- MOD Form 9—ANA Issue and Turn-In Document (used for fuel issue to ANA non-depot locations from ANA depots. The form includes documentation of quantity of fuel delivered); and
- MOD Form 32—Monthly Fuel Consumption Report, which consolidates daily receipt and consumption from (a) inventory reconciliation forms (MOD Form 1235 and 1237) and (b) vehicle fuel point issue document (MOD Form 3643), and compares monthly beginning and ending fuel balances to physical inventory to indicate variances.

MOD Decree 4.6 requires ANA units to request fuel based on documented consumption using MOD forms 14 and 32. ANA units are required to send requests to the Regional Logistics Support Command, which will then submit the request to Material Management Center-Army (MMC-A), the command and control center for the MOD Logistics Command. MMC-A approves and validates fuel requests, including checking against the unit's authorized fuel allocation⁹ and accompanied by a MOD Form 32. Once MMC-A approves a request, MMC-A sends the fuel request to national depots to fill the order or submits it to CSTC-A to order from vendors. However, as discussed in the report, requests are sent directly to CSTC-A, circumventing the MMC-A process, with CSTC-A purchasing the fuel for vendors to deliver to the requesting ANA location without MMC-A approval.

Transitioning Responsibility for Afghan National Army Logistics to the Ministry of Defense

CSTC-A is coordinating with the MOD to equip the ANSF, build the logistics system, and train logisticians, including POL. CSTC-A intends to build the MOD capacity to assume responsibility for all national logistics and maintenance, including ANA POL. CSTC-A plans to begin contributing funds directly to the MOD for the purchase of ANA POL as early as March 2013. To improve accountability over ANA POL, CSTC-A revised one blanket purchase agreement to implement the use of seals to provide evidence of any tampering of fuel deliveries, require the use of flow meters, and clarify that responsibility for equipment for tests rests with receiving entity. CSTC-A also plans to, among other things, reduce the number of ANSF fuel delivery sites from 754 to 98, from which fuel will be further distributed throughout Afghanistan.

WEAKNESSES IN ANA FUEL ORDERING, DELIVERY, AND PAYMENT PROCESSES INCREASE RISK OF FRAUD, WASTE, AND ABUSE

CSTC-A's Data on Fuel Orders is Inaccurate and Incomplete

CSTC-A's checkbook, a database of fuel records starting in April 2009, contains data on fuel order numbers and dates, delivery dates, quantities, prices, and invoice numbers. However, we found that the checkbook had errors, including fuel delivery dates that pre-dated corresponding fuel orders, duplicate entries, and missing data fields.

To test the checkbook's completeness and accuracy, we randomly selected 150 out of 2,922 fuel orders paid over a 13-month period from March 2011 through March 2012. The 150 orders totaled \$13.9 million out of the total \$238 million in paid fuel orders that occurred between these dates. For these 150 orders, we requested the full set of supporting documentation, which should have included 8 supporting MOD, DOD, and vendor forms and documents for each order, totaling approximately 1,200 documents. Prior to our interim report in September 2012, we received partial documentation for about half of the 150 fuel orders in our sample and no documentation for the remaining orders. Following our interim report and our September 13, 2012 testimony, CSTC-A provided us with partial documentation for nearly all remaining fuel orders.

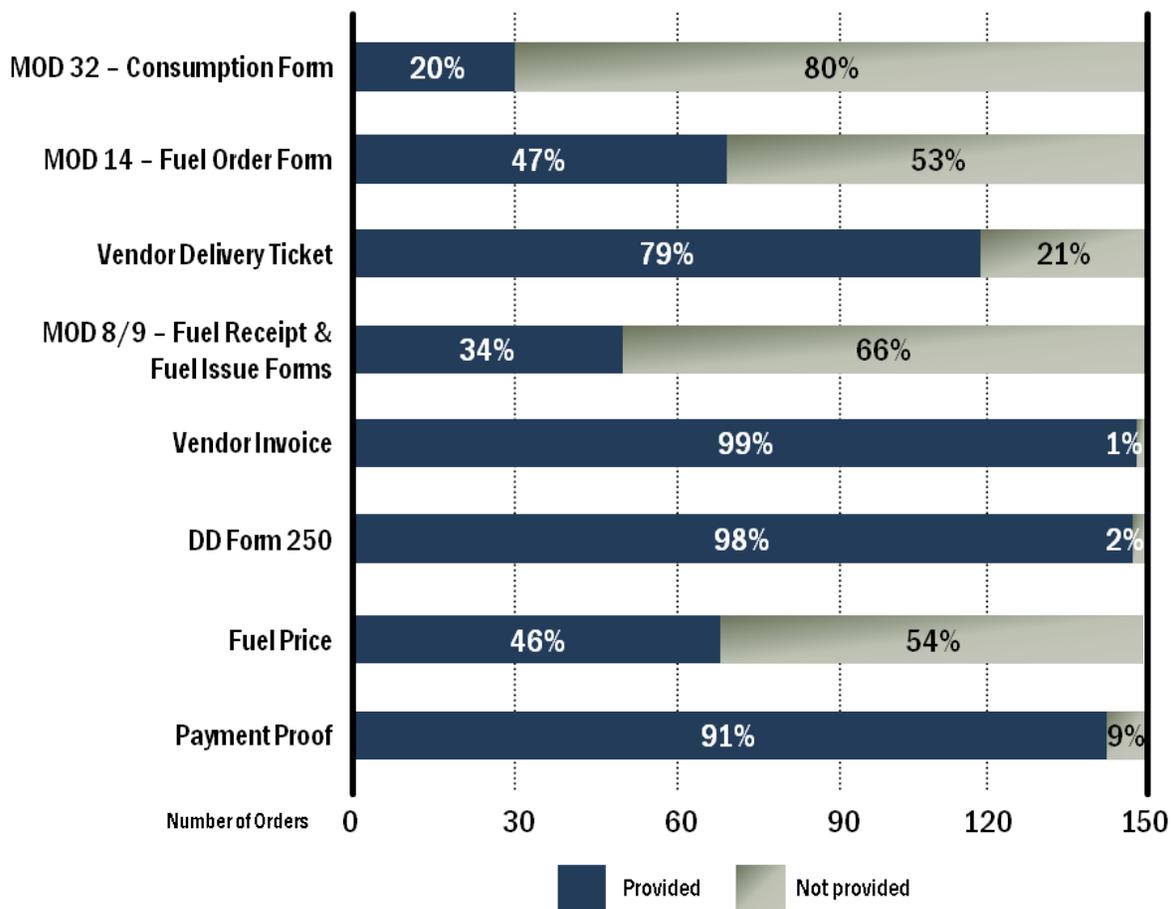
⁹ Requests are checked to ensure that they do not exceed a unit's authorized fuel allocation by more than 10 percent.

In our review of these 150 fuel orders, we found

- 681 problems—or exceptions—within the documentation. Exceptions include, among other things, delivery tickets that were not signed by ANA recipients or delivery drivers, fuel orders not signed by MMC-A, or no ANA documentation of fuel quality or quantity reported by vendors;
- missing delivery tickets—which are required by the blanket purchase agreements to support quantities of fuel specified on paid invoices—for 32 orders;
- missing invoices for 2 orders; and
- missing DD 250 forms (DOD’s Material Inspection and Receiving Report, which documents, among other things, DOD acknowledgement of receipt of material) for 3 orders.

In total, CSTC-A could only provide the complete set of documents for 4 of the 150 orders. Of the remaining 146 orders, we found incomplete documentation (for example, a missing MOD form) and exceptions in the provided documentation (for example, a missing signature). Figure 2 illustrates, by percentage, the presence of each form required to be in a full set of documentation in our sample of 150 fuel orders.

Figure 2 - Percentage of Requested Documents Provided for 150 Fuel Orders between March 2011 and March 2012, by Form.



Source: SIGAR analysis of documentation provided for 150 fuel orders.

Furthermore, CSTC-A failed to reconcile checkbook-recorded orders with payments to vendors made by Defense Finance and Accounting Services, which maintains DOD’s financial management systems and its accounting operations. *Standards for Internal Control in the Federal Government* state that periodic

comparison of resources with the recorded accountability—such as invoices and other documentation—should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.¹⁰ CSTC-A officials were not reconciling any orders or payments for the 13-month period until June 2012, 4 months into SIGAR’s audit. CSTC-A did not enforce reconciliation standards and has not established standard operating procedures for fuel ordering officers to follow. Such guidance would have assisted in reducing missing information within the checkbook as well as helped ensure that orders, invoices, and payments were consistent. Our review of the checkbook also found incomplete transactions. For example, we identified 1,147 fuel orders with missing invoice numbers totaling \$36 million. As a result, information within the checkbook is incomplete, increasing the risk that funds and purchased fuel have been subject to fraud, waste, and abuse.

CSTC-A Lacks 12 Months of Fuel and Payment Records

In our September 2012 alert letter, we stated that CSTC-A did not have any records of fuel purchase and payment information prior to March 2011 because, according to CSTC-A, all ANA POL financial records totaling nearly \$475 million from fiscal year 2007 through February 2011 had been shredded in violation of DOD and Department of the Army policies. Federal internal control standards state that all documentation and records should be properly managed, maintained, and be readily available for examination.¹¹ In addition, the DOD Financial Management Regulation states that all original disbursing office records and associated papers as well as supporting documentation should be kept for 6 years and 3 months, consistent with the National Archives and Records Administration General Records Schedule 6.¹² Subsequent to our September 2012 alert letter, CSTC-A made available ANA POL financial records from fiscal year 2007 to February 2010. However, paid fuel records from March 2010 through February 2011 remain missing. The previous CSTC-A fuel ordering officers stated these records were shredded after converting the original hard copies to electronic media. To date, however, CSTC-A has not located the electronic copies.

CSTC-A Has No Records of Spilled or Lost Fuel

CSTC-A does not monitor whether fuel it purchased for the ANA is stolen or lost to spillage or mishaps. According to MOD guidance, safeguards must be in place to defend against theft. Furthermore, ANA units are required to control spills through a prevention program and report any spillage to the MOD.

We found, however, that although CSTC-A was notified of three potential theft cases, the fuel ordering officer did not have a clear path forward to resolve cases. For example, a fuel ordering officer reported to CSTC-A, the U.S. Army Corps of Engineers, and Task Force 2010 that fuel ordered for the two power plants was not being received (see table 1). The CSTC-A fuel ordering officer did not have clear guidance on how to address allegations, and there was no evidence of actions taken to investigate or resolve the incidents by identifying losses or fraudulent activity. Further, ANA units did not prepare spillage and mishap reports, so CSTC-A could not investigate potential discrepancies. As a result, accountability for fuel after purchase is weak and permits opportunities for theft and significant losses.

¹⁰ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00.21.3.1, November 1999.

¹¹ GAO, *Standards for Internal Control in the Federal Government*.

¹² *DOD Financial Management Regulation*, Volume 5, Chapter 21, December 2010.

Table 1 - SIGAR Summary of Reported Potential Fuel Theft Incidents

ANA Location	Quantity Ordered (Liters)	Quantity Delivered (Liters)	Variance (Liters)
Kabul (PEC Power plant)	500,000	196,800	303,200
Paktiya (Gardez Power Plant)	299,535	29,500	270,035
Camp Leatherneck (Shorabak)	160,000	144,440	15,560

Source: SIGAR Review of emails reporting fuel theft and related issues provided by Task Force 2010.

Weaknesses Exist in U.S. Processes to Purchase, Deliver, and Pay for Fuel

Kabul Regional Contracting Center Limited Competition and Did Not Independently Verify Fuel Prices, Risking Increased Cost to the U.S. Government

The Kabul Regional Contracting Center established blanket purchase agreements with 10 vendors but, as of October 2012, only 2 were in use, resulting in limited competition. These agreements limit the ability of the U.S. government to compel a vendor to fill a fuel order, as vendors are not obligated to respond to a call placed against it. The Federal Acquisition Regulation states that blanket purchase agreements should be established with more than one supplier to provide “maximum practicable competition.”¹³ Furthermore, competition provisions for blanket purchase agreements require that ordering officers rotate purchases among vendors that provide the same supplies/services at virtually the same prices. Of the two vendors currently in use, one solely provides aviation fuel and the other solely provides petroleum-based fuel, such as diesel. This has left each vendor with de facto monopolies for aviation and ground fuel, significantly raising the possibility that the best price for either type of fuel will not be received.¹⁴

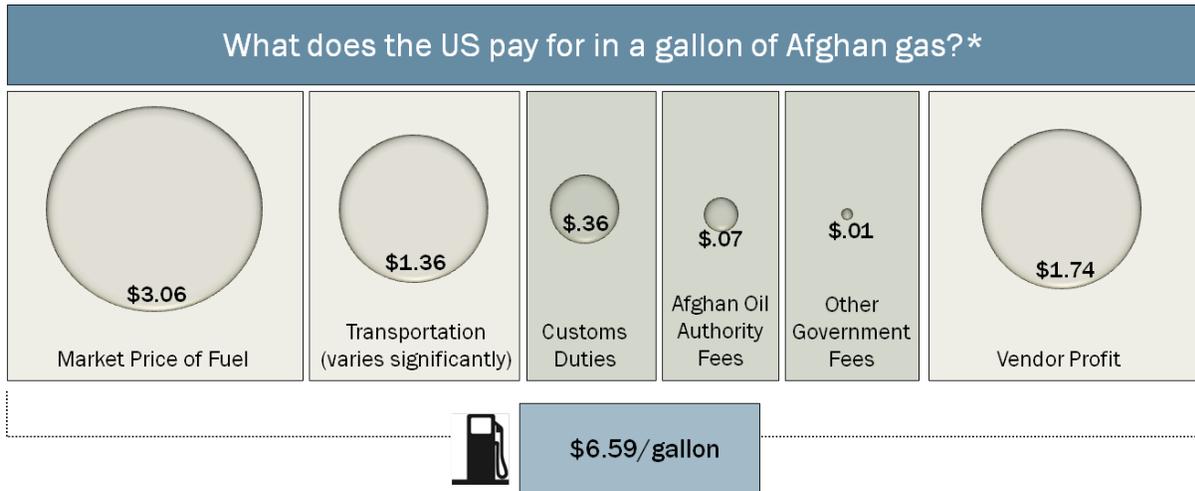
In addition, the Kabul Regional Contracting Center approved vendors’ prices for liters of fuel based on unverified cost justifications. The Federal Acquisition Regulation states that the contracting officer that entered into the blanket purchase agreement shall maintain awareness of changes in market conditions, sources of supply and other pertinent factors.¹⁵ In the case of ANA fuel, vendors submit a price justification spreadsheet to the contracting center on a monthly basis. This spreadsheet details the various costs comprising the final fuel price. The contracting center provided us with an example of a vendor-reported justification, showing what the vendor charged for Afghan Oil Authority fees, customs duties, transportation costs and other fees (see figure 3, with price per liter converted to gallons). These fees are rolled up into a single, price per liter and submitted on a monthly basis to the contracting center. The contracting center only began requiring price justifications in January 2012. In addition, we found that the center relies on the vendor-provided price justification with little or no independent verification of its accuracy or comparison with market prices. For example, according to a contracting official, he “misleads” the vendor into believing the contracting center will independently verify vendors’ prices with *Platts Energy News*—a source for energy information. However, the contracting center does not, in fact, have access to *Platts Energy News*.

¹³ *Federal Acquisition Regulation*, Subpart 13.303-2(c)(1).

¹⁴ In November 2012, CSTC-A stated that one of the two BPAs was closed and BPAs were issued to seven additional vendors.

¹⁵ *Federal Acquisition Regulation*, Subpart 13.303-6.

Figure 3 - Example of One Vendor's Average Fuel Price for April 2012



Source: SIGAR Analysis (difference due to rounding error)

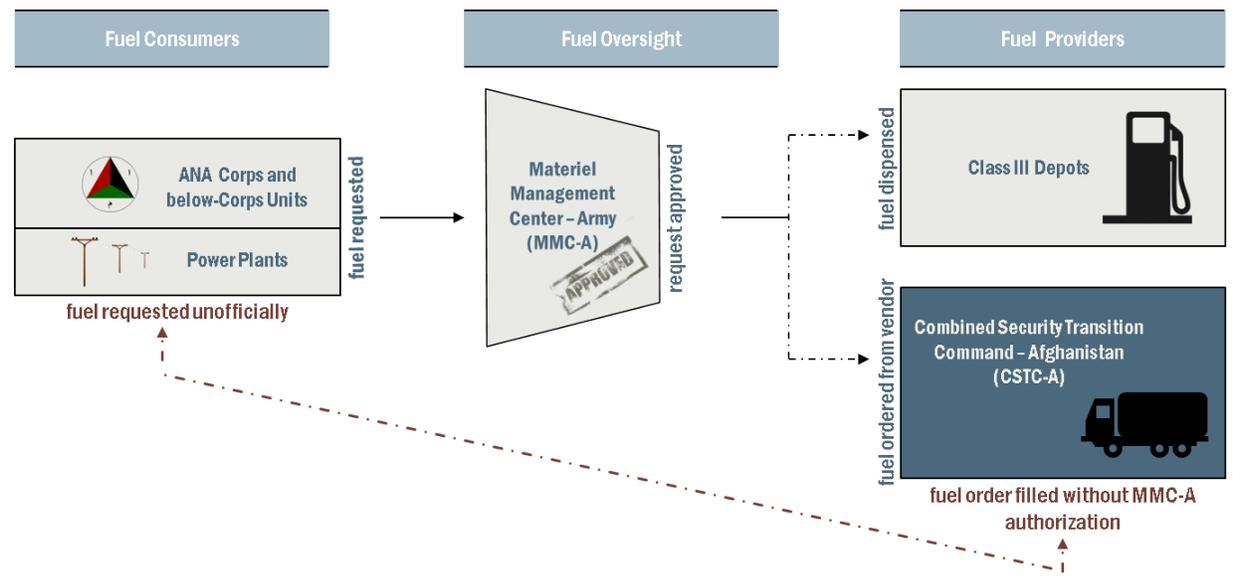
*All costs are vendor reported.

CSTC-A's Fuel Orders Are Not Based on Fuel Consumption Data and Do Not Follow Ministry of Defense Procedure

As established by MOD Decree 4.6, the ANA requests fuel using MOD Form 14—a materiel request form used to order fuel. To justify the requested fuel, this form is to be accompanied by a MOD Form 32, which documents fuel consumption. These forms are submitted by ANA units to the Afghan MMC-A for approval after verifying the orders do not exceed approved fuel allocations. The Afghan MMC-A is also supposed to receive and approve orders for fuel from power plants.

However, in our sample of 150 fuel orders, we found that 80 orders did not include the required MOD Form 14 and 42 of the remaining 70 forms lacked the required MMC-A signatures in violation of procedures established by the MOD decree. According to one fuel ordering officer, MOD took too long to process fuel requests, leading CSTC-A to exclude the Afghan MMC-A from the process. CSTC-A issued all fuel to power plants without MOD Forms 14 or MMC-A authorization. Such a bypass of Afghan authority may risk duplicate fuel orders as CSTC-A pushes fuel to power plants based on contractor-reported re-order points. Figure 4 illustrates the appropriate fuel ordering process as well as the actual process that was used in violation of the MOD decree.

Figure 4 - ANA Fuel Ordering Process



Source: SIGAR Analysis Based on CSTC-A and MOD documentation.

With regard to fuel consumption, 120 of the 150 fuel orders did not have the required MOD Form 32 documenting fuel consumption. Five of the remaining 30 fuel orders that did contain the form lacked specific consumption data. In total, CSTC-A authorized over \$11.1 million of the \$13.9 million in fuel orders in our sample that were not supported by consumption data and were not approved by the Afghan government.

As a result of SIGAR’s findings over the course of our audit, CSTC-A issued fragmentary orders¹⁶ to strengthen adherence to the fuel ordering process established by MOD Decree 4.6 and improve controls. Specifically, in May 2012, CSTC-A issued a fragmentary order to, among other things, require MOD Forms 14 and 32 to be submitted to CSTC-A monthly to support fuel orders submitted for payment. CSTC-A issued a follow-on fragmentary order in September 2012 that added language to reinforce MOD Decree 4.6 requirements and stipulate that units will not be eligible to receive fuel and the MOD Forms 14 will be rejected if MOD Forms 32 (documenting consumption) is not on file.

CSTC-A Does Not Verify Quantity or Quality of Delivered Fuel

MOD Decree 4.6 requires ANA units to prepare MOD forms to document receipt and distribution of fuel, but CSTC-A is not required to use these MOD forms (8 and 9, used to document fuel quantity delivered and distributed) when ordering or acknowledging receipt of the vendor-reported fuel quantity and quality delivered. Also, SIGAR’s test found 88 instances where invoices were paid without proof of quality on the delivery ticket. Blanket purchase agreements also require quantity and quality controls, including requirements that the contractor provide lab reports of fuel quality for all shipments on at least a monthly basis as well as to further certify that delivered fuel is free of contaminants. A current fuel ordering officer stated that required lab reports are not realistic in Afghanistan due to the absence of labs. In our sample of 150 fuel orders, we found that CSTC-A could not provide the required MOD forms documenting receipt of vendor-reported fuel for 99 orders (66 percent).

¹⁶ A fragmentary order is an abbreviated form of an operation order (verbal, written, or digital) usually issued on a day-to-day basis that eliminates the need for restating information contained in the basic operation order. It is issued after an operation order to change or modify that order.

CSTC-A Exceeded Agreement-Imposed Fuel Ordering Limits and Lacks Separation of Duties in Fuel Ordering and Payment

The agreements established by the Kabul Regional Contracting Center, which were in effect during our audit, authorize CSTC-A's fuel ordering officer to place orders up to \$500,000 and require that any orders exceeding that figure be placed instead by the contracting officer. However, we found 39 paid fuel orders in the checkbook that were placed by CSTC-A's fuel ordering officers that exceeded \$500,000, including one for \$768,000. Seven of these 39 orders occurred on a single day in January 2012. CSTC-A's fuel ordering officer did not provide us with documentation to justify exceeding the \$500,000 limit. As a result, the fuel ordering officer placed unauthorized fuel purchases and committed U.S. funds above the limit authorized in the agreements, potentially exposing those funds to fraud, waste, and abuse.

We also found that a CSTC-A fuel ordering officer was responsible for fuel ordering, reporting, and payment processes. Internal control standards state that no one person should control all key aspects of a transaction or event to reduce the risk of error or fraud. Instead, responsibilities for authorizing, processing, recording, and reviewing transactions, as well as handling related assets, should be separated.¹⁷ However, we found 147 instances where the same fuel ordering officer placed a fuel order with a vendor, updated the checkbook, and acknowledged fuel quality and quantity delivered to initiate vendor payment. A payment system based so heavily on a single individual leaves the U.S. government open to increased risk of fraud, waste, and abuse.

CSTC-A'S ESTIMATES FOR FUNDING ARE BASED ON UNSUPPORTED DATA AND POTENTIALLY OVERSTATED

The approximately \$2.8 billion that CSTC-A estimates will be necessary to fund purchases of ANA POL between fiscal years 2014 and 2018 are based on questionable calculations. Specifically, funding estimates were not based on known fuel consumption. Instead, CSTC-A's funding estimates were based on fuel orders in which SIGAR found significant control issues, including inconsistent use of MOD delivery forms, consumption forms and approvals by MMC-A. CSTC-A, in April 2012, told SIGAR that 254 ANA locations received fuel, but could not provide us with a list of these locations until July 2012, when it offered a list of 188 sites.¹⁸ CSTC-A did not have consumption data or reliable information on ANA vehicles and generators, but nonetheless increased its estimate of the funding needed to fulfill these fuel requirements from fiscal year 2012 to fiscal year 2018.

CSTC-A's method for estimating future fuel requirements and the funding required to fulfill these requirements is not clear to us. According to a CSTC-A official, a single month's fuel ordering data from March 2012 was used to calculate fuel requirements for all of fiscal year 2013. The fiscal year 2013 budget request then formed the basis for CSTC-A's fiscal years 2014 through 2018 funding estimates. In its response to our September 2012 interim report, CSTC-A stated that fiscal year 2012 expenditures are anticipated to be approximately \$480 million for ANA POL, based on fuel orders placed from August 2011 through July 2012, rather than on the single month of March 2012. However, CSTC-A's supporting documentation does not support this statement. The 12 months of fuel orders CSTC-A cites totaled \$493.5 million for all of the ANSF and \$338.3 million for ANA, raising concerns about the basis for CSTC-A's \$480 million estimate.

CSTC-A's problems in estimating fuel requirements are evident in the fact that 9 months into fiscal year 2012, CSTC-A was still using fiscal year 2011 funds. SIGAR estimates that by January 2013, 3 months into fiscal year 2013, CSTC-A will have more than \$266 million available in fiscal year 2012 funds for fiscal year 13 fuel orders. This raises the question as to whether CSTC-A requires its full fiscal year 2013 funding request.

¹⁷ GAO, *Standards for Internal Control in the Federal Government*.

¹⁸ In October 2012, the CSTC-A fuel ordering officer told us that the reduction of ANA fuel locations receiving direct deliveries from vendors was ongoing but noted that direct deliveries were still being made to approximately 240 ANA fuel locations.

DESPITE CONCERNS ABOUT ANA'S CAPACITY TO PURCHASE FUEL, CSTC-A INTENDS TO PROVIDE THE AFGHAN GOVERNMENT WITH \$1 BILLION IN DIRECT FUNDING

SIGAR has raised concerns about CSTC-A's fuel accountability, and the Army Audit Agency has reported concerns about controls over CSTC-A's direct contributions to the Afghan government. Assessments of MOD and ANA, through the Capability Milestone ratings system, suggest that MOD is not ready to assume sole responsibility for POL, especially with concerns about the accountability and transparency of the use of prior direct contributions to the Afghan government. Nevertheless, CSTC-A is proceeding with plans to directly provide at least \$1 billion to the Afghan government between early 2013 and fiscal year 2018 for MOD to purchase its own fuel.¹⁹

In 2012, the Army Audit Agency observed that direct contributions are inherently high risk due in large part to procedural and cultural difference between the U.S. and Afghan governments. As noted above, we also raised concerns about fuel accountability and the feasibility of increasing direct contributions in an interim report and two congressional testimonies on the subject in September 2012. As noted previously, CSTC-A plans to provide direct contributions of one-third of its ANA POL budget to the Afghan government, which—according to estimates through fiscal year 2018—total more than \$1 billion over the next 6 years.

In addition to external agency reports, CSTC-A's Capability Milestone rating system, which CSTC-A uses to assess the abilities and capacity of MOD on a quarterly basis, suggested weaknesses in MOD and ANA logistics capacity. Further, CSTC-A's standard operating procedures state that it must conduct a risk assessment prior to direct contributions and that this assessment must include a "deliberate examination of the risk to overall capacity development, the security mission, and the stewardship of public resources." In April 2011, CSTC-A reported that MOD logistics, which includes fuel management and the MMC-A, still requires "some coalition assistance." However, as of February 2012, DOD assessed a national-level logistics entity as still requiring some coalition assistance, as well as giving MOD accountability, visibility, and department support for the Afghan Air Force²⁰ and ground force command operations the lowest rating of "the department exists but cannot accomplish its mission." This raises questions about whether MOD can adequately serve as a steward of public resources, as is necessary according to CSTC-A's own standard operating procedures for direct contributions. As a result, CSTC-A may contradict its own standard operating procedures—which require recipients to demonstrate appropriate stewardship of public resources—by beginning to provide funds directly to the Afghan government. This direct funding will be in spite of its own assessments and those of the Army Audit Agency, which question the readiness and controls, respectively, of MOD.

¹⁹ Direct contributions became part of the Afghanistan Security Forces Fund after a statement on May 12, 2010, by Presidents Obama and Karzai reaffirmed the need to further direct U.S. assistance through the Afghan government. Pursuant to this effort, DOD developed a program to provide funding directly to the ministries. Based on a DOD report on progress toward security and stability in Afghanistan, DOD approved operating guidelines for providing Afghanistan Security Forces Funds directly to the Afghanistan security ministries through the Ministry of Finance.

²⁰ According to CSTC-A, the total POL funding requirement for the Afghan Air Force will be over \$457 million for fiscal years 2014 to 2018.

CONCLUSION

Successful management of POL, particularly fuel for vehicles, generators, and power plants, is critical to ensuring effective logistics capability for ANA. However, CSTC-A's current process for managing the supply of POL to ANA lacks the necessary accountability and leaves U.S. funds vulnerable to fraud, waste, and abuse. CSTC-A's problems successfully managing ANA POL include, among other things, failing to keep complete and accurate records, not following up on potential theft or tracking loss of fuel due to spillage or mishap, failing to follow established fuel ordering procedures, not verifying fuel deliveries, and limiting competition among vendors thereby potentially exposing the U.S. government to increased fuel costs. Moreover, by basing its future years' funding estimates on prior fuel ordering activities rather than a systematic analysis of fuel requirements for ANA vehicles, generators, and power plants, CSTC-A risks overstating the amount of funding that will be necessary in the future. Despite these problems, CSTC-A continues to press forward with substantially increasing annual ANA POL budgets without validating fuel needs and plans to provide billions of dollars over the next several years directly to the Afghan government for the purchase of ANA POL. Given that CSTC-A's current process for ordering, delivering, and paying for fuel lacks the necessary accountability to protect U.S. funds from fraud, waste, and abuse, we are not confident that an Afghan-managed process would lead to greater accountability—particularly given the extensive problems with Afghan logistics capacity we and others have repeatedly identified.

RECOMMENDATIONS

To improve accountability of U.S. funds and purchased fuel, we recommend that the Commanding General, NATO Training Missions-Afghanistan/CSTC-A:

- 1. Comply with existing DOD regulations to retain original or electronic records in order to prevent destroyed or unavailable records.**
- 2. Develop a process to identify, investigate, and resolve differences between quantities of fuel ordered and quantities of fuel delivered and any allegations of fuel theft.**
- 3. In coordination with plans being developed for the Afghan government, immediately develop an action plan to improve the fuel process from price approval, ordering, delivery, receipt, and payment of fuel to better account for U.S. funds and to assure fuel is appropriately purchased, received, and consumed by ANA forces. Such a plan should include, but not be limited to:**
 - a. Improving methods for ensuring the price paid for fuel is commensurate with market conditions and for verifying that costs charged to the U.S. government for such items as Afghan government fees are allowable;
 - b. Ensuring that all fuel orders are authorized by the Afghan MMC-A and the required MOD forms 32 and 14 are maintained and used to support consumption and fuel requirements;
 - c. Ensuring that CSTC-A rejects all fuel orders not authorized by the Afghan MMC-A;
 - d. Developing controls to assure that fuel ordering officers cannot exceed fuel ordering limits established by blanket purchase agreements without evidence of contracting officer approval;
 - e. Developing controls to assure the use of MOD Forms 8 and 9 to verify the quantity and quality of vendor-reported fuel delivered to ANA;
 - f. Developing safeguards to ensure CSTC-A fuel ordering responsibilities are separated and no one person has control over ordering, acknowledging receipt, and authorizing payment;

- g. Implementing standard operating procedures for reconciling fuel orders with receipts, invoices, and payments made by Defense Finance and Accounting Services; and
- h. Retaining the appropriate supporting documentation for all fuel orders.

To more realistically estimate its budget requests and future years' funding estimates for fuel, we recommend that the Commanding General, NATO Training Missions-Afghanistan/CSTC-A:

- 4. Establish the fiscal year 2013 funding level at the fiscal year 2012 ANA funding level of \$306 million and use along with the remaining available fiscal year 2012 appropriated ANA fuel funds to meet the ANA fuel requirement for fiscal year 2013.**
- 5. Systematically analyze ANA fuel consumption in order to reformulate its funding estimates for fiscal years 2014 to 2018 based on validated ANA fuel requirements rather than prior years' fuel ordering activities.**

To assure proper stewardship and transparency of U.S. funds and fuel purchases in the future, we recommend that the Commanding General, NATO Training Missions-Afghanistan/CSTC-A:

- 6. Revise CSTC-A's strategy for providing direct contributions to the Afghan government for future fuel purchases until MOD demonstrates transparency and accountability without coalition assistance. For example, CSTC-A could begin with a small amount of direct contributions to purchase fuel for specific units and/or power plants and then adjust upwards based upon assessments of MOD capacity and accountability of fuel ordered, delivered, and consumed.**

AGENCY COMMENTS

CSTC-A and U.S. Army Central generally concurred with all six recommendations and provided written comments on a draft of this report, which are reproduced in appendices III and IV. NTM-A/CSTC-A stated that it concurred with our recommendations and described actions it has taken or will take to address them. In particular, CSTC-A noted that it shares our concerns for MOD transparency and accountability and will initiate procedures, including incremental funding and monthly audits, to minimize corruption and provide more oversight as it transitions fuel funding and responsibility to MOD.

However, some of CSTC-A's comments either did not reflect the intent of our recommendation or made assertions with which we disagree or cannot verify before issuing this report. For example, we disagree that using the vendor delivery ticket alone verifies that quantity ordered equals quantity delivered. The vendor fills out the delivery ticket and does not include supporting documentation from a meter reading, scale, or other proof of the actual fuel quantity delivered. CSTC-A further states that fuel is off-loaded after the recipient verifies that the fuel passed quality tests, however, we found numerous instances of no evidence that quality tests were performed for the selected 150 paid fuel orders that we tested.

Furthermore, CSTC-A concurred with our recommendation to use the fiscal year 2012 ANA budget, but only as a starting baseline—along with other factors—to establish the fiscal year 2013 budget. However, as noted in our report, CSTC-A estimated fiscal year 2013 ANA expenditures at \$480 million without providing documentation to support that amount. Further, more than \$266 million in fiscal year 2012 funds will still be available to use along with the recommended \$306 million for fiscal year 2013. Therefore, we continue to recommend that the fiscal year 2013 budget should not be increased beyond that of fiscal year 2012.

Our specific responses to CSTC-A's and U.S. Army Central's comments and actions are also included in appendices III and IV.

APPENDIX I - SCOPE AND METHODOLOGY

In February 2012, the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) initiated an audit of the Afghan National Army's (ANA) logistics capability regarding petroleum, oil, and lubricants (POL). SIGAR's overall objective was to assess U.S. efforts to develop ANA's capability to acquire, distribute, and account for POL supplies to its forces. This report assesses (1) the internal controls in place to provide accountability for ANA POL and to prevent fraud, waste, and abuse; (2) the extent to which the NATO Training Missions-Afghanistan/Combined Security Transition Command-Afghanistan's (CSTC-A) funding requests for ANA POL are based on accurate requirements data; and (3) CSTC-A's efforts to provide direct contributions to the Afghan government. Although CSTC-A recorded fuel orders in a checkbook beginning in 2009, the checkbook did not contain complete information and source documentation was not available for orders placed between March 2010 and February 2011. As a result, we limited the scope of our audit to evaluate the internal controls in place to account for POL to paid ANA fuel orders placed for the 13-month period from March 2011 to March 2012.

To assess compliance with MOD guidance and evaluate the sufficiency of internal controls, we reviewed MOD policies and procedures and related Department of Defense (DOD) guidance including the use of required MOD and DOD forms and other documentation to determine if ANA is following established POL guidance. We also analyzed CSTC-A's ANA POL budgetary and financial data and summarized quantities and resources needed and available. We interviewed CSTC-A, Kabul Regional Contracting Center, and Task Force 2010 officials and CSTC-A advisors to obtain an understanding MOD/ANA logistics. We analyzed the processes and controls in place and reporting/reconciliation processes, including resolution of variances. We performed data mining techniques on CSTC-A's checkbook and our audit population of 2,922 paid fuel orders to identify trends and irregularities, and followed up to address issues with CSTC-A. We considered Defense Logistics Agency, Army Audit Agency, Task Force 2010 reports to determine the level of risk associated with ANA POL. We also reconciled fuel orders with DFAS payments and summarized fuel theft reports received by Task Force 2010 to assess the sufficiency of CSTC-A's actions taken on the reports.

As part of evaluating the sufficiency of internal controls in place to account for POL, we randomly selected a sample from CSTC-A's checkbook of 150 paid fuel orders from a population of 2,922 paid fuel orders placed during the period from March 2011 through March 2012. We calculated our sample size at a 95-percent confidence level with a 5-percent tolerable deviation rate from a population of 2,922 using Interactive Data Extraction and Analysis sample generation software. In calculating this sample, we assumed a 2-percent expected deviation rate. The sample represented a total volume of approximately 8.3 million liters with a total value of approximately \$13.9 million. We requested and reviewed MOD forms, invoices, Defense Finance and Accounting Services computer-processed payment data, Material Inspection and Receiving Reports (DD 250), vendor delivery tickets, and monthly approved fuel rates for the 150 sample items. Although we exceeded the maximum tolerable deviation errors, we completed the test work of the sample items to obtain a more accurate picture of ANA POL operations throughout the country for the 13-month audit period.

To determine the funding levels needed to meet ANA POL requirements, we examined DOD's fiscal year 2012 and 2013 budget and the supporting documentation used to estimate annual funding levels.

To determine the status of the CSTC-A efforts to develop ANA's capacity to manage POL direct contributions, we (i) analyzed CSTC-A reported issues and DOD Inspector General audit reports and (ii) interviewed logistics/POL officials at CSTC-A, Task Force 2010, and Defense Logistics Agency to obtain the status of identified challenges and issues to develop a capable and sustainable ANA POL processes. We reviewed and analyzed MOD logistics and ANA POL policies and procedures, blanket purchase agreements, and CSTC-A and Task Force 2010 POL presentation slides.

To assess the reliability of our population of paid ANA fuel orders, we (i) reviewed the fuel orders in CSTC-A's fuel ordering office's and Kabul Regional Contracting Center's checkbooks and the Defense Finance and Accounting Services' computer-generated payment data, (ii) performed data mining procedures, and (iii) traced fuel orders to source documents. Subsequent to our reconciliations and verification of revisions made to the checkbook during the period from March 2011 through March 2012, we determined that the audit population

was sufficiently reliable and the needed documentation was available, given the research questions and intended use of the data. We also assessed internal controls over the ANA POL processes and considered allegations of fraud through review of CSTC-A briefings and documentation of fuel contracts, orders, and payments. The results of our reconciliation and assessments are included in the body of this report.

We conducted work in Kabul, Afghanistan from February 2012 to January 2013 in accordance with generally accepted government auditing standards. These 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. The audit was conducted by the Office of Special Inspector General for Afghanistan Reconstruction under the authority of Public Law No. 110-181, as amended, the Inspector General Act of 1978, and the Inspector General Reform Act of 2008.

APPENDIX II - ADDITIONAL AUDIT INFORMATION

Table I - Results of Internal Control Tests

Description	Number	Liters	Amount
Audit Population	2,922	139,471,572	\$237,966,042
Sample Size	150	8,287,539	\$13,878,966
Test Results – Missing Forms and Exceptions:			
Missing Forms (38 percent of sample documents):			
MOD Form 32	120	6,422,718	\$10,433,764
MOD Form 14	80	2,838,083	\$4,704,471
MOD Forms 8/9	99	4,077,400	\$6,996,323
Vendor Delivery Tickets	32	1,424,074	\$2,540,860
Vendor Invoice	2	200,000	\$306,000
DOD Form DD250	3	260,000	\$399,600
Vendor Price List	81	2,871,745	\$4,769,596
Blanket Purchase Agreement Payment Call	13	278,051	\$464,372
Exceptions Noted (35 percent of sample document):			
MOD Form 14/fuel order not processed through depots	24	3,751,416	\$5,969,271
Fuel order not signed by MMC-A	42	4,397,143	\$7,078,603
Delivery Ticket not signed by ANA receiver	3	65,092	\$131,230
Delivery Ticket not signed by driver	106	6,456,786	\$10,533,498
No proof of vendor quality	88	4,674,170	\$7,577,358
ANA did not document fuel quantity	51	4,273,178	\$6,798,993
ANA did not document fuel quality	51	4,273,178	\$6,798,993
Vendor quality not acknowledged	140	6,881,248	\$11,389,843
No separation for fuel duties	147	8,065,578	\$13,395,715
Invoice and approved fuel rate did not agree	15	n/a	\$38,402
Fuel order not based on actual consumption	5	456,943	\$751,401
Fuel not reconciled to actual inventory	7	509,727	\$848,607

Source: SIGAR analysis of detailed audit test results.

Figure I - Timeline of ANA Fuel Documentation and Key Audit Events

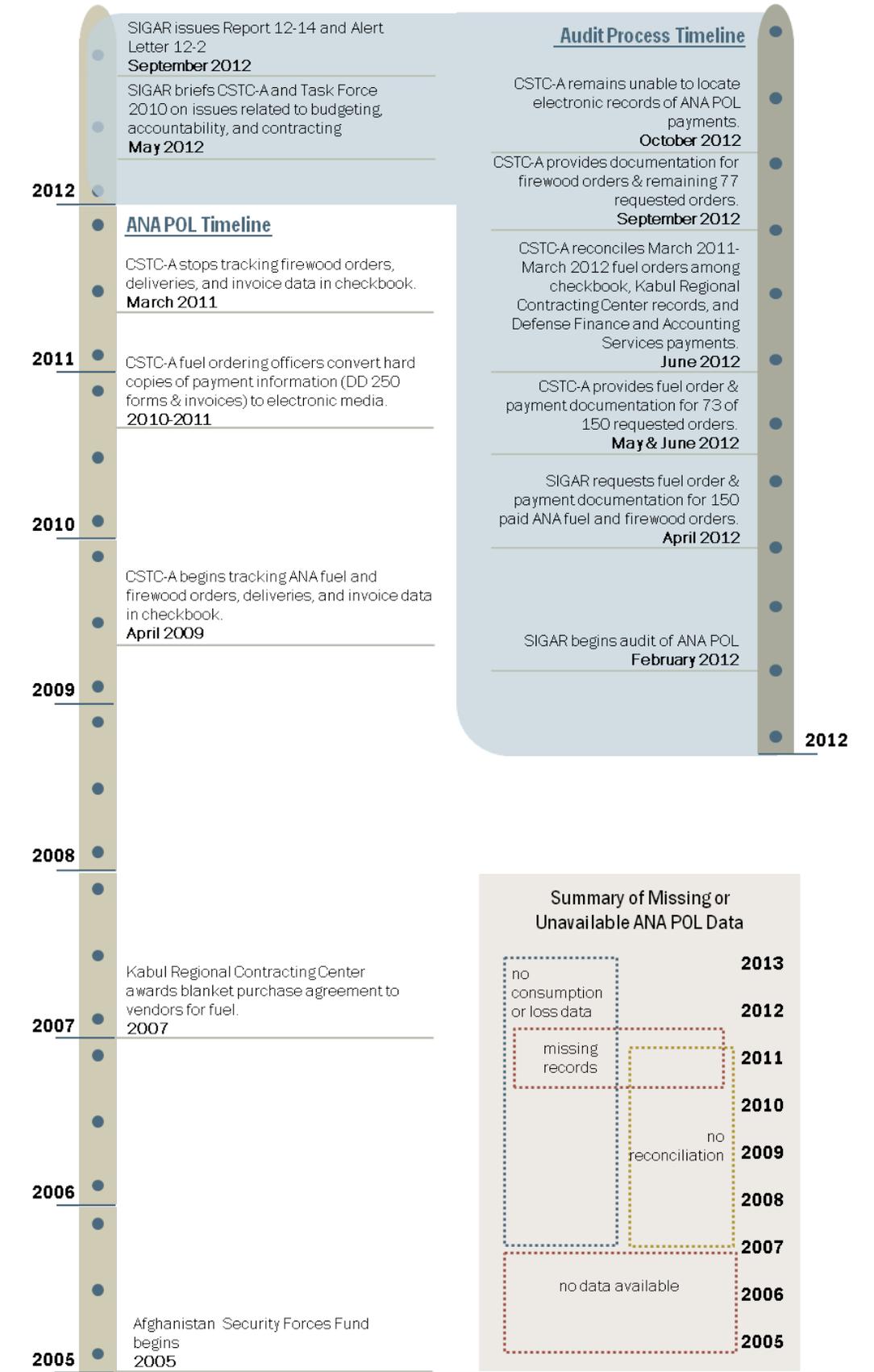


Table II - Summary of Annual Afghanistan Security Forces Fund ANA Fuel Budget and Financial Data for Fiscal Years 2007-2018 (in millions)

Fiscal Year	Enacted/Requested^a	Obligations^b	Disbursements^c
2007	\$12.2	\$107.0	\$102.1
2008	\$53.1	\$115.9	\$105.8
2009	\$174.8	\$127.3	\$42.3
2010	\$293.3	\$252.6	\$246.1
2011	\$190.0	\$274.1	\$216.5
2012	\$428.8	\$ -	\$ -
2013	\$343.1	\$ -	\$ -
2014	\$574.9	\$ -	\$ -
2015	\$555.0	\$ -	\$ -
2016	\$555.0	\$ -	\$ -
2017	\$555.0	\$ -	\$ -
2018	\$555.0	\$ -	\$ -

Source: CSTC-A Finance Office through May 2012 and Afghanistan Security Forces Fund fiscal year 2007 through 2013 budget justifications.

Notes:

^aAfghanistan Security Forces Fund funding level estimated to meet annual ANA POL requirements; fiscal years 2007 through 2012 amounts were enacted in annual DOD appropriations.

^bAmount actually obligated to meet ANA fuel requirement.

^cPayment of obligated funds for submitted invoices for fuel amounts purchased and delivered.

APPENDIX III - COMMENTS FROM THE COMBINED SECURITY TRANSITION COMMAND-AFGHANISTAN



REPLY TO
ATTENTION OF

DEPARTMENT OF DEFENSE
NATO TRAINING MISSION-AFGHANISTAN
COMBINED SECURITY TRANSITION COMMAND-AFGHANISTAN
KABUL, AFGHANISTAN
APO AE 09356



NTM-A/CSTC-A

2 January 2013

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

FOR: Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive, Arlington, VA 22202

SUBJECT: NTM-A/CSTC-A Response to the draft recommendations in *"Afghan National Army: Controls over Petroleum, Oil, and Lubricants for Vehicles, Generators, And Power Plants Need Strengthening To Prevent Fraud, Waste and Abuse"* (Report No. SIGAR Audit 13-4)

REFERENCE: Draft SIGAR Report 13-4, Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR).

1. The purpose of this memorandum is to provide responses to the SIGAR Draft Report.
2. Point of contact for this action is Colonel Darren L. Werner at DSN 318-449-0316, or via e-mail at darren.werner@afghan.swa.army.mil.

ALAN C. WRIGHT
AIR COMMODORE, NTM-A
Deputy Commander, Support Operations

Enclosure:
NTM-A/CSTC-A Response to Draft Report

NTM-A/CSTC-A RESPONSE TO DRAFT AUDIT

"Afghan National Army: Controls over Petroleum, Oil, and Lubricants for Vehicles, Generators, And Power Plants Need Strengthening To Prevent Fraud, Waste and Abuse" (Report No. SIGAR Audit 13-4)

1. Recommendation #1, page 14, states:

To improve accountability of U.S. funds and purchased fuel, we recommend that the Commanding General NATO Training Mission-Afghanistan/CSTC-A:

Comply with existing DoD regulations to retain original or electronic records in order to prevent destroyed or unavailable records.

- a. NTM-A/CSTC-A concurs with the SIGAR recommendation to retain original or electronic records in order to prevent destroyed or unavailable records.
- b. NTM-A/CSTC-A continues to review the administrative procedures as directed by DOD regulations, to ensure full compliance.
- c. Currently, NTM-A/CSTC-A is not able to maintain those records that are generated by the MoD. These records, generally referred to as "MoD Forms", are independently maintained by the Afghan MoD and are the property of the sovereign Government of the Islamic Republic of Afghanistan (GIROA). NTM-A/CSTC-A will continue to advise the MoD on the proper record keeping procedures in order to assist GIROA in maintaining accurate accountability of their fuel inventory. There is no bilateral agreement authorizing or mandating MoD forms be disclosed to NTM-A/CSTC-A, however some MoD Commanders have shared documentation on a voluntary basis.

SIGAR
comment 1

2. Recommendation #2, page 14, states:

To improve accountability of U.S. funds and purchased fuel, we recommend that the Commanding General NATO Training Mission-Afghanistan/CSTC-A:

Develop a process to identify, investigate, and resolve differences between quantities of fuel ordered and quantities of fuel delivered and any allegations of theft.

- a. NTM-A/CSTC-A concurs with SIGAR recommendation that a process to identify, investigate, and resolve discrepancies in fuel orders and quantities delivered, and procedures for addressing potential fuel theft must be developed.
- b. The mitigation that is instituted in NTM-A/CSTC-A involves five separate actions all supporting the goal of resolving discrepancies and identifying theft.

(1) Identification of Potential Variances / Discrepancies: Fuel order quantities are reviewed by Afghan personnel assigned to the ANA Material Management Center (MMC-A) prior to the placement of the order to ensure that the quantity ordered does not exceed the quantity authorized for the ordering unit. Oversight of this process is provided by Regional Support Command-Capital advisors. Upon arrival at the receiving unit, the vendor will provide a vendor delivery ticket to the recipient that verifies the quantity ordered. Upon verification by the recipient that the fuel passes quality tests, the fuel is off-loaded. In the event that the quantity delivered is less than the delivery ticket, the quantity on the delivery ticket is adjusted to reflect the amount that was actually delivered. During end-of-month order reconciliations, representatives of the NTM-A DCOM-SPO Class-III office review vendor delivery tickets with vendor invoices. NTM-A only pays for fuel up to the amount delivered, regardless of the amount actually ordered, and does not pay for overage.

SIGAR
comment 2

(2) NTM-A Resolution of Discrepancies: Any discrepancies found with fuel deliveries, fuel quality, billing, or other vendor-performance issues are immediately addressed by Contracting Officer Representatives (CORs), who are TACON to C-JTSCC, in accordance with COR training.

(3) COR Training & Appointment: COR training is mandated by the Defense Federal Acquisition Regulation (DFAR) directives 201.602-2 and is provided by C-JTSCC and NTM-A prior to COR nomination and appointment.

NTM-A/CSTC-A RESPONSE TO DRAFT AUDIT

"Afghan National Army: Controls over Petroleum, Oil, and Lubricants for Vehicles, Generators, And Power Plants Need Strengthening To Prevent Fraud, Waste and Abuse" (Report No. SIGAR Audit 13-4)

(4) C-JTSCC Resolution of Discrepancies: Any disputes or discrepancies that cannot be resolved by the COR are reported to the Contracting Officer at C-JTSCC, who is responsible for overseeing the contract.

(5) Investigations and Allegations of Fuel Theft: When fuel theft is alleged or suspected, NTM-A/CSTC-A through its Inspector General office will report these incidents to three primary organizations dedicated to fighting Afghan vendor corruption:

- (a.) Shafafiyat: ISAF Anti-corruption organization
- (b.) TF2010: USFOR-A Anti-corruption organization
- (c.) U.S. Army Criminal Investigations Division (CID)

3. Recommendation #3, pages 14-15, state:

To improve accountability of U.S. funds and purchased fuel, we recommend that the Commanding General NATO Training Mission-Afghanistan/CSTC-A:

In coordination with plans being developed for the Afghan government, immediately develop an action plan to improve the fuel process from price approval, ordering, delivery, receipt, and payment of fuel to better account for U.S. funds and to assure fuel is appropriately purchased, received, and consumed by ANA forces. Such a plan should include, but not be limited to:

a. Improving methods for ensuring the price paid for fuel is commensurate with market conditions and for verifying that costs charged to the U.S. government for such items as Afghan government fees are allowable.

SIGAR
comment 3a

- (1) NTM-A/CSTC-A concurs with the SIGAR recommendation for improvements in fuel pricing in relation to market conditions.
- (2) However, the price function is not performed by NTM-A, and does not have privity to price negotiations, but is performed by the Contracting Officer (KO) at C-JTSCC. NTM-A receives finalized price list from the KO after negotiations.

b. Ensuring that all fuel orders are authorized by the Afghan MMC-A and the required MoD forms -32 and -14 are maintained to support consumption and fuel requirements.

- (1) NTM-A concurs with SIGAR recommendation to ensure that all fuel orders authorized by the Afghan MMC-A include the MoD Form-14 (Requisition Form) and Form-32 (Consumption Report).
- (2) Since September 2012, RSC-Capital advisors supporting MMC-A have ensured the Mod -14 and -32 forms accompany each order and that orders lacking supporting documents were rejected. The advisors are also responsible to ensure the documentation is maintained at the MMC-A level.

SIGAR
comment 3b

c. Ensuring that CSTC-A rejects all fuel orders not authorized by the Afghan MMC-A.

- (1) NTM-A concurs with SIGAR recommendations to ensure that all fuel orders not approved by MMC-A are rejected.
- (2) Coalition advisors at MMC-A ensure that MoD Forms -14, and -32 accompany each order and all orders received by the MMC-A will be reviewed against authorized fuel allocations.

SIGAR
comment 3c

NTM-A/CSTC-A RESPONSE TO DRAFT AUDIT

“Afghan National Army: Controls over Petroleum, Oil, and Lubricants for Vehicles, Generators, And Power Plants Need Strengthening To Prevent Fraud, Waste and Abuse” (Report No. SIGAR Audit 13-4)

d. Develop controls to ensure that fuel ordering officers cannot exceed fuel ordering limits established by blanket purchase agreements (BPA) without evidence of contracting officer approval.

SIGAR
comment 3d

- (1) NTM-A concurs with SIGAR recommendations that fuel orders do not exceed ordering limits established by blanket purchasing agreements (BPA) without evidence of contracting officer approval.
- (2) Currently the DCOM-SPO Class-III section undertakes appropriate administrative checks to ensure that fuel orders do not exceed BPA limits.

e. Developing controls to assure the use of MoD Forms -8 and -9 to verify the quantity and quality of vendor-reported fuel deliveries to the ANA.

SIGAR
comment 3e

- (1) NTM-A concurs with SIGAR that a method for documenting quantity and quality of vendor delivered fuel is essential. The use of MoD Forms 8 and 9 is not the optimal solution.
- (2) Current procedures utilizing the vendor delivery ticket meets the information requirements and conforms to requirements of Federal Acquisition Regulation Subpart 32.905.
- (3) Fuel quality is tested and inspected at the time of delivery. Fuel that is of poor quality or contaminated as defined by decree 4.6 is not accepted. Use of the MoD Form-8 is unnecessary for this purpose.

f. Develop safeguards to ensure NTM-A/CSTC-A fuel ordering responsibilities are separate and no one person has control over ordering, acknowledging receipt, and authorizing payment.

SIGAR
comment 3f

- (1) NTM-A concurs with SIGAR recommendations to ensure that fuel ordering responsibilities are separate and no one person has control over ordering, acknowledging receipt, and authorizing payment.
- (2) NTM-A/CSTC-A currently uses the following procedures:

(a.) Fuel Ordering: This task is performed by fuel ordering officers within the Class-III office. Verification and approval of orders is performed by a second member of the Class-III office. This task is performed by an appointed Contracting Officer Representative (COR).

(b.) Acknowledgement of Receipt of (Fuel) Delivery: This task is performed by personnel assigned to Material Management Center – Army (MMC-A) and is verified by NTM-A contracted fuel analysts at the MMC-A. Fuel analysts perform these duties under the supervision of coalition advisors assigned to the Regional Support Command – Capital who advise the MMC-A.

(c.) Authorizing Payment: The authorization of the payment is performed by the Contracting Officer (KO) assigned to C-JTSCC. The payment information is provided by the Contracting Officer Representative (COR) Class-III Fuel Office to the KO.

g. Implementing standard operating procedures for reconciling fuel orders with receipts, invoices, and payments made by Defense Finance and Accounting Services.

- (1) NTM-A concurs with SIGAR recommendations for the implementation of standard operating procedures for reconciling fuel orders with receipts and invoices.

SIGAR
comment 3g

NTM-A/CSTC-A RESPONSE TO DRAFT AUDIT

"Afghan National Army: Controls over Petroleum, Oil, and Lubricants for Vehicles, Generators, And Power Plants Need Strengthening To Prevent Fraud, Waste and Abuse" (Report No. SIGAR Audit 13-4)

- (2) Order reconciliation is performed on a monthly basis upon receipt of monthly invoices from vendors. This task is performed by an appointed Contracting Officer Representative (COR).
- (3) Validation of document DD-250 for processing and payment by DFAS is performed by the Contracting Officer assigned to C-JTSCC.

h. Retaining the appropriate supporting documentation for all fuel orders.

- (1) NTM-A concurs with SIGAR recommendation for the retention of appropriate documentation for all fuel orders.
- (2) However, fuel order documentation that is generated by and is the property of the Afghan Ministry of Defense, Material Management Center – Army (MMC-A) is not available for retention. NTM-A cannot mandate retention due to Afghan sovereignty. There is no bilateral agreement authorizing or mandating MoD forms be disclosed to NTM-A/CSTC-A, however some MoD Commanders have shared documentation on a voluntary basis.
- (3) Currently, these documents are accessible and are verified by NTM-A contracted fuel analysts and RSC-Capital advisors to MMC-A.

4. Recommendation #4, page 15, states:

To improve accountability of U.S. funds and purchased fuel, we recommend that the Commanding General NATO Training Mission-Afghanistan/CSTC-A:

Establish the fiscal year 2013 funding level at the fiscal year 2012 ANA funding level of \$306 million and use along with the remaining available fiscal year 2012 appropriated ANA fuel funds to meet the ANA fuel requirement for fiscal year 2013.

- a. NTM-A concurs with SIGAR recommendations that utilizing fiscal year 2012 ANA funding level as a starting baseline for the establishment of the fiscal year 2013 is reasonable, noting that there are several factors that must be considered in developing the fiscal year 2013 funding level such as.
SIGAR
comment 4
 - (1) As Afghan security forces assume greater responsibility for Afghan security, fuel consumption will increase.
 - (2) Fielding of the scheduled additional units will increase fuel requirements.
 - (3) Additional ANA base and installation power generation capability will come on line in fiscal year 2013 resulting in a total power generation capacity increase of 114 Megawatts of power.

5. Recommendation #5, page 15, states:

To improve accountability of U.S. funds and purchased fuel, we recommend that the Commanding General NATO Training Mission-Afghanistan/CSTC-A:

Systematically analyze ANA fuel consumption in order to reformulate its funding estimates for fiscal years 2014 to 2018 based on validated ANA fuel requirements rather than prior years' fuel ordering activities.

NTM-A/CSTC-A RESPONSE TO DRAFT AUDIT

“Afghan National Army: Controls over Petroleum, Oil, and Lubricants for Vehicles, Generators, And Power Plants Need Strengthening To Prevent Fraud, Waste and Abuse” (Report No. SIGAR Audit 13-4)

- a. NTM-A concurs with SIGAR recommendations to reformulate funding estimates for fiscal years 2014 to 2018 that is based upon a validated ANA fuel requirement.
- b. NTM-A advisors have directed the MoD to implement a fuel allocations requirement for all MoD units that is justifiable, and meets operational requirements.

SIGAR
comment 5

(a.) U.S. Fiscal Year 2012 (Afghan Fiscal Year - 1391) Fuel Allocations: In September 2012, NTM-A logistics advisors determined that MoD leadership was not able to provide adequate fuel allocation data. Flaws noted in the MoD fuel allocations list included inadequate fuel allocation amounts, incorrect MoDDAC codes, and unit listings that were incomplete or missing. MoD logistics leadership within the offices of Acquisition, Technology, and Logistics (AT&L), and the General-Staff G-4 (GSG-4) recognized the need to overhaul fuel allocation development processes and procedures. NTM-A logistics advisors are providing mentorship to develop accurate fuel allocation calculations.

(b.) U.S. Fiscal Year 2013 (Afghan Fiscal Year (AFY) - 1392) Fuel Allocations: In October 2012, MoD leadership approved a revised, temporary fuel allocation list for MoD units for AFY-1391. These allocations, while initially set to expire in December 2012, have been extended until AFY-1392 allocation procedures are developed and allocations have been approved. Afghan FY1392 allocation procedures will incorporate data that includes type of equipment, actual vehicle usage (consumption) information, and allocations for only authorized equipment quantities. Development of this process will be done by the MoD under the guidance and mentorship of NTM-A logistics advisors.

6. Recommendation #6, page 15, states:

To improve accountability of U.S. funds and purchased fuel, we recommend that the Commanding General NATO Training Mission-Afghanistan/CSTC-A: Revise NTM-A/CSTC-A's strategy for providing direct contributions to the Afghan government for future fuel purchases until MoD demonstrates transparency and accountability without coalition assistance. For example, NTM-A/CSTC-A could begin with small amount of direct contributions to purchase fuel for specific units and/or power plants and then adjust upwards based upon assessment of MoD capacity and accountability of fuel ordered, delivered, and consumed.

SIGAR
comment 6

- a. NTM-A concurs with SIGAR recommendations to revise its funding strategy for providing direct contributions to the MoD for Class-III bulk fuel purchases.
- b. NTM-A does share SIGARs concerns for MoD transparency and accountability and will initiate the following procedures/processes, in agreement with MoD leadership:

(a.) Concept of Transition: The purpose of transitioning Class-III Bulk Fuel funding and operations is to place the MoD in a position of greater responsibility in preparation for coalition departure on 31 December 2014. Transition will occur in a phased approach in years 2013 and 2014. Under the current plan, NTM-A will transfer one-third of all fuel funding and responsibilities to the MoD in 2013, and the remaining two-thirds in 2014 based upon the success that is demonstrated by the MoD.

(b.) Accountability: In order to minimize corruption and provide oversight of Class-III Bulk Fuel funds provided by NTM-A to the MoD, funding will be disbursed incrementally. The first disbursement will be to cover an initial 90-day period with the intent to allow the MoD to have sufficient funding to establish contracts. Each successive 30-day disbursement will be contingent upon the results of MoD Finance audits conducted by NTM-A. Audits will be conducted on a monthly basis to ensure that the MoD can account for funding. In the event that NTM-A finds accounting discrepancies that are associated with corruption, NTM-A will cease funding to the MoD and resume Class-III Bulk Fuel procurement.

NTM-A/CSTC-A RESPONSE TO DRAFT AUDIT

“Afghan National Army: Controls over Petroleum, Oil, and Lubricants for Vehicles, Generators, And Power Plants Need Strengthening To Prevent Fraud, Waste and Abuse” (Report No. SIGAR Audit 13-4)

(c.) Amount to be transferred: NTM-A will transition one-third of all Class-III bulk fuel funding and management responsibilities to the MoD. According to this strategy, the MoD will assume control of all procurement, distribution, and accounting of diesel fuel for two of seven Afghan regions/Corps. This approach is intended to limit or minimize risk to the Afghan National Army.

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SIGAR's Response to CSTC-A's January 2, 2013 Memorandum

1. We agree that the MOD forms are the property of the Afghan government and should be maintained by the MOD. However, we continue to believe that the MOD forms can act as tools for CSTC-A to independently review and verify fuel orders, deliveries, and consumption to improve accountability and controls.
2. We disagree with CSTC-A's assertion that the vendor delivery ticket alone verifies that quantity ordered equals quantity delivered. The vendor fills out the delivery ticket and does not include supporting documentation from a meter reading, scale, or other proof of the actual fuel quantity delivered. Further, CSTC-A has not had officials who could independently confirm delivery at all of the reported locations. CSTC-A further states that, upon verification by the recipient that the fuel passes quality tests, the fuel is off-loaded. However, we found numerous instances of no evidence that quality tests were performed for the selected 150 paid fuel orders that we tested. During our audit, CSTC-A also reported to us that fuel testing kits were too advanced for Afghanistan, and more basic kits would need to be ordered. Additionally, CSTC-A stated that discrepancy issues are immediately addressed to the COR and that CSTC-A will report, through its Inspector General, alleged or suspected fuel theft incidents to three organizations dedicated to fight Afghan vendor corruption. However, we were not provided any evidence of such discrepancy issues or referrals.
- 3a. We agree that the contracting officer at CENTCOM Joint Theater Support Contracting Command is responsible for negotiating and approving fuel prices. However, as noted in our report, we did not receive evidence of review and approval of fuel prices.
- 3b. To clarify the intent of our recommendation, we have updated this to state "maintained and used to support consumption and fuel requirements." CSTC-A stated that since September 2012, coalition advisors at MMC-A ensure that MOD forms accompany each order and that all orders lacking supporting documentation are rejected. CSTC-A told us, however, that a single Afghan contractor at MMC-A reviewed ANA fuel orders prior to sending forward to CSTC-A. We did not receive information on how the contractor verifies MMC-A approval of each fuel request or the level of CSTC-A oversight of contractor.
- 3c. CSTC-A stated that coalition advisors at MMC-A ensure that MOD forms accompany each order and are reviewed against authorized fuel allocations. As noted, CSTC-A informed us that a single Afghan contractor was resident at MMC-A to review fuel orders prior to forwarding to CSTC-A.
- 3d. CSTC-A stated that it undertakes appropriate administrative checks to ensure that fuel orders do not exceed BPA limits. We noted that the specific administrative actions need to be clearly identified to ensure that fuel orders placed by fuel ordering officers do not exceed BPA limits without evidence of the required contracting officer approval.
- 3e. CSTC-A stated that its use of delivery tickets conforms to *Federal Acquisition Regulation* Subpart 32.905. However, our review of this clause found no language related to vendor-reported delivery tickets, including guidance as to whether such tickets are appropriate support for payment of an invoice. Specifically, the clause states that supporting documentation for authorizing payment should include quantities of supplies received and accepted, the date that a designated Government official accepted the supplies or approved the progress payment, and the signature of this designated official. However, as noted in the report findings, we found multiple instances where delivery tickets were not signed by the ANA and the vendor's driver and the delivery tickets generally lacked proof of fuel quality. The delivery tickets reviewed found no notation of a "designated Government official" or that designated officials accepted the fuel or other independent verification of vendor-reported fuel quality and quantity. CSTC-A commented that the use of MOD Forms 8 and 9 is not the "optimal solution." We disagree, as the MOD Decree requires these forms, which can help document fuel quantity. Such a step can help CSTC-A improve accountability and develop capacity within the ANA and MOD.

- 3f. CSTC-A stated that receipt of fuel delivery is performed by personnel assigned to MMC-A and verified by CSTC-A's contractors, and that this verification is done under the supervision of coalition advisors. However, CSTC-A officials told us that only one Afghan contractor works at MMC-A, and this contract began in August 2011. As a result, the level of verification between 2007 and August 2011 is unclear. Due to the apparent reliance on this individual, CSTC-A should determine the proper separation of duties to ensure orders from CSTC-A's contractor at MMC-A are accurate.
- 3g. CSTC-A stated that "order reconciliation is performed on a monthly basis upon receipt of monthly invoices from vendors...and performed by the COR." However, CSTC-A did not regularly reconcile orders and payments until June 2012—5 years into funding of ANA POL. We did not verify the continued reconciliations by fuel ordering officers (contracting officer representative) because any subsequent monthly reconciliations took place after our audit period.
4. CSTC-A generally concurred with our recommendation to use the fiscal year 2012 ANA budget, but only as a starting baseline to establish the fiscal year 2013 budget. CSTC-A added that other factors must be considered to develop the fiscal year 2013 budget. However, as noted in our report, CSTC-A estimated fiscal year 2013 ANA expenditures at \$480 million without providing documentation to support that amount. Further, more than \$266 million in fiscal year 2012 funds will still be available to use along with the recommended \$306 million for fiscal year 2013. Therefore, we continue to recommend that the fiscal year 2013 budget should not be increased beyond that of fiscal year 2012.
5. CSTC-A stated that its advisors have directed MOD to implement a fuel allocations requirement for all MOD units that is justifiable and meets operational requirements, but added that MOD leadership was not able to provide adequate fuel allocation data and detailed some flaws with what was reported. In November 2012, we saw a draft model of the allocation procedures, originally expected to be rolled out in December 2012. We did not assess the procedures because they had not been finalized during the course of our fieldwork. We reiterate the need to validate any funding levels estimated to meet ANA fuel requirements.
6. CSTC-A stated that it shares our concerns with fuel transparency and accountability and noted it will begin to transfer one-third of all fuel funding and responsibilities to the MOD in 2013 and the remaining two-thirds in 2014 based upon demonstrated success. CSTC-A also commented that it will incrementally disburse funds and conduct monthly audits. We believe that, at a minimum, such audits should include the verification of vendor fuel orders and vendor-reported deliveries to MOD forms and reconciliation of (a) contributions to MOD payments and remaining balances; (b) fuel orders to vendor deliveries and MoD payments; and (c) vendor deliveries to ANA distribution, consumption, losses, and remaining inventory. Further, CSTC-A should assure that the sources of information and systems are reliable.

Lastly, CSTC-A noted that MOD will assume control of diesel fuel for two of the seven ANA Corps but did not detail which two these will be. CSTC-A appears to limit its definition of "responsibility" and "control" to be areas other than financing, which CSTC-A assumes it will support until at least 2018. We believe that full and complete Afghan "control" and "responsibility" will not exist until the Afghan government can generate its own financing to meet its security mission.

APPENDIX IV - COMMENTS FROM U.S. ARMY CENTRAL



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
THIRD ARMY
UNITED STATES ARMY CENTRAL
1 GABRESKI DRIVE
SHAW AIR FORCE BASE, SOUTH CAROLINA 29152

ACLG-S

27 December 2012

MEMORANDUM FOR USCENTCOM Audit Team

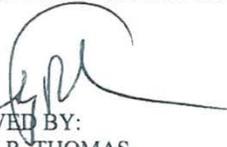
SUBJECT: Review of Draft Report Afghan National Army: Controls over petroleum, oil, and lubricants for vehicles, generators, and power plants need strengthening to prevent fraud, waste, and abuse; Special Inspector General for Afghanistan Reconstruction (SIGAR) Audit 13-4

1. The USARCENT G4 Petroleum and Water Branch has reviewed the audit results, conclusions and recommendations enclosed in the draft report for SIGAR Audit 13-4. We concur with all six of the draft recommendations and also offer the following comment.

2. Page 15, Recommendation 5; We concur that ANA fuel consumption needs to be analyzed completely due to the numerous issues pointed out through the report, but the practice of estimating/forecasting future fuel requirements based off of historical information is a best practice assuming approximately the same mission. Ideally, if all procedures were followed during the last FY then the consumption would match the ordering except for losses incurred due to battle loss, theft, etc (which you might need to account for some of the cost in the budget anyways depending on how the contracts are written). However; it seems that in this case those actual consumption reports may not exist, and or be complete if they did exist; in which case, they may have no other alternative than to use the fuel orders placed information to base their budget requests on.

SIGAR
comment 1

3. The Point of Contact for this memorandum is the USARCENT Petroleum and Water Branch at 803-885-7467/7448/7479/7455/7464 or DSN 312-889-7467/7448/7479/7455/7464.


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Petroleum Systems Technician

SIGAR's Response to U.S. Army Central's December 27, 2012 Memorandum:

1. U.S. Army Central commented that CSTC-A may have “no other alternative” than to base budget requests on fuel orders because the needed consumption data may not exist. We disagree. Reliance on fuel orders without factoring battle losses and theft, in an environment riddled with vulnerabilities as detailed in this report would expose U.S. dollars to a high risk of fraud, waste, and abuse. We believe that CSTC-A must take significant steps to gain insight into actual consumption and losses to assure proper stewardship of U.S. taxpayer dollars.

APPENDIX V - ACKNOWLEDGMENTS

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This audit report was conducted under project
code SIGAR-054A.

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The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

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- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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