

SIGAR



Testimony

Before the Subcommittee on National Security, Homeland Defense, and Foreign Operations, Committee on Oversight and Government Reform, House of Representatives

Department of Defense
Not Adequately
Prepared to Transfer
Responsibility for Fuel
Management to the
Afghan National Army

Statement of John F. Sopko,

Special Inspector General
for Afghanistan Reconstruction

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Mr. Chairman, Ranking Member Tierney, and Members of the Subcommittee,

I am pleased to be here today to discuss the U.S. government's plans to transfer responsibility to the Afghan government for management of the petroleum, oil, and lubricants (POL) provided to the Afghan National Army (ANA).

As you know, the Combined Security Transition Command – Afghanistan (CSTC-A), which is responsible for equipping and training the ANA, has stated that it plans to begin transferring responsibility for procuring, tracking, delivering, and accounting for fuel and other petroleum products to the Afghan government in January 2013—less than 4 months from now. At that time, CSTC-A intends to begin paying for the ANA's fuel through direct contributions from the Afghan Security Forces Fund (ASFF) to the Afghan government. In addition, CSTC-A has proposed to increase annual funding for ANA fuel to \$555 million per year—or a total of nearly \$2.8 billion—for fiscal years 2014-2018.

Helping the ANA develop a supportable and sustainable logistics capability—including the ability to purchase, track, and account for POL—is critical to the U.S. goal of completing the transfer of security responsibilities to the ANA by the end of 2014. However, SIGAR has found that CSTC-A, which is responsible for building the ANA's logistics capability, does not have an accountable system in place for itself and has not successfully developed the ANA's capability to procure, deliver, and account for POL. Specifically, SIGAR's auditors determined that CSTC-A has no valid method for estimating fuel needs and has not collected the basic information needed to account for the fuel it provides to the ANA.¹

The problems we have identified must be resolved quickly. Unless funding is based on accurately measured and estimated needs, and unless the ANA has effective accounting controls in place, the risks that fuel purchased with U.S. tax dollars will be stolen or wasted will multiply. Furthermore, these problems must be addressed if the Afghans are to successfully assume control of the funds we are increasingly providing directly to their government. The international community, including the U.S. government, has committed to channel at least 50 percent of its

¹ These findings are discussed in more detail in SIGAR 12-14, *Interim Report on Afghan National Army Petroleum, Oil, and Lubricants*, 10 September 2012 and SIGAR 12-15T, *Department of Defense Cannot Accurately Account for over \$1.1 Billion in Fuel for the Afghan National Army*, 13 September 2012.

development assistance through the Afghan national budget.

However, SIGAR and others have identified problems with this type of “direct” or “on-budget” assistance. For example, in July 2011,² SIGAR reported that the Afghan government faces challenges developing and maintaining the civil service expertise needed to manage and account for funds in the Afghanistan Reconstruction Trust Fund (ARTF)—one of the most important mechanisms for the U.S. government to provide direct assistance to the Afghan government.³

My testimony today will focus on an update of our work related to CSTC-A’s POL program, as well as discuss our body of work on direct assistance. We conducted the performance audit work that supports this statement in accordance with generally accepted government auditing standards. Those standards require that we plan and perform audits 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.

Background

The multinational, U.S.-led NATO Training Mission-Afghanistan (NTM-A)/CSTC-A bears primary responsibility for developing the ANA’s logistics capability and procuring the fuel for the Afghan security forces. The United States is funding this effort through the ASFF, which Congress established to train, equip, and sustain the ANA and the Afghan National Police (ANP) forces.

Currently, CSTC-A purchases POL, including diesel, aviation, and other fuels, to power ANA’s vehicles, generators, and power plants.⁴ Once the fuel is delivered to the ANA, the ANA

² SIGAR 11-14, *The World Bank and the Afghan Government Have Established Mechanisms to Monitor and Account for Funds Contributed to the Afghanistan Reconstruction Fund, but Some Limitations and Challenges Should Be Addressed*, 22 July 2011.

³ The ARTF, administered by the World Bank, is designed to (1) position the Afghan government budget as the key vehicle to align international reconstruction assistance with Afghan development objectives; (2) promote transparency and accountability of reconstruction assistance; (3) reduce the burden on an Afghan government with limited capacity while simultaneously promoting Afghan capacity building over time; and (4) enhance donor coordination. The international community has donated \$5.7 billion to ARTF since 2002. The United States is the largest donor.

⁴The ANA has 30 power plants.

assumes full responsibility for POL management and further allocation. The Afghan Ministry of Defense (MoD) has issued general guidance and procedures for ANA logistical operations, including POL. It has also issued three decrees intended to govern ANA fuel management and accountability through, in part, the use of required forms, such as fuel request forms and monthly consumption reports. CSTC-A's ability to develop ANA POL capability depends on effective implementation of these required processes to validate the accuracy of data related to fuel orders, issues, receipts, payments, and, ultimately, overall ANA POL requirements.

As part of the transition of U.S. forces out of Afghanistan by the end of 2014, CSTC-A, in coordination with the Afghan government, is seeking to develop the ANA's POL and other logistics capability to the point that it can assume responsibility for all national logistics and maintenance requirements. In May 2012, CSTC-A informed SIGAR auditors that it planned to begin transferring ANA POL funding and contracting responsibilities to the Afghans by January 1, 2013. At that time, CSTC-A officials stated that they would initially provide the Afghan government about 2/3 of the total fuel funding—estimated to be \$300 million out of a total \$500 million. In June 2012, CSTC-A issued an information paper, stating that it would “use a 1/3 Coalition, 2/3 direct contribution funding strategy when programming for the ANSF [Afghan National Security Forces].” A CSTC-A budget document for fiscal years 2014-2018 shows a total budget amount of \$555 million for ANA POL each year, broken out as \$185 million for the ASFF and \$376 million in direct funding contributions.

In August 2012, CSTC-A officially notified the Afghan Ministries of Defense and Interior of its intention to transfer bulk fuel management to the Afghan National Security Forces. The ministries concurred with the plan and also agreed to form an executive committee⁵ to begin transition planning and develop a new fuel distribution concept with fewer delivery sites. On September 12, 2012, this executive committee held its inaugural meeting, at which a 1/3 direct contribution, 2/3 coalition funding allocation was discussed. The timing of the transfer was also considered. Notably, although CSTC-A indicated that it continued to prefer a transfer date of January 2013, the MoD announced that March 2013 was the soonest that the Afghan government

⁵This committee includes representatives from MoD, the Ministry of Interior (MoI), the Ministry of Commerce and Industry, and the Ministry of Finance.

would be able to support the ANA, due to the time needed to establish a contract vehicle. These issues, and others regarding the transfer of responsibilities to the Afghan government, appear unresolved at this time.

CSTC-A Lacks an Accurate Method for Estimating ANA Fuel Requirements and Cannot Accurately Account for Fuel Ordered, Purchased, Delivered, and Consumed

SIGAR's auditors have found that CSTC-A does not know the actual fuel funding levels needed to meet ANA mission requirements and lacks basic information needed to account for the fuel it provides to the ANA. CSTC-A's current method for estimating the amount of fuel the ANA needs does not include basic information, such as:

- the number of ANA fuel storage locations;
- the holding capacity of ANA fuel storage locations;
- the number of vehicles requiring fuel;
- the number of generators requiring fuel;
- the capacity of those generators; and
- the amount of fuel consumed at each ANA location.

Although CSTC-A maintains that it used consumption data and rates in developing budget estimates for fiscal years 2012 and 2013, it could not provide documentation showing how much fuel was being consumed at each ANA location. Despite repeated requests, CSTC-A did not provide SIGAR with any information on the number and location of generators or the capacity and consumption of each generator. Without this information, SIGAR could not determine how much fuel ANA generators needed or assess the extent to which generator needs were factored into current estimates of ANA fuel requirements. Our confidence in CSTC-A's ability to make reasonable estimates of future Afghan fuel needs was further eroded by our discovery that CSTC-A planners responsible for developing fuel estimates had allocated fuel for trailers and other equipment that have no engines.

SIGAR also found that no single office within the U.S. or Afghan governments—including CSTC-A's fuel ordering office, the Kabul Regional Contracting Center, and the MoD's Logistics Command Materials Management Center-Army (MMC-A)—has complete records of ANA fuel

ordered, purchased, delivered, and consumed. SIGAR auditors identified the following problems:

- CSTC-A did not have any records of fuel purchase and payment information prior to March 2011. According to a CSTC-A official, a predecessor shredded financial records of fuel payments covering the period from October 2006 to February 2011. SIGAR estimates that these records included information about fuel payments totaling nearly \$475 million.
- CSTC-A could not provide more than half of the documents we requested for our audit period from March 2011 to March 2012.⁶
- Controls over fuel ordering did not effectively ensure that the MMC-A was aware of all fuel orders and able to determine whether any ANA unit received more than its authorized allocation.
- CSTC-A paid vendors without independent verification of the quantity and quality of fuel delivered.
- CSTC-A did not track or reconcile the amount of fuel delivered with the amount of fuel that the ANA issued, stored, and consumed.
- Fuel vendors did not always comply with the requirements set forth in the fuel blanket purchase agreements used by CSTC-A.

In light of our concerns, SIGAR took a number of steps. We alerted the senior leadership at the Department of Defense and the commanders in the field about the destruction of documents and reiterated to all parties the importance of maintaining all financial records. We also referred this matter to our investigations directorate, which has a team of three agents and two analysts assigned to investigate the allegation.

⁶In fact, in our review of 73 of the 150 paid fuel orders that we received, CSTC-A could only provide a complete set of supporting documentation for 4 fuel orders.

Our investigative team has identified 18 individuals—in the United States, United Kingdom, Belgium, and Afghanistan—to be interviewed and has begun those interviews. The immediate focus of the inquiry is to verify that records were shredded and to determine who ordered the document destruction, when that took place, who did it, and why. The inquiry will also examine whether electronic copies of the records were collected. The tentative timeline for completion of the interviews in the United States is 2 weeks. SIGAR investigators will complete the interviews in Afghanistan as soon as possible, given the security situation currently impacting U.S. operations there.

SIGAR has also made two recommendations to address our concerns about the accuracy of fuel requirement estimates and the ANA's ability to account for fuel. Specifically, we recommended that the Commanding General of NTM-A/CSTC-A:

- reduce the fiscal year 2013 and planned 2014-2018 budget requests for fuel for the ANA to the fiscal year 2012 amount of \$306 million and maintain this level until CSTC-A and the ANA have developed a more systematic process for determining requirements; and
- develop, approve, and implement a comprehensive action plan, focusing on specific internal control processes to verify fuel purchases and deliveries to improve overall fuel accountability.

In commenting on a draft of our report, CSTC-A concurred with our recommendation to develop, approve, and implement a comprehensive action plan, but disagreed with our recommendation to limit budget requests for fuel until it has developed a more systematic process for determining fuel requirements because it believes that military operations would be negatively affected.

Concerns about CSTC-A's POL Management Are Not New

CSTC-A was first cautioned with problems regarding its management of ANA POL in December of 2011, when the Department of Defense Office of Inspector General released a

comprehensive review of the ANA's logistics capability.⁷ Although this report did not include a detailed review of the POL accountability process, it noted that, "a lack of enforcement of published [Afghan] MoD procedures that contain many of the necessary controls, checks, and balances, and a shortage of trained ANA logisticians, and ineffective ANA command supervision have collectively contributed to weak internal accountability and control of the fuel supply system and resulted in persistent fuel theft." The report made four recommendations to CSTC-A, including one to the CSTC-A Commanding General to "coordinate with the Ministry of Defense/General Staff to jointly assess fuel accountability and management issues at Forward Support Depots and implement effective internal controls to prevent abuse and theft."

In May 2012, as part of its more targeted audit of CSTC-A's POL capability, SIGAR briefed CSTC-A officials on systemic challenges that needed to be addressed before transferring POL responsibilities to the Afghans. The auditors identified the following six major problems:

- unsupported and incorrect ANA fuel consumption rates, requirements, and allocations;
- insufficient contractor oversight and competition;
- decentralized and uncoordinated ANA fuel ordering processes;
- insufficient documentation on fuel orders regarding the actual quality and quantity of fuel delivered;
- incomplete information on ANA POL purchases and payments; and
- non-compliance with Afghan MoD policies, resulting in weak accountability controls over the entire ANA POL process.

Although CSTC-A took some steps to respond to our findings, it did not do enough to ensure that accurate ANA fuel requirements are developed and that effective controls are instituted to maintain proper accountability for fuel purchases, deliveries, and consumption. For example, in response to the first problem we identified, CSTC-A stated that it had issued two fragmentary orders (FRAGOs) to collect information on bulk fuel storage capabilities and bulk fuel documentation. However, these FRAGOs did not request information on the fuel consumption of vehicles, power plants, and generators—key data needed to obtain complete and accurate

⁷ Department of Defense Office of Inspector General, Special Plans and Operations, *Assessment of U.S. Government and Coalition Efforts to Develop the Logistics Sustainment Capability of the Afghan National Army*, 9 December 2011.

consumption rates.

CSTC-A's Plans to Transfer POL Logistics Capabilities to the ANA Are Part of a Larger Effort to Transfer Responsibility and Funding Directly to the Afghan Government

CSTC-A's decision to begin providing direct funding to the Afghan government for the purchase of fuel is part of the overall U.S. and international donor commitment to increasingly provide reconstruction funds directly to the Afghans. The Afghan government controls only a small portion of the reconstruction funds spent in the country. According to the U.S. Government Accountability Office (GAO), all external budget expenditures are financed entirely by international donors. GAO estimates that for the period 2006/2007-2010/2011, fully 79 percent of expenditures were not part of the national budget or under the Afghan government's fiscal control.⁸

This imbalance has long been a point of contention between the Afghan government and international donors. At the Tokyo Conference in July 2012, the international community reiterated its commitment to channel at least 50 percent of its development funding through the Afghan national budget. As of February 2012, the United States was disbursing more than 40 percent of its aid funds through the Afghan government in the form of direct assistance.

The U.S. Agency for International Development (USAID) and the Department of Defense (DOD) provide direct assistance to Afghanistan using bilateral agreements and multilateral trust funds that provide funds through the Afghan national budget. Some of USAID's bilateral agreements finance Afghan government procurement of goods and services, while others fund a range of other government expenses and activities, including operating costs, salaries, agricultural development programs, and infrastructure projects. USAID also provides direct assistance via the World Bank-administered ARTF, which provides funds through the Afghan government national budget to finance the government's recurrent operating costs (e.g., wages for civil servants, operations and maintenance costs) and national development programs. DOD provides direct assistance bilaterally to Afghanistan's MoD and Ministry of Interior (MoI) through contributions of funds overseen by CSTC-A. According to DOD guidance, these

⁸GAO 11-710, *Afghanistan: Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government*, 20 July 2011.

contributions are used to procure food, salaries, goods, services, and minor construction in direct support of the ANA and the ANP. CSTC-A also contributes funds to the multilateral United Nations Development Programme-administered Law and Order Trust Fund for Afghanistan (LOTFA), which mostly funds salaries of the ANP.⁹

SIGAR and Other Oversight Bodies Have Identified Problems with Direct Assistance

The capacity of Afghan ministries to administer funds responsibly and transparently is fundamental to enduring direct donor assistance. Data indicate that on-budget expenditures by the Afghan government may have a greater impact on Afghanistan's economy compared to aid programs administered by international donors. The World Bank, for example, has reported that only about 10-25 percent of the off-budget aid is actually spent in Afghanistan, compared to 70-90 percent of the aid administered through the Afghan government. However, SIGAR and other oversight bodies have identified numerous challenges related to direct assistance efforts.

- In April 2011,¹⁰ SIGAR revealed problems with LOTFA. CSTC-A has played a key role in helping the Afghan MoI develop and implement personnel management systems and processes to account for the ANP workforce and payroll. However, SIGAR found that the MoI's payroll system provided little assurance that only those ANP personnel who work are paid and that LOTFA funds are only used to reimburse eligible ANP payroll and other costs. Furthermore, SIGAR's auditors found that the United Nations Development Programme, which administers LOTFA, could not confirm that LOTFA funds reimbursed only eligible ANP costs. SIGAR concluded that the MoI will continue to face challenges gathering personnel and payroll data, centralizing the data within a system, and integrating this information into other systems until long-standing issues with security, infrastructure, and coordination are addressed.

⁹In 2002, the Government of Afghanistan and its international partners agreed to establish LOTFA to support the development of the ANP by covering certain recurrent costs, including the payment of police salaries, allowances, and benefits nationwide. The United States has historically been the largest single contributor to LOTFA, providing nearly 32 percent of total contributions.

¹⁰SIGAR 11-10, *Despite Improvements in MoI's Personnel Systems, Additional Actions Are Needed to Completely Verify ANP Payroll Costs and Workforce Strength*, 25 April 2011.

- In July 2011,¹¹ SIGAR reported that the World Bank, which administers the ARTF, was performing limited oversight of the fund. For example, its reviews were limited to financial audits (rather than performance audits that could examine efficiency and effectiveness), it did not provide independent validation of ARTF funding outside of Kabul, and it failed to provide detailed reporting on all ARTF-funded development projects to fund donors. In addition, SIGAR found that, although Afghan ministries had generally increased their ability to manage and account for government finances, including ARTF funds, the Afghan government faces challenges developing and maintaining the service expertise needed to manage and account for ARTF funds.
- Also in July 2011,¹² GAO reported that USAID and DOD had taken steps to help ensure the accountability of their bilateral direct assistance to Afghan ministries, but USAID had not required risk assessments in all cases before awarding these funds. GAO also found that USAID had not consistently complied with its risk assessment policies in awarding funds to the ARTF.
- In February 2012,¹³ the Army Audit Agency (AAA) released its assessment of CSTC-A's standard operating procedure for making direct contributions to the ANSF. The purpose of the assessment was to determine if the procedure identified the control, techniques, and responsibilities necessary to effectively manage the direct contributions to the ANSF. AAA found that CSTC-A's standard operating procedure "doesn't provide a solid quality control process for the [CSTC-A] advisors to follow to ensure all direct contribution funding that was provided to the ANSF was used for the intended purpose and is reconciled and accounted for properly."

¹¹ SIGAR 11-14.

¹²GAO, *Afghanistan: Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government*, 20 July 2011.

¹³Army Audit Agency, *Controls Over Contributions From the Afghanistan Security Forces Fund (Project Number A-2011-FFM-0511.000, Report A-2012-0041-FMF*, 14 February 2012.

- In April 2012,¹⁴ DOD reported that there were serious shortcomings in the Afghan government's capability to manage on-budget operations and maintenance funds. The report stated that, "The ministries responsible for critical assets possess limited ability to adequately execute an operations and maintenance plan on the scale required in Afghanistan....The limitations in internal technical capacity, as well as contracting and procurement...inhibit the effectiveness of any increase in operations and maintenance budget disbursed through the Afghan government. Currently, the systems and internal controls needed to both determine appropriate operations and maintenance spending levels and ensure that the amounts budgeted for operations and maintenance are deployed and disbursed for the appropriate activities, are uniformly deficient throughout the ministries."

Conclusion

The problems we have identified with CSTC-A's efforts to develop the Afghan government's POL logistics capability are troubling, but not surprising. CSTC-A has been cautioned on more than one occasion that the controls are not in place to ensure proper accountability of fuel for the ANA and that it lacks the information it must have to determine fuel needs.

That CSTC-A would proceed with plans to transfer responsibility to the Afghan government and provide millions of dollars in direct assistance, despite these problems, is alarming. Providing funds as direct assistance is a critical element of handing reconstruction responsibility to the Afghans, and the U.S. and its allies have made a commitment to do so. But following through on this commitment without first establishing the controls necessary to safeguard those funds would be reckless.

Accordingly, we strongly urge CSTC-A not to proceed with its plans to increase POL funding for the ANA and to write a "blank check" to the Afghan government until it has accepted and fully implemented all of our recommendations designed to strengthen POL accountability.

¹⁴ DOD Report on Progress Toward Security and Stabilization in Afghanistan, April 2012.