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SIGAR REPORT: DOCUMENT DESTRUCTION AND MILLIONS OF DOLLARS UNACCOUNTED FOR AT THE DEPARTMENT OF DEFENSE, PART II

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE AND FOREIGN OPERATIONS

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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SIGAR REPORT: DOCUMENT DESTRUCTION AND MILLIONS OF DOLLARS UNACCOUNTED FOR AT THE DEPARTMENT OF DEFENSE, PART II

Thursday, September 20, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE, AND FOREIGN OPERATIONS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:30 p.m., in Room 2247, Rayburn House Office Building, Hon. Jason Chaffetz [chairman of the subcommittee] presiding.

Present: Representatives Chaffetz, Platts, Tierney, and Lynch.

Staff Present: Thomas A. Alexander, Senior Counsel; Alexia Ardolina, Assistant Clerk; Brien A. Beattie, Professional Staff Member; Mitchell S. Kominsky, Counsel; Jaron Bourke, Minority Director of Administration; Devon Hill, Minority Staff Assistant; Peter Kenny, Minority Counsel; Leah Perry, Minority Chief Oversight Counsel; Cecelia Thomas, Minority Counsel; and Carlos Uriarte, Minority Counsel.

Mr. CHAFFETZ. The committee will come to order.

I would like to begin this hearing by stating the Oversight and Government Reform mission statement.

We exist to secure two fundamental principles: First, Americans have a right to know that the money Washington takes from them is well-spent; and, second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights.

Our solemn responsibility is to hold the government accountable to taxpayers because taxpayers have a right to know what they get from their government. We will work tirelessly, in partnership with citizen watchdogs, to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

This is the mission of the Oversight and Government Reform Committee.

I appreciate everybody here. I appreciate your patience here as we had votes on the floor. And we will have votes in approximately an hour, hour and 15 minutes or so.

I want to welcome everybody to this hearing, which is entitled, "SIGAR Report: Document Destruction and Millions of Dollars Unaccounted for at the Department of Defense, Part II."

I would like to welcome Members from both sides, in particular Mr. Lynch, who has worked tirelessly on these types of issues.

Today's proceedings continue the subcommittee's efforts to oversee billions of taxpayer dollars spent in support of military and civilian operations within Afghanistan. Last week, the Special Inspector General for Afghanistan Reconstruction, or the SIGAR, Mr. John Sopko, testified before this committee on the findings contained in an interim report entitled, quote, "Interim Report on Afghanistan National Army Petroleum, Oil, and Lubricants," otherwise known as POL.

His report contains serious allegations of potential waste, fraud, and abuse and document destruction associated with PLO procurement. I want to thank Mr. Sopko for being here again today and for the work that he and his team do.

Given this finding, we found it necessary to seek answers from the Department of Defense. We also believe it is necessary to talk about the broader issue of direct assistance to foreign governments, including Afghanistan. USAID has considerable experience in this area, and I look forward to hearing how they ensure accountability in other regions.

From fiscal years 2007 to 2012, CSTC–A has channeled approximately $1.1 billion through the Afghan Security Forces Fund to purchase petroleum, oil, lubricants for the Afghan National Army. In fiscal year 2013, the U.S. Government will purchase approximately $343 million more in POL.

According to Mr. Sopko, CSTC–A does not have accurate or supportable information on three key things: how much U.S. funds are needed for ANA fuel; where and how the fuel is actually used; and how much of the fuel has been lost or stolen. Those seem to be some very basic, simple questions that everybody should be able to see and have in order to make reasonable, rational decisions. Thus, to the extent in which ANA fuel is in stock, consumed, or lost at any given time remains an unknown. Mr. Sopko also testified that, quote, "No single office within the U.S. or Afghan Government has the complete records on ANA fuel purchased, ordered, delivered, and consumed," end quote.

There are allegations that the Defense Department may have shredded financial records for hundreds of millions of dollars in POL. And yet, at this time, they are seeking to increase the assistance by hundreds of millions of dollars. If accurate, this is totally unacceptable. I have been working closely with Mr. Tierney and perhaps will introduce legislation soon to redirect this effort.

Despite the lack of records and justification for fuel purchases, the Department of Defense proposes increasing funding. From fiscal year 2014 to fiscal year 2018, it plans to provide $555 million worth of POL per year. The Department of Defense plans to give two-thirds of this funding directly to the Afghan Government starting on January 1, 2013, so that it can buy the petroleum, oil, and lubricants for itself—this from a government which I believe is one of the most corrupt governments on the face of the planet.

It begs the question, why do we even bother sending it to Afghanistan. Why don't we just send it to Dubai and let them just put it in their own bank accounts? There are some serious questions.

We are here to try to provide more oversight, and yet what I see the direction of the Department of Defense going in is less oversight, less accountability. And that is, again, why USAID is here. They, too, didn't seem to be moving in this direction. We can't get the basic information about what we are consuming and what is being used, and the administration keeps moving in a direction to send it directly to them. We can't even account for it; we think the Afghans are going to account for it? And we are going to increase their funding? That is why we are here today.

Under the current plan, the Afghan Government will be responsible for overseeing the expenditure of roughly $2.8 billion of our taxpayer dollars. There are virtually no assurances, however, that the Afghans will properly oversee this money. We simply cannot delegate the authority and oversight of billions of taxpayer dollars to the Afghan Government without reliable controls in place. Trust, but verify. I believe that, and we are not doing that in this instance.

Afghanistan is not the only recipient of direct assistance, however. This administration has made it a priority to increase direct assistance to governments in developing countries all over the world. Under President Obama, the USAID has developed a new initiative called Forward. Under this program, the administration plans to double the amount of U.S. foreign aid budget it gives directly to foreign governments, NGOs, and businesses.

Already, between fiscal year 2009 and 2010, the administration has more than tripled its awards of direct assistance to Afghanistan to $2 billion. And, overall, excluding Afghanistan and Pakistan, the administration goal is to give 30 percent of nearly $40 billion in foreign aid budget directly to foreign governments, NGOs, and businesses by 2015. This is a staggering figure.

I would like to hear from USAID how it ensures accountability in other regions and whether lessons can be applied to the Department of Defense.

We must also get a better handle of who is receiving the contracts. In a letter on Tuesday, Mr. Sopko listed 43 contractors in Afghanistan with affiliations to the Haqqani Network, the Taliban, or al Qaeda. According to this letter, these entities have not been suspended or debarred by the U.S. Government. The fact that these firms with known affiliations to terrorist groups are omitted from the debarment list is simply outrageous. I want to know why the Defense Department has not acted on the SIGAR's recommendations in a timely manner. I hope today's discussions include solutions on how to prevent groups with terrorist ties from doing business with the United States.

I want to thank all the witnesses for being here on short notice. I appreciate your patriotism, your commitment to the country.

What I like to share with people is, what differentiates the United States of America from everybody else is we have these types of candid discussions, in the light of day, on television, so that everybody can see and hear the good, the bad, and the ugly, all with the same mutual goal of making it better. That is why we are here today. I am not here to just try to embarrass people. We are trying to make it better and challenge the notions that are potentially there on the table.

So I appreciate these gentlemen who are here answering the questions from the panel.

And I would like to recognize the distinguished ranking member, the gentleman from Massachusetts who has worked tirelessly. I appreciate the partnership we have in trying to put good government in place, and I would like to recognize Mr. Tierney for his opening statement.

Mr. TIERNEY. I thank the chairman for that, and thank our witnesses for being here today.

And, again, the SIGAR, thank you, Mr. Sopko, for your report last week and your testimony, as well. I am glad to see you back here again today.

Mr. Chairman, other than to just take this opportunity to acknowledge and honor the loss of Ambassador Chris Stevens and the three other United States citizens and note that we have had our 51st death of NATO forces on the so-called blue-green situation, and we honor the sacrifice of them and their families and all of the people that are dedicated servants still serving, and to note that I think we have a joint interest here in making sure that our investments in development, while laudable, are threatened by the potential that they may exacerbate the situation as opposed to improve it, and that a lot of the oversight work has to be done to make sure that this program or any program like it works to our advantage and not to our disadvantage, I will ask that we just accept my remarks for the record and we can proceed.

Mr. CHAFFETZ. Absolutely. Without objection, so ordered.

Mr. CHAFFETZ. Does any other Member seek to make a comment or opening statement?

Mr. PLATTS. Mr. Chairman, not any real statement, other than I am going to apologize to the witnesses. I am due in another meeting here and just wanted to thank the witnesses for their written testimony and for you holding this very important hearing.

The issue of transparency and getting to the bottom of these issues is so important. I commend you and the ranking member for moving forward with the hearing. And I apologize, I will be running out of here shortly.

Mr. CHAFFETZ. Understood. The flexibility, a lot is happening today, and the lateness in which we start. So I appreciate that.

Would the gentleman from Massachusetts care to say anything?

Mr. LYNCH. I would, just a brief statement. Thank you, Mr. Chairman. Thank you for holding this hearing. I thank the ranking member, as well. I know you both worked on these issues extensively.

I also want to thank the witnesses for coming before us and trying to help us with our work.

This is an important issue for us going forward. The Inspector General has been—the Special Inspector General has been terrific on this issue.

Mr. Sopko, you were nice enough to join us last week, where we in this committee had the opportunity to hear testimony from the Inspector General for Afghanistan Reconstruction regarding the current system for procuring petroleum, oil, and lubricants for the Afghan Security Forces.

We discovered at that hearing that the process is completely dysfunctional and that the Combined Security Transition Command-Afghanistan is not yet in a position to ensure that any entity, Afghan National Army or otherwise, will be able to take over future procurement. This is particularly disturbing as the Afghan National Army is set to take control of the petroleum procurement in January 2013.

Corruption and lack of transparency are endemic in Afghanistan. I have often said that corruption is to Afghanistan like wet is to water. And that corruption has proven to be a significant hurdle for U.S., allied, and Afghans to overcome as we transition out of Afghanistan.

We should not be handing over such responsibilities and resources without being certain that the institutions in question are ready to ensure proper oversight and transparency. That is the mission of this subcommittee as well as the full committee and our responsibility to the American people.

The witnesses we have brought here today will be able to shed additional light on the petroleum procurement matter and what is being done to remedy the deficiencies. They will also be able to share what improvements are being done to increase overall oversight of funds provided by the United States taxpayer.

Now, look, if we don't have the oversight in place, this money will be stolen. This is billions of dollars of taxpayer money. We all know the situation in Afghanistan, and right now they are totally incapable. We have seen it. We have seen it from Kabul Bank right on down. We have seen it through the fuel supply contracts—terrible corruption.

And if we proceed down this road where we just hand billions of dollars over, 30 percent or otherwise, to the Afghan Government without the proper controls there, this money is going to go out the door, this will be stolen. So it makes no sense—it makes no sense to take American taxpayer money and hand it over to people who are not going to spend it for its intended purpose.

And I would like to hear from our witnesses today as to how they envision a way forward to ensure that the transition of Afghan control will be sustainable, if not successful.

I would like to thank our witnesses for taking the time to come and testify before the subcommittee.

Mr. Chairman, thank you for staying on this issue, especially with the short deadline we have in January. We will not be in session that much more before this transition to Afghan control commences. So we have little time and a lot of work to do.

And I just hate to see us, you know, put good money at risk here, in any circumstances, but especially right now with the economy and the finances of the United States being what they are.

I yield back.

Mr. CHAFFETZ. I thank the gentleman.

Members may have 7 days to submit opening statements for the record.

And we will now recognize our panel.

Mr. John Sopko is the Special Inspector General for Afghan Reconstruction, also known as the SIGAR.

The Honorable Allen Estevez is the Assistant Secretary for Logistics and Materiel Readiness at the Department of Defense.

Lieutenant General Brooks Bash is the Director for Logistics with the Joint Staff at the Department of Defense.

And Mr. Larry Sampler is the Principal Deputy Assistant to the Administrator and Deputy Director of the Office of Afghan and Pakistan Affairs at the U.S. Agency for International Development.

That is quite the title. It is a long one. It just rolls off the tongue.

Nevertheless, we are glad that you are all here.

Pursuant to committee rules, all witnesses need to be sworn in before they testify. If you would please rise and raise your right hands.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Thank you. You may be seated.

Let the record reflect that all witnesses answered in the affirmative.

In order to allow time for discussion, we would appreciate it if you would limit your testimony to 5 minutes, but we will be fairly generous with that if you want to continue with a thought.

And we will now recognize Mr. Sopko for 5 minutes.

WITNESS STATEMENTS

STATEMENT OF JOHN F. SOPKO

Mr. SOPKO. Thank you.

Mr. Chairman, Ranking Member Tierney, and members of the subcommittee, last week I testified before this subcommittee that SIGAR had serious concerns about how CSTC–A has managed and accounted for the fuel provided to the Afghan Army. Despite these problems, CSTC–A still plans to increase annual funding for the Afghan Army fuel by $212 million per year and is pushing forward with the transfer of fuel responsibilities and funding to the Afghan Army.

We believe there is no basis for either decision, and I continue to surge CSTC–A to halt its plan to increase fuel funding until it develops a better process for determining fuel needs, establish a comprehensive action plan to improve fuel accountability, and delay transferring fuel responsibilities and funding to the Afghan Army until the problems we have identified are fixed.

Now let me briefly update you on the destruction-of-records issue.

First of all, SIGAR's investigations have identified and begun interviewing individuals located in the United States, Afghanistan, United Kingdom, and Belgium who were involved in this matter. We have confirmed that shredding did indeed take place and have identified two Air Force officers who admitted to destroying documents covering the time periods of February 2010 to February 2011.

According to these officers, they obtained supervisory approval to shred the documents because they did not have adequate storage space. They also claimed that they saved them in an electronic format. Our investigators are now working to locate those electronic

records to review to see if they are actually the records in question. These are the records, of course, that we requested from—in February of this year.

In addition, just this Tuesday, CSTC–A provided our auditors in Kabul with a CD which they claim contains 97 percent of the documents we had requested for the time period of March 2011 to March 2012. As you can recall from my testimony last week, CSTC–A had promised our auditors that they had complete records for the time period of March 2011 to March 2012. However, when they turned the records over to us and we did a sample, half of the documents were missing. Nevertheless, our auditors are now reviewing this new disc to ascertain whether it contains complete and accurate copies of the records we requested.

Now, regarding the bulk of the records, those prior to February of 2010, we still do not know what happened to them. CSTC–A tells us that—tells our auditors in Kabul that they have located additional hard copies of the records, including some prior to February 2010, which we intend to examine.

Let me just say at this point, CSTC–A's handling of its records is deeply troubling and, to us, raises questions about their ability to perform this serious function. It appears it has to take two congressional hearings, 6 months of IG requests, an interim audit report, a management alert letter, and my personal meeting with every senior military official in Afghanistan before CSTC–A deigns to seriously take our request for records as something they should respond to. We find that very troubling.

Now, let us also update you on other developments since our last testimony last week.

CSTC–A informed us of changes to their plans to transfer responsibilities to the Afghan Government. Subsequent to our testimony, CSTC–A now says they are going to revise the amount of funding it plans to provide directly to the Afghan Government from two-thirds of total funding to one-third.

The time frame for transferring that fuel has also changed. It appears in a meeting, again subsequent to our testimony, that the Afghan Ministry of Defense has said they can't handle this new mission until March of 2013. Although we think this is a good move, to delay, we are surprised that apparently CSTC–A never talked to the Afghan ministry about this important function until subsequent to the hearing.

These developments indicate that CSTC–A is perhaps approaching the transition to Afghan-run logistics more cautiously than before. Unfortunately, we know from our audit work and the work of others, including the Army Audit Agency, that CSTC–A has struggled with direct assistance in the past.

As I mentioned last week, the Army Audit Agency reported in February 2012 that CSTC–A's standard operating procedure for making direct contributions to the Afghan National Security Forces did not provide a solid quality-control process. SIGAR itself reported in 2011 that CSTC–A's efforts to help the Afghan Ministry of Interior develop and implement a personnel management system to account for the Afghan National Police workforce and payroll was unsuccessful.

Providing direct assistance to the Afghan Government is a critical part of handling responsibility for the Afghan reconstruction—excuse me, for the reconstruction effort over to the Afghans. But moving forward with direct contributions in the face of the serious problems that CSTC–A itself has encountered in its fuel programs reconfirms our belief that transferring funding responsibility in January is doubling down on a very risky bet.

Thank you very much, Mr. Chairman and Ranking Member. I am open to any questions.

Mr. CHAFFETZ. Thank you.

We will now recognize the Honorable Mr. Estevez.

STATEMENT OF THE HON. ALLEN F. ESTEVEZ

Mr. ESTEVEZ. Thank you.

Chairman Chaffetz, Ranking Member Tierney, distinguished members of the committee, thank you for the opportunity to appear before you to review the findings of the Special Inspector General for Afghanistan Reconstruction's interim report on the subject of Afghan National Army petroleum, oil, and lubricants.

I would like to note that Lieutenant General Bash and I have submitted a joint statement for the record.

I would also like to note that we appreciate the work of the Special Inspector General and that across the Department of Defense, to include in our deployed forces in Afghanistan, we are committed to working with the Special Inspector General to strengthen our processes in Afghanistan and to protect the taxpayers' dollars.

Before addressing the issues raised by the interim report, it is important that we put our actions with regard to Afghan forces in context. It is critically important that we build Afghan force capability and capacity. This is the key to a stable, secure Afghanistan, an Afghanistan that is not a safe haven for extremists like al Qaeda that threaten this Nation.

As part of the process to build Afghan military capability, we must also build Afghan force sustainment capabilities. Developing the ability to provide petroleum, oil, and lubricants, or "POL" in the military vernacular, is a critical part of that process.

I would like it address the Special Inspector General's concerns with the Combined Security Transition Command-Afghanistan's ability to fully account for POL provided to Afghan forces and the statements that officials shredded all Afghan fuel-related financial records from October of 2006 to February of 2011.

And I will note that I just heard new information regarding that. However, I will stand by our statement that, to the best of our knowledge, no documents have been shredded, and records have been appropriately maintained. And I will say that electronic copies are valid records, so if a record was shredded, there is a valid electronic copy. That is to the best of our knowledge today.

We will continue to provide the Special Inspector General with all documents relevant to this audit as we accomplish our ongoing mission in theater. To date, we have collected 97 percent of the documents requested by the Special Inspector General. These documents include scanned copies of delivery tickets, invoices, and acceptance forms dating back to 2006.

Ongoing logistics training for the Afghan forces includes developing the proper procedures for fuel ordering and receipt and the verification of the quantity and quality of fuel delivered. Our current process requires Afghan Security Force units to submit the appropriate requisition and consumption forms, or fuel orders are refused. Afghan Security Force personnel, working under the guidance of their coalition advisers, process fuel order documents by verifying the quantity of fuel authorized and comparing it with fuel requested to ensure units do not exceed their fuel allocations. The quantity and quality of fuel delivered to Afghan Security Force sites is verified through the reconciliation of appropriate forms.

The NATO training mission has refined its method for estimating fuel funding levels for fiscal years 2014 to 2018. They used 1 year of consumption data, from August 2011 to July 2012, to establish an annual requirements baseline. From that baseline, using simple trend analysis and taking into account expected operational tempo increases, planned equipment fieldings, and seasonal weather factors, they developed future-year fuel requirements.

To improve the accountability of supplies, the NATO training mission issued a memorandum in April 2011, prior to the audit, to the Afghan Ministry of Defense noting that it would apportion fuel based only on vehicles that were properly accounted for by the ministry and coalition forces.

The NATO training mission also issued a fragmentary order in May 2012 directing coalition personnel at Afghan Security Force sites to report fuel storage capacity at all 46 Afghan force fixed-location fuel storage sites. This data enables the NATO training mission to compare quantity of fuel requested with capacity of potential storage in either fixed storage fuel tanks or mobile fuel transportation assets.

To further improve the accountability of fuel and provide closer oversight, we are also consolidating the number of fuel delivery sites.

In accordance with the overall campaign objectives, the NATO training mission is currently working with its Afghan partners in the Ministry of Defense to transition fuel management responsibility in a controlled, conditions-based manner—phased, conditions-based manner. Next year, the NATO training mission will transfer responsibility for only one-third of the estimated 2013 fuel budget to the Afghan Security Force. The remaining fuel budget will remain under the direct control of the NATO training mission.

To mitigate any financial risks, disbursements of funds for future Afghan Security Force fuel orders will occur quarterly and will be subject to the outcome of quarterly financial audits to ensure responsible use of funds.

In addition to the specific actions mentioned above, the NATO training mission is instituting a number of initiatives to strengthen Afghan Security Force fuel and POL program.

First, the training mission has formed an assistant-minister-level bulk fuel transfer executive committee with members from the NATO training mission and key Afghan ministries.

Second, the NATO training mission, with the assistance of the U.S. Central Command-Joint Theater Support Contracting Com-

mand, will advise Ministry of Defense acquisition personnel on the development of an enforceable contracting mechanism.

Finally, the NATO training mission has requested the Defense Logistics Agency experts to review the NATO training mission procedures and provide feedback on how it can improve operations.

Again, we want to thank the Special Inspector General for his work and this committee for its work. Ultimately, the aim of the collective effort is to ensure that Afghan Security Force POL operations are implemented properly while judiciously managing taxpayer resources. We continue to work hard to improve our oversight and management of this critical area.

I look forward to your questions.

Mr. CHAFFETZ. Thank you.

And my understanding, again, as you stated, is that it was a joint statement with General Bash. So we will now recognize Mr. Sampler for 5 minutes.

STATEMENT OF DONALD L. "LARRY" SAMPLER, JR.

Mr. SAMPLER. Thank you very much, Mr. Chairman.

Chairman Chaffetz, Ranking Member Tierney, and members of the subcommittee, thank you for the opportunity to testify today. My name is Larry Sampler, and I am the Senior Deputy Assistant to the Administrator and Deputy Director of the Office of Afghanistan and Pakistan Affairs at the United States Agency for International Development.

Afghanistan is and has been a difficult place to do assistance work. USAID's development assistance for Afghanistan continues to remain a critical component of our core U.S. national security objective there, which is to disrupt, dismantle, and defeat al Qaeda and to prevent Afghanistan from ever again becoming a safe haven from which extremists can attack the United States and our allies.

USAID's efforts are part of a whole-of-government, civil-military effort to advance this strategic objective. Together, we are committed to promoting the development of a stable Afghanistan by partnering with the Afghan Government and the Afghan people to solidify a foundation of sustainable economic growth and effective, legitimate governance.

I have been working on and off and in Afghanistan since 2002 in both civilian and military capacities for the U.S. Government. I have worked as a representative of an international NGO, and I served for about 2 years as the chief of staff of the U.N. Assistance Mission in Afghanistan. So I do have personal experience with the challenges of implementing assistance programs in such a difficult environment, and I have seen the benefits of our assistance programs in Afghanistan.

Under the Taliban, less than 9,000 boys and almost no girls had access to education. Today, more than 8 million children, more than a third of whom are girls, are enrolled in school. This is important because now there is a generation of young men and women graduating with critical thinking skills that will make them better citizens and more resilient in their opposition to malicious doctrines of the Taliban or others.

In 2002, only 9 percent of Afghans had access to even the most basic health care. Today, that number is over 60 percent, and life

expectancy at birth has risen by almost 20 years. Furthermore, maternal mortality and infant mortality have both dropped significantly.

And, finally, our work in energy has helped triple the number of Afghans with access to reliable electricity, which has enabled the economic growth in the country. With USAID's support, Afghanistan's national power utility has increased its revenues by approximately 50 percent every year since 2009, reducing the needed Afghan Government subsidy to that organization from $170 million to approximately $30 million last year.

Of course, our ultimate goal is to work ourselves out of a job by enabling Afghanistan to stand on its own two feet without direct foreign assistance. To that end, USAID has been working through select ministries in the Afghan Government since the previous administration. This work is commonly referred to as government-to-government or on-budget support assistance.

I should note that on-budget assistance encompasses a range of mechanisms such as funds provided to and through the World Bank's Afghan Reconstruction Trust Fund, or the ARTF, as well as specific project assistance that we provide directly to and through ministries and agencies at the Government of Afghanistan.

USAID has been constantly learning and reforming our operations in Afghanistan over the course of our engagement there. Oversight and accountability is an area where USAID's leadership has focused extensively throughout the agency and in particular with respect to Afghanistan.

Protecting taxpayer resources is a vital concern to USAID, and we have established a variety of layered measures to ensure that our programs are cost-effective and are having the intended and the expected impacts. We are mindful that, as stewards of the U.S. Government taxpayer funds, that we serve as their representatives as we provide this assistance to the people of Afghanistan.

USAID works to ensure that the ministries and agencies to whom we provide assistance are capable of implementing the desired programs, achieving the desired results, and doing so in a way that is transparent and fiscally responsible. USAID accomplishes this through a system of pre-award assessments, mitigating measures, financial controls, and rigorous monitoring and evaluation.

As part of the financial controls, USAID maintains control of funds throughout the lifecycle of a project. We work with the Afghan Government to develop projects that are going to achieve specific outcomes, and we allow funds to be distributed only when certain benchmarks have been met. This ensures that the funds are accounted for and that we achieve the outcomes that are critical for our success.

Another layer of oversight and accountability is provided by the multiple independent oversight bodies that review our programs. These, of course, include your own Government Accountability Office, the USAID Inspector General, and the Special Inspector General for Afghan Reconstruction. They complete numerous audits of our programs in Afghanistan every year that complement and reinforce our own efforts to ensure that taxpayer dollars are effectively used. And I should add, we welcome the oversight and the dis-

cipline that these reviews impose on our work. A number of the reviews, actually, have been requested by our staff.

Finally, I know well that there have been significant sacrifices made by the American people in support of sustainability and stability in Afghanistan. We are under no illusions about the challenges that we face, but these challenges call for exercising diligence in how we operate as we carefully and deliberately transition to an Afghan-led process which meets our standards of achievement and of accountability.

Our mission of defeating terrorists and denying them a safe haven remains critical to U.S. national security. The programs implemented by USAID are making important contributions toward that goal by helping Afghanistan stand on its own.

I look forward to answering any questions you have, Mr. Chairman.

Mr. CHAFFETZ. Thank you.

I appreciate all of your statements.

I will now recognize myself for 5 minutes.

And, Mr. Estevez and General Bash, help me understand, who is ultimately responsible for the POL in Afghanistan? I mean, does that go through the two of you? Who at the Department of Defense is responsible for this?

Mr. ESTEVEZ. If you are talking POL for U.S. forces, I would say I have ultimate responsibility in that regard. We are talking about for billing capacity for the Afghans, so it is a shared responsibility. We both have oversight of our contracting capability that is in Afghanistan that supports both our forces and supports CSTC–A and its mission.

CSTC–A is operating in a training capacity, so, you know, their ultimate responsibility is through the command structure there.

Mr. CHAFFETZ. This Special Inspector for Afghan Reconstruction, I think he is honest, sincere. He is trying to do the right thing. It takes months and months and months and months, as you said, a couple of congressional inquiries.

With all due respect, I would rather not be sitting here with you today. I would much rather have you provide the documentation to him and be able to reconcile the books. He said there is no documents—that they found some of them now.

Why is there such a challenge? Why does it take so long to get some what should be basic information?

Mr. ESTEVEZ. First, let me say that we also do believe that the Special Inspector General is doing great work. It is very helpful work for us and for our mission in Afghanistan.

Right now I think in CSTC–A there are 30-some audits going on. Of course, they are also engaged in the mission and training in Afghanistan, and I will let General Bash talk a little bit about that.

So they are working to provide those records——

Mr. CHAFFETZ. Have you seen them?

Mr. ESTEVEZ. I have not.

Mr. CHAFFETZ. Who has seen them?

Mr. ESTEVEZ. The folks in Afghanistan that are pulling them and the folks around——

Mr. CHAFFETZ. When will they have them?

Mr. ESTEVEZ. They provided, as Mr. Sopko said, a disc. They are going through that disc to make sure they are giving them the right documents. A lot of this is electronic backup records.

They did not know, at least to our knowledge again, until September 5th that there was an allegation of shredding and that documents were not available. And they are working very hard to provide those documents. We expect them to do so.

Mr. CHAFFETZ. They were going to take roughly—and I am rounding here—a $350 million line item and bring it up to $555 million. What gave you the confidence that that was an accurate number? Who signed off on that?

General BASH. Well, Mr. Chairman, ultimately, you know, the commander at CSTC–A is responsible for the estimation and the building of the Afghan Army.

Having, myself, spent a year in Iraq and having numerous visits to Afghanistan, as I know you have, the environment is challenging to help them build their institutional capacity, which is really what the core issue here is, trying to make an assessment of when they can start handling this and the training of advisers. And because of the way the mission has developed, they focused on the fighting forces first, and then now they are starting to get to the enablers, which includes logistics. So it brings us to the point of how we have confidence of how much fuel they actually need.

And I would say that, since this special inspection started in March, in April, and the initial report was provided in May, which was the preliminary issues of concern provided to the commander at the time, our review with the commanders there have shown that, of at that time the six issues, they have made considerable progress. And I am prepared to share some of those details.

But I think that there have been challenges—just the fact that the Expeditionary Sustainment Command only stood up 9 months ago. Because when they recognized that they wanted to start building a logistics capacity for the Afghan Army, they said, you know, this is really hard stuff, we need to have the pros from Dover come out, which is the SC, which has been there for 9 months now.

So, since that time, since 9 months ago, they have made considerable progress, and that is in parallel with Mr. Sopko's investigation. And I think they have been working with that team. In fact, there has been a SIGAR team member there consistently. And they were meeting weekly, at least initially. And I know there are team members still there. So I think they are working very closely together.

Admittedly, there is frustration that it takes time to find the records, I think because of the scale. When we talk about the——

Mr. CHAFFETZ. But, General, we are talking about increasing funding by $200 million, just this one line item, $200 million annually. The SIGAR is saying, there is no basis for this; we don't see any accounting that would justify this in any way, shape, or form. You two gentlemen are saying, yes, there is. Where is it? I think that is a fair and reasonable question to ask.

And if there has been progress, please do that. I am past my time, but feel free to share those answers. And then we will recognize the gentleman from Massachusetts.

Mr. ESTEVEZ. Let me just address the growth of the Afghan Army, the Afghan forces, so it is Afghan Army, police, border police—you know, the whole group. So that has expanded significantly year by year by year.

In addition, we are providing substantial pieces of equipment—armored Humvees, pickup trucks, armored pickup trucks and the like—that all consume fuel. We are providing an air force capability to the Afghans—I am saying us and our coalition partners—in doing this.

And as we expand sites, that, of course, also expands the requirement for fuel at those sites and for using that equipment. And the Afghan forces are taking more and more of the responsibility for engaging in combat. So they are out there using that fuel, consuming it.

Mr. CHAFFETZ. How much of the fuel are they paying for, and how much of the fuel are we paying for?

Mr. ESTEVEZ. I believe right now we are probably funding their fuel requirement. I would have to get you——

Mr. CHAFFETZ. A hundred percent?

Mr. ESTEVEZ. I really need to get you that for the record, sir, but I believe right now that we are probably fully funding their fuel requirement.

Mr. CHAFFETZ. General, you said there were some other developments. I just wanted to give you an opportunity to expand that thought.

General BASH. Thank you, Mr. Chairman, and I will try to be brief here.

But in May, when the SIGAR provided the preliminary issues of concern to the command, there were six primary issues. And I will just briefly cover those, and if you want more, we can provide it.

But, at the time, they said there needed to be a complete inventory of storage capacity, and also perform an assessment of short-lived consumption needs. Since that time, NTM has actually reduced the number of sites from 191 delivery sites—down to 191 from almost 800. And they are going to 68. So the scale of the number of sites for delivery has shrunk significantly, which makes it a lot easier.

They have issued a direction to collect data on fuel storage capacity. And today they do know how much capacity each of these sites, 46 sites have, and they know the million-of-liters capacity. So that gives them an idea of, when they push fuel out, you know, how much they can actually accept.

They have also refined the processes for determining consumption. They are just beginning this process, and so we don't have any success—you know, evidence that I have at this point. But they are using NATO standard fuel consumption formulas for vehicles. They are also using NATO operational planning factors that are accepted.

So for the first issue, I feel confident that they are making progress. Perhaps still a ways to go there, but I think they have a process in place.

The second issue talks about, they should establish a contract vehicle that includes more stringent provisions regarding fuel quality, quantity, and contractor performance. They now have a new four-

step process. I won't go into details on that, but it is a new process. Based on this process, in August and July they had three cases of invoices that were rejected because the Afghans weren't following that particular process. So we do have evidence that that is beginning to work.

And, finally, they are looking at coming up with an indefinite delivery contract to replace the current blanket purchase agreement, which was one of the suggestions, I think, that the SIGAR made at the time. That has not been done yet, but they are moving forward in that regard.

On the third issue, as far as ordering and purchasing, they are requiring that CSTC–A account for all fuel orders. And today they are doing 100 percent reconciliation of those fuel orders, which we have confirmed with the theater.

On the fourth one, which was with regard to documentation, again, this comes back to the new four-step process, where they have to get the fuel orders, which are the Form 14s that the Afghans use. That goes all the way through the reconciliation, which is the Form 32 at the end of the process. And they are trying to put maturity into the trainers and advisers that are advising the Afghans, that overwatch, trying to help them understand how to do that process with integrity.

And the final two, the last issue, complete info on any POL purchases not available, the suggestion was to require them to perform monthly reconciliations, which I already mentioned that they are doing 100 percent today now, which wasn't necessarily the case when SIGAR brought this to their attention in May.

And, finally, a suggestion to revise the Afghan Ministry of Defense Decree 4.6 to establish minimum proficiency requirements for the Afghans, that has not been completed yet. It is in progress. Obviously, this is one that the Afghans have to change their policy direction. The advisers are working with the Afghans right now to help them understand what changes need to be made. And hopefully in the future the Afghans will make that change so that what the advisers are trying to teach them, they have overarching guidance to follow.

Thank you.

Mr. CHAFFETZ. Thank you.

I now recognize the gentleman from Massachusetts, Mr. Tierney, for 5 minutes.

Mr. TIERNEY. Thank you, Mr. Chairman. For the rest of the afternoon, right?

Mr. CHAFFETZ. For such time as he may consume, yes.

Mr. TIERNEY. So, Mr. Sopko, what do you say to this?

Mr. SOPKO. A couple things.

First of all, any of the efforts that the General mentioned to improve oversight and accountability we fully support. The problem is where the rubber meets the road. My auditors—and you have to remember, they were reviewing CSTC–A's response as late as August and September—they found no evidence of actual consumption data reports being used to estimate fuel requirements.

Now, that is a key. And that is the problem I think we are seeing with CSTC–A. CSTC–A is using purchase data, not consumption data. We know what we purchased. We know what we paid for.

The question is, do we know what the Afghans got, and do they need it? And we are not seeing consumption data.

Now, Mr. Tierney, let me go back to the question that the chairman asked about the records. It is not just that they couldn't find the records for us and our audit was delayed 6 months and that we had to narrow the scope from 4 years to 1 year. What it really shows is they didn't have access to the records that they are now claiming they have access to, that they are using on a regular basis to determine if the Afghans are stealing the fuel.

And what we would posit is that the total confusion of where the records were—we asked a simple question, to give us the records you are using to oversee the Afghans' usage. They couldn't find them for 6 months.

We are really concerned. And I don't know how else we could express it other than to say: Do not proceed with cutting a blank check in January until you are sure you have a program in place that you, CSTC–A, is using.

We have had problems with CSTC–A and CSTC–A records in the past. I mentioned and alluded to it in my opening statement and my written statement. In January of this year, we had to delay an audit on the number of vehicles that CSTC–A was using and had purchased for the Afghan military by 4 months because CSTC–A didn't have an accounting of how many vehicles they were actually fueling. We later found out, and we saved over $5 million in fuel, because it turned out CSTC–A was giving fuel to the Afghans for vehicles that had been destroyed.

My auditors tell me, to this date, CSTC–A is still paying for fuel to fuel trailers, to fuel nonfunctional vehicles, and nonexisting vehicles.

So, Mr. Tierney, my response is, I will use President Reagan's terminology, and I think the chairman did: Trust, but verify.

Mr. TIERNEY. Thank you.

So, General, I am concerned that we have this estimate for $200 million additional dollars a year at a time when your people couldn't access or weren't accessing the records. So, you know, without that kind of consumption information as to what was being used, I am a little curious as to how they got this estimate that they were going to need $200 million more next year.

General BASH. First, I would say that I think the challenge that CSTC–A has is, there is a difference between the detailed end records, which are the consumption data and the forms that the Afghans do, and the trend analysis that they are doing from a macro perspective of what they are using. Certainly——

Mr. TIERNEY. Could you explain that to me? You think that, to make a trend analogy, you don't need to have a good core base of information, of data?

General BASH. The individual transaction, so it is more—I am making a distinction between the retail and the wholesale level. You know, so if you have, you know, hundreds of bases out there and thousands and thousands of vehicles and generators, what goes into each individual tank and what is used is a huge challenge. And——

Mr. TIERNEY. Well, less so if you have the records indicating it. You just add them up.

General BASH. Right. So, at the supply level, that is where they are doing the trend analysis to understand what the FOBs are using. And they are using a trend analysis, as I previously mentioned.

As far as the increases——

Mr. TIERNEY. You know, can I go back? Maybe I am obtuse here or something like that. I don't think you have answered my question, but you can maybe bear with me and try again so even I get it on that.

I would think you need to know how many storage tanks exist, how many vehicles, and what capacity per vehicle there are in order for you to get a feel for what is needed collectively and base by base before you can make any trend analysis going forward. You have to know where you start in order to trend forward. Is that not making sense?

General BASH. You are absolutely right, sir. And, in fact, when this SIGAR started, that information was not readily available, and today it is based on——

Mr. TIERNEY. But it appears not to have been available when the trend analysis was made and the projection for $200 million additional money was made.

General BASH. Unfortunately, I can't talk about the timing. I mean, they have been making considerable progress since——

Mr. TIERNEY. Well, let me say it this way, because the Inspector General knew that they were asking for $200 million more when the documents were still not found. So now the documents were subsequently found. I think it stands to reason that they didn't use those documents to establish their baseline on which the trend was then set.

Mr. ESTEVEZ. Let me try to answer you, Congressman Tierney.

Mr. TIERNEY. Before you do that, Mr. Sopko, am I off base here? Does that sound reasonable to you?

Mr. SOPKO. You are absolutely correct. And that is our concern. And I am happy to give more detail because we were provided—CSTC–A provided their spreadsheet that they used, and it didn't include consumption data.

So, you know, my auditors on the ground have been doing this for 9 months, and what they are saying is they are not using consumption data. They are using purchase data.

Mr. TIERNEY. Thank you.

Now, Mr. Estevez, if you care.

Mr. ESTEVEZ. So what they have done is they have looked at the last year, they have used NATO consumption standards against the type of vehicles that the Afghans have, and that is vehicles ranging from, again, armored-type pickups to armored Humvees to helicopters, aircraft, generators, et cetera. So they have a year's worth of data. They used NATO consumption trends against that.

They look at what the expected operational tempo is, because, obviously, if you have a vehicle and it is not being used, then there is no consumption. If it is being used X amount, there is X amount. If I am going to go out on patrol more because we are pulling back and we are expecting them to take the lead, that gives you another calculation. All that is into the calculation on how much fuel we need to buy for the Afghans.

And the growth of the force, so we are fielding new vehicles into that mix. All that went into the trend analysis to calculate how much budget, as well as the calculation of what it is going to cost. Obviously, price of fuel fluctuates.

Mr. TIERNEY. What of the trailers and things like that that were in that calculated number, you know, things that don't move and don't use energy that were somehow calculated in that base?

General BASH. Sir, the best that we can figure on that one is that—and in talking to the commanders out there, is that today they have done a reconciliation with the Afghan books, if you will, and they do not provide fuel for vehicles that don't require fuel. There are trailers that do have pumps and engines on them to, you know, pump water and that sort of thing that perhaps are on the records that they get an allotment for fuel based on the NATO standards.

But the commander has told us that, if that was happening previously, it is not happening today, because they have gone through and they now know exactly how many vehicles are on the Afghan records and they have oversight into—and, of course, that changes all the time based on losses and whatnot.

Mr. TIERNEY. Mr. Sopko, are you satisfied that the 1-year records that are said to have been used were accurate for that 1 year? And do you think that that is a complete enough basis on which to make projections?

Mr. SOPKO. No, we are not.

Mr. TIERNEY. Why?

Mr. SOPKO. And, again, let me—maybe the best way to do this is look at the—our vehicle work showed that at least 1,600 Afghan military vehicles that are not operational are still getting fuel.

And I would like to also refer to an audit report that I mentioned, January 12, 2012, and just read from the findings. And it said—and, again, this is the one where CSTC–A had to ask us to delay doing our work, doing our field work, because CSTC–A reported it could not readily provide the documentation required to address our questions and was in the process of conducting a nationwide field inventory.

After they did that inventory and allowed us in, they said, the U.S. was providing fuel for destroyed vehicles. As a result, CSTC–A saved over $370,000, and if you estimated it—and 200,000 liters. And if you estimated, it would amount to over $5 million in savings.

We are not comfortable with the number they are giving, based upon our prior work there. We don't feel they know what they are buying and what is being consumed.

And the simple answer is, do you remember the chart I showed you about how the system was supposed to work? We put it up. There is a form called a MOD, Ministry of Defense, that is a form, it is a very good form, that the Afghans are supposed to fill out which talks about monthly consumption report. As of last week, when we got a report from CSTC–A in the field, they are saying they are still collecting those consumption reports and they are reaching out to the Afghans to try to find them.

So if they are right now trying to find the consumption reports, how can they justify their budget, which was submitted, I think, a few months ago?

Mr. TIERNEY. Do you care to take a shot at that one, Lieutenant General?

Mr. ESTEVEZ. How about if I try to take a shot at that? A couple things——

Mr. TIERNEY. I am sure the General is happy with that.

Mr. ESTEVEZ. We work together.

I think, you know, as far as the vehicles, you know, we do not dispute that we had problems with this in the past. We think we are much better today——

Mr. TIERNEY. I guess the key is—I hope you don't mind a conversation.

Mr. ESTEVEZ. Certainly, sir.

Mr. TIERNEY. The key seems to be, you had a problem at the time that you were making your estimates and your projections. That is what—you know, I don't mind if you had a problem in the past. But if you had a problem at the time you were then finding some reason to make projections and trend analysis on it, that is what I have a problem with. They can't be very trustworthy if they are not set on solid ground.

Mr. ESTEVEZ. The trend analysis is done in the July-August time frame, so I believe we are okay there. But I would like to——

Mr. TIERNEY. Well, not according to Mr. Sopko. You are still getting information in August and September.

Mr. ESTEVEZ. May I suggest on how we did our trend analysis—and his auditors may have already looked at this, but I believe that we need to get CSTC–A and his auditors together again to walk through that process and hopefully find a way forward on that. We are satisfying the Special Inspector General. Again, they are providing us useful help in doing this.

And I will go back to, you know, back in January, earlier last year, one of the reasons, as General Bash alluded to, that we deployed an active Army expeditionary support command to CSTC–A—and we have one in Afghanistan supporting our own forces in order to train Afghans how to do this and to do this in conjunction with them—was because we needed the pros from Dover in order to get in there and work this process.

And so it is an evolving process as we go forward in doing this. So we do believe we have the right trend analysis, but we will be happy to have our folks work that with the Inspector General.

Mr. TIERNEY. Thank you.

Mr. CHAFFETZ. I now recognize the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

You know, I understand about trend analysis from one year to the next. But in order to have a good feel for that, you have to have a good reference point. And the reference point would be consumption.

Knowing how everything else goes in Afghanistan, you know, just hearing what I have just heard and in the previous hearing as well, I don't get a lot of confidence that we know what the hell we are doing.

Mr. LYNCH. If we are just using a NATO model and we don't know what—first, we don't know how many vehicles we have, we don't know how much fuel they are using. I do know how things go in Afghanistan, and I am not encouraged by that. And so we are just adding $200 million to what we used last year. And we don't know if we were being robbed last year, but I suspect the odds are we were. This is crazy. This is crazy.

So, Mr. Estevez, you said in your opening statement that you have all the records; they have been properly kept. And the man to your right, the Special Inspector General, says he has no records. And you are both under oath, so what am I supposed to believe here?

I mean, from what I—and all of our members have been over to Afghanistan a bunch of times. We know how things are going over there. I mean, how do I get that? All the records are there; they have been kept in order.

And, by the way, we have been tracking this thing since 2006. Everybody is fast-forwarding to 2011, 2010. What happened back in 2006? Have we been doing this since 2006? Have we been counting vehicles, and have we been tracking consumption? Have we been doing that?

General? Mr. Estevez?

General BASH. Well, sir, to address your most previous one, as you well know, the surge and the buildup in Afghanistan didn't occur until the last couple years, so the challenges prior to that——

Mr. LYNCH. But, but, but, we know what the surge was, so if we had a reference point before that, then you account for the surge, so you have a known point.

So I don't want to fast-forward and make believe we arrived in Afghanistan in 2010. I don't want to do that. We have been there for a long, long time, and so what were we doing then? We have been there 10, 11 years. What were we doing since the beginning?

Have we been just pulling the number out of a hat? Because that is the way it seems, that we are just taking an arbitrary number, and God knows we have to justify next year's budget, so increase it by a substantial amount. You know, it is just unacceptable, number one. But it is not going to continue. We have to get to the bottom of this.

So let me go back. You say all the records are in order. We have everything. They have been kept in, you know, due diligence. So how do we figure out how many vehicles we have and how much those vehicles consume?

Mr. Estevez?

Mr. ESTEVEZ. Let me address a couple of things there.

First, as General Bash was alluding to, 2006, there was not a drive to a 352,000-man force, Afghan force. That didn't start, the concerted effort, until the last 3 years or so. So there was a change in focus and mission in the midst of that and push of equipment in doing so.

When we say all the records are in order, I said we have the records, we are pulling the records. Going back to 2006, we have evidence that that is the case, that we have them on electronic——

Mr. LYNCH. Well, how come Mr. Sopko doesn't have them then? How come he sits there under oath and tells me he has nothing

and you say, we have everything and it is all in order? How do we get that?

Mr. ESTEVEZ. We are providing those to his auditors. Hopefully at the end of this, and it is the Department's belief at this point, that he will have the records that he needs——

Mr. LYNCH. When is he going to get the records? Because you are really——

Mr. ESTEVEZ. Our folks in CSTC–A, sir, are working with his auditors as we speak and providing him those records. And——

Mr. LYNCH. Mr. Sopko, how are you doing on the records? Are you getting the records?

Mr. SOPKO. They have provided—as for the records in the 2011 and 2012 framework, time frame, they have given us a CD and they said the records are there. We are reviewing to see if they are there.

Mr. LYNCH. That is for 1 year, though, right?

Mr. SOPKO. That is for 1 year. Remember, that was the year where they said they had all of the records, and when we did the survey and we pulled, they didn't have 50 percent of the records.

Now, that doesn't mean the records are complete. You recall from last week's testimony, when we pulled it, we could only find four complete packages which had all of the appropriate forms you would want and were all signed.

As for the prior records that were shredded—and there is no doubt that they were shredded. I mean, two Air Force captains have admitted to my investigators they shredded the records. Now, I am not saying they did it for evil purposes, but they were shredded. They claim they made electronic copies. We haven't found those, and we haven't had a chance to look at those electronic versions. But the records were shredded.

Mr. LYNCH. Now, Mr. Estevez, you know, you are saying there was no shredding going on. We got—you know, this is a good hearing, this is pretty good. Okay, we got one guy who says we have two Air Force folks that have testified that they shredded the documents. And you tell me none of the documents were shredded and they were all properly maintained.

Mr. ESTEVEZ. If I could——

Mr. LYNCH. It is like a parallel universe here.

Mr. ESTEVEZ. —I will concede that if the Special Investigator has people who say they shredded records, records were probably shredded. That does not mean that records were destroyed. Electronic copy of record is a valid copy of the record.

Mr. LYNCH. Well, hard copy was destroyed.

Mr. ESTEVEZ. That is what I am hearing, sir.

General BASH. Sir, I would also say that CSTC–A was focused on the initial request of records, which, as the Special Investigator said, 50 percent was required to be provided right away. Over the past 4 or 5 months, they have provided now 97 percent of those records.

Now——

Mr. LYNCH. That is what you say, right? You are saying 97 percent?

Is that what you are getting, Mr. Sopko?

Mr. SOPKO. I beg to disagree with the General.

Our initial request—and I am happy to go through the timeline. We opened the audit on February 13, 2012. February 21st, we held our first conference, entrance conference with CSTC, and we explained to them what was the scope of the audit. On April 3rd, we——

Mr. LYNCH. And what did you describe as the scope of your audit? Refresh my recollection.

Mr. SOPKO. Well, it was multiple—4 years of records.

Mr. LYNCH. Okay, good.

Mr. SOPKO. On April 3rd, we made the initial request for fuel order documents to CSTC–A. At that meeting, the CSTC–A fuel-ordering officer informed us that he did not have supporting documentation for any of the earlier fuel orders, period, no supporting documentation, because they were shredded.

Mr. LYNCH. Okay, let's stop right there.

All right, Mr. Estevez and Lieutenant General Bash, what do you say to that about the previous years? We are not talking about the 1 year; we are talking about the other 3 years of the 4-year request.

Mr. ESTEVEZ. I don't doubt that the officer in question said that he had heard——

Mr. LYNCH. Do you have those records?

Mr. ESTEVEZ. We believe we have given the records that the Special Inspector General is looking for on the disk. We also have records——

Mr. LYNCH. He is asking for 4 years. Are you giving him 4 years? Earlier, you said the disk was 1 year.

Mr. ESTEVEZ. Sir, we are giving him the records that his auditors requested. They asked for records by number, you know, I guess by each—and we are giving him the records that he asked for.

We have records stored going back in time. And I can't say, you know, what is in these boxes. But we have moved all the financial records, as time evolved in Afghanistan, back to Shaw Air Force Base——

Mr. LYNCH. All right. From this point forward, I just want to make sure everybody understands: When we are looking for records, we are looking for 4 years' worth of records. We want 4 years, not 1 year. So when we say we had all the records, 97 percent of the records, I am hearing you have 97 percent of the 4 years that we are looking for in the audit. That is what I am hearing.

Mr. ESTEVEZ. We have 97 percent of the records, specific records, that the Special Inspector General has asked for. If they were looking for other specific records, we will, inside the Department of Defense, go and find those records for him.

Mr. LYNCH. Okay.

I am sure I am exceeding my time.

Mr. CHAFFETZ. You are not the first, so——

Mr. LYNCH. Okay. Yeah.

Mr. SOPKO. Mr. Chairman, can I just add to that?

Mr. CHAFFETZ. Please.

Mr. SOPKO. Because I don't want to add to the confusion, but I think what the confusion is—and then on April 18th—remember, April 3rd, we were told the 4 years of records are destroyed. April 18th, that same fuel-ordering officer says, "You can't get the earlier

records, but we do have records for 1 year." That is March—so that is what we are talking about, the 1 year. So——

Mr. LYNCH. So, Mr. Estevez——

Mr. SOPKO. —97 percent is the 1 year. We immediately asked for——

Mr. LYNCH. Let's stop right there.

So, Mr. Estevez, after you told him you can't get the previous years, you can get the 1 year, are we skipping over that? Is that what you are telling me? In this 97 percent response, you are skipping over the part where he asks for 4 years, and you are hearing, well, we don't have the other 3 years, but we will give you 1 year? Is that what is causing the confusion here? Because we want 4 years.

Mr. ESTEVEZ. I hope not. But I will say that neither General Bash nor I are privy to the discussions between his auditor and the levels in CSTC–A that they were dealing with.

Mr. LYNCH. Okay. I am talking about the original response that asked for 4 years of records. And your guys are probably saying, "Well, we got them to back off on the first 3 they wanted. We told them we didn't have them. We told them we have 1 year." And so now you are dealing with a much narrower request. But that is not the entire request.

Mr. ESTEVEZ. Sir, if the Special Inspector General asked for records, we will go find those records for him.

Mr. LYNCH. Okay. And we are talking 4 years. All right.

I will yield back.

Mr. CHAFFETZ. I thank the gentleman.

I will now recognize myself.

One of the allegations, if you will call it that, or one of the concerns—probably is a better word—is that you had not been working with the Afghan ministry. Mr. Sopko mentioned that in his opening statement. How would you react to that?

General BASH. Well, having been an adviser myself, Mr. Chairman, there is a team that works with the ministry every day to help them build that institutional capacity.

I wasn't assigned to Afghanistan in that regard. However, there is no doubt in my mind, once they started to—they decided to build logistics capacity, which—and they have a whole plan of eight different ways of building that enabler—they start to work with the ministers to help them understand how to do logistics.

Mr. CHAFFETZ. Mr. Sopko, did you want to add anything to that concern about talking to the ministers?

Mr. SOPKO. Well, all I can say is that, in the latest—they have set up a meeting, which we applaud, but it was only set up recently, I believe in the August—well, actually, it was set up before your hearing, but I think it met after the last hearing, so it would be last week or earlier this week, at which time the Afghan ministry, I think, was the first time it looks like they were consulted. And they said, we are not prepared to start January 1st.

And that was a briefing that CSTC–A gave us and some documents they gave us and PowerPoints just this week about this meeting. So we are just saying it looks like—now, again, that wasn't the scope of our audit——

Mr. CHAFFETZ. Well, let me give the General—we are going to have to pick up the pace here.

General, how do you—I mean, you said you are meeting daily. The Inspector General is saying you met for the first time since we had our last hearing, which was a week ago.

General BASH. I think it is a matter of level. I mean, there are engagements consistently——

Mr. CHAFFETZ. Are they ready to handle this in January?

General BASH. Sir, sitting here in Washington, D.C., and talking to the commander out there, their plan is to have a phased approach based on conditions. So if they are not ready——

Mr. CHAFFETZ. Based on your assessment of the conditions today—and I think it has been benched back to March of 2013.

General BASH. In fact, that is what we have heard today, and that tells me that they are not ready on 1 January. And so now they are going to move that to March to make a new assessment.

Mr. CHAFFETZ. All right, let me keep going.

You talked about an ongoing effort to do a quarterly review as the ministry starts to take over again. I seriously question we should even do that. But at what point, what is the threshold, what is the level of acceptable—what is the threshold by which we say, this is unacceptable, this is acceptable? Where do you say, well, they got 80 percent of it right, so we will just keep going? Where is that threshold?

General BASH. Sir, I would think that, to a certain extent, there is going to be some commander judgment in balancing the needs of the mission to grow the Afghan——

Mr. CHAFFETZ. I guess as a follow-up we would love to know what sort of metrics are going to be in place so we can look at it objectively, we are not doing this subjective analysis. I think that is what the Inspector is looking for, and I think that is what Congress is looking for, as well.

If somebody did shred the documents, what should happen to them?

Mr. ESTEVEZ. Obviously, we should investigate the cause of the shredding, why they were shredded, and we should hold people accountable.

Mr. CHAFFETZ. I guess I am questioning, what would be "holding people accountable"?

Mr. ESTEVEZ. I mean, that will have to—it will depend on the circumstances.

Mr. CHAFFETZ. If you could perhaps follow up on this. Is there any justification—I mean, one of the things that popped up in this interim report was this $20 million for firewood. Is there any justification for that?

General BASH. Well, in fact, we did follow up with that on the commanders. And as you probably are aware, firewood is the primary source of energy in rural Afghanistan. In the Afghan Army, every DFAC, every dining facility has a fire that helps them cook. That is just how they operate there. And so they use the estimates of fuel—you know, wood is as important as gas.

And so that is the nature of the requirement. We don't necessarily question the requirement. But, again, it is the situation of, you know, $20 million at—firewood in Afghanistan right now be-

cause of deforestation, there is only, like, 1 or 2 percent of the country that has it. And so the price of firewood has no doubt gone up because of demand.

But they have told us that they have, you know, procedures in place similar to other commodities to track the requirements for firewood and make assessments about those needs.

Mr. CHAFFETZ. I guess that is the same concern, because when the Inspector General's office went in there and asked for the assessment, how did you come up with this number—I will let Mr. Sopko fill in the blank on what they said.

Mr. SOPKO. They basically told our auditors, Mr. Chairman, "We don't know. We don't have the records. We just pay it."

Mr. CHAFFETZ. So, General, you are sitting in my seat; what do you do with that? You call a general up here and ask him to help answer it, and what is the answer to that?

General BASH. I can appreciate that. And we read that testimony and yesterday asked the commander about it, and he said that they have—the commander in charge now, they said they have records that give him confidence that the——

Mr. CHAFFETZ. When we will have those records?

General BASH. Well, they are working with the Special Investigator——

Mr. CHAFFETZ. No, I want a date from you, General. When is the Inspector General going to have those records? What is reasonable?

If they have them, right, and they know they have them, just send them over. I mean, FedEx probably doesn't work in Afghanistan like it does in Provo, Utah. But, nevertheless, when is he going to get those records? You are being told they have them, so it shouldn't be that hard.

Mr. ESTEVEZ. Well, again, you know, Mr. Sopko has said we have given him a disk, he is going through that disk——

Mr. CHAFFETZ. I want the firewood records. Where are the firewood records?

General BASH. All I can say, Mr. Chairman, is that we will take that for action and——

Mr. CHAFFETZ. Sir, with all due respect, I am looking for a date. Give me a date. What is a reasonable date?

Mr. ESTEVEZ. Really, we cannot answer that question sitting here at a table in Washington, Chairman Chaffetz. There are a lot of other things going on in Afghanistan——

Mr. CHAFFETZ. Will you commit to giving me a date within a week?

Mr. ESTEVEZ. I will commit to giving you a date, sir.

Mr. CHAFFETZ. Within a week? Is that fair?

Mr. ESTEVEZ. Within a week.

Mr. CHAFFETZ. Very good. Thank you.

I need to talk quickly about debarment. One of the allegations is that the debarment process is not working. The Inspector General, in a letter to myself and Ranking Member Tierney, identifies I believe it is 43 contractors that have not necessarily been put on the debarment, and that this process has a backlog.

Can you give us your perspective on that?

Mr. ESTEVEZ. I can. SIGAR has referred 122 individuals and entities to the Army with recommendations. Fifty-two we received

prior to August. Forty-two of those folks are already debarred. Seventy referrals were received in the last 45 days, and 59 of those referrals were given after September 4th, or on September 4th.

There is a due process way that you do a debarment that is written into law and into the FAR, the Federal Acquisition Regulation. So we have to follow that process to debar, and it takes a preponderance of evidence. So there is going to be back-and-forth on evidence. If everything is in order, the Army can—in this case, the Army happens to be the suspension debarment authority—can debar within 30 days.

Outside of that process, there is the process that this Congress authorized last year in Section 841, which is not contracting with the enemy. And that is not a suspension debarment process, but we can terminate contracts of folks identified under that. And, again, that is done within the CENTCOM chain of command.

Mr. CHAFFETZ. What sort of backlog do you have currently?

Mr. ESTEVEZ. I can't speak to the total Army level of backlog, but as I just said, they are going through the number that the Special Investigator just sent over. The Army has—total debarment this year in Afghanistan is 100. That is double what was done in the last 4 years.

Mr. CHAFFETZ. And what is the time frame? If the Special Inspector General gives a name, what should happen and what is happening in terms of when does it get to the finish line where a determination is made?

Mr. ESTEVEZ. Well, again, it depends on—first, suspension and debarment has to be in the interests of the Federal Government, and it has to follow the Federal Acquisition Regulation in order to do that. If all the evidence lines up properly that they need in order to do this, following due process, they can do it within a 30-day time frame.

Mr. CHAFFETZ. And, Mr. Sopko, can you give us your perspective on what is happening and not happening in this regard?

Mr. SOPKO. Well, Mr. Chairman, I think the question here—and we don't disagree with the Army that they have set up a very good process. But we think that process was set up for the normal, run-of-the-mill cases, for cases dealing with U.S. companies or companies here in the United States.

What you have here is you have a war. We are in a war zone. We have to move quickly. This has to be a priority.

When the Department of Commerce puts an entity, an individual, a company on a list that is called the entities list, and these are entities and individuals and companies that are tied to our enemies, and we have to stand in line with the other thousand cases and there is no priority given to us and no priority given to the fact that these are entities which could actually be getting access to our military bases as we speak because they have only four—only four—debarment officials in the entire United States Army and only one assigned to this region, and it will usually take a year. That is what the backlog is.

All we are saying is you have a great process, but it was a process set up for a non-war. We are in a war. Let's take it seriously. Let's give suspension and debarment authority to the commanders in the field; let's give it to the SIGAR. And let's move on this.

I mean, I find it very troubling that one branch of the government can list an entity as being identified to the Haqqani organization and the al Qaeda, and now we are waiting for a year to debar and suspend them. And particularly in Afghanistan, where we are dealing with subcontractors. That is what the threat is. You know, the system they have in place is a system that is excellent when we are not fighting a war. We are in a war now.

Mr. CHAFFETZ. I will yield my time and recognize the gentleman from Massachusetts.

Mr. TIERNEY. I only want to follow up on that line of questioning.

Secretary, the SIGAR has made a recommendation for a draft regulation to the Office of Management and Budget, but the understanding is that the Department of Defense issued an objection to that. Can you shed some light on that?

Mr. ESTEVEZ. Unfortunately, sir, I can't. I will have to look into that.

We believe that the process is working.

The entities list, by the way, with the Department of Commerce is not a list for suspension/debarment, has nothing to do with it. It is an export control regiment. So that is not the process.

However, I will point out that this Congress has given us a number of authorities that we can use, including the requirement to do, you know, when the contract clause is written—and, of course, that was just given—to manage subcontractors and Section 841, which does allow us to terminate contracts related to contracting with the enemy.

Mr. TIERNEY. I am familiar with that one; I wrote it.

Mr. ESTEVEZ. I know you are, sir.

Mr. TIERNEY. Having written that, I am very familiar with it.

But the bottom line is how long does it take to debar somebody when you are told or the Department of Defense is told that this person is working with the Taliban or with the Haqqani group or with al Qaeda? I hope you are going to tell me a matter of days and not a matter of months or years.

Mr. ESTEVEZ. With proper evidence and—two things: again, 841, which you are familiar with, you do not have to suspend/debar. You can use 841 under the authority of the CENTCOM commander to do that. So that can be done with evidence, and that can be done with evidence that can't be used in a suspension/debarment activity, classified evidence.

A suspension/debarment activity separate and distinct from what would be done under 841 can be done within 30 days, given the proper evidence.

Mr. TIERNEY. Thank you.

Mr. CHAFFETZ. Just a little bit more questions.

Mr. Sopko, did you want to add to anything that was just said there? I just want to finish that up.

Mr. SOPKO. Well, I would—you know, with all due deference to the Assistant Secretary, as a lawyer I would think, first of all, being listed on the entities list would be grounds for suspension/debarment. And 841, being listed on 841 is not being used currently to suspend and debar people.

And the other thing is, once you are on the suspension/debarment list, then international organizations take notice of this also.

And that is the other problem. We have international organizations that may be contracting; of course, we are funding those international organizations.

So the suspension and debarment—and I am happy to provide additional legal justifications we did on this matter.

Mr. CHAFFETZ. Thank you.

I would also mention that myself and the ranking member, Mr. Tierney, and I are working on a piece of legislation we may be dropping soon to talk about discussing the possibility of pushing this back, the POL, and the money going directly to the Afghan Government, until we can sort this out.

One of the deep concerns here is, we can't seem to manage it, we can't even seem to get this right, and we have been operating in-theater for 10 years and we are the United States of America. And we expect that suddenly the Afghan Government is going to handle hundreds of millions of dollars and do so in a proficient manner and do so with great oversight and accountability? It just seems totally unreasonable.

There was way a reason we invited Mr. Sampler here. I would like to talk a little bit about USAID. I am going to transition here for a moment as we start to try to wrap this up.

But, Mr. Sampler, we appreciate your work and what USAID is trying to do. I have been very supportive of Mr. Shah in his responsibility as the Administrator there at USAID. I think he is passionate and cares.

But one of the deep concerns that I have is that USAID is moving in a direction that is, in essence, less accountability, less oversight, and more direct assistance. And I would point to this USAID Forward program that was put out, which talks about, quote, "to achieve capacity-building objectives in using host country systems where it makes sense," end quote. In some regards, that sounds good, but we are typically looking at third-world countries, developing countries, that don't have the assets or the sophistication to necessarily do what we would like them to do.

My general concern is that, rather than teaching them how to fish, we are just continuing to hand them fish; in fact, we are trying to expedite that by just handing them more fish at an accelerated rate, more money, directly there, not knowing if it actually gets to the finish line, not knowing if it actually achieves what we are trying to achieve.

We have trouble getting information from USAID to justify these expenditures as it is, and it seems to me that this would make it even worse. That is exacerbated by the fact that we are at war, that we have tens of thousands of U.S. troops on the ground in Afghanistan trying to do some very difficult work.

Do you have a sense of—and so, that is the general concern. Can you give me a sense of how much foreign aid we have given to Afghanistan and how much of that would be categorized in this, sort of, direct assistance bucket, if you will?

Mr. SAMPLER. Mr. Chairman, in a previous testimony, I said that it was $15 billion was the assistance that had been delivered to Afghanistan. I cannot at the moment recollect how much of that is direct or what we call on-budget assistance, but I will get you that answer.

The number of $15 billion is huge. And as a taxpayer myself, that raises concerns. But I would characterize the way that USAID does this as being a layered defense, in the sense that we protect U.S. taxpayer dollars through a number of different mechanisms.

And if I could, I will give you two or three of the examples of how on-budget——

Mr. CHAFFETZ. One or two would be great. We have to move swiftly. Sorry.

Mr. SAMPLER. We projectize the money that we give to the Government of Afghanistan. That is, we don't give them money and ask what they are going to do with it. We work with the ministry to say, the ministry wants to do X. And so it is projectized.

And at that point, we also provide technical assistance to help break out milestones for that project. If you are going to do X, how do we get halfway and halfway again and halfway again. And on those milestones, we identify particular benchmarks that we will pay for on a cost-reimbursable basis.

So throughout the lifecycle of the project, we control the money. The deal is——

Mr. CHAFFETZ. But, you know, the concern is, going back to last year, the GAO determined that USAID had failed to conduct appropriate risk assessments prior to granting a lot of the bilateral aid. Are you telling me that those problems the GAO identified last year have gone away, they have been solved?

Mr. SAMPLER. Actually, I will if we are talking about the same problems. I pulled the report after I saw the testimony, and I believe the report referred to determinations that we are required to make before any disbursement. And, in this case, it was a series of disbursements to the World Bank Afghan Reconstruction Trust Fund. And in that case, there were determinations that were not made. We made some, and then there was a period of time when they were not made. It was brought to our attention through the report, which is, again, one of the reasons we find these reports so valuable.

And in the response to the report, the mission director and Sean Carroll, who was our Chief of Staff at the time, noted that we had been lax in doing those determinations and confirmed that they would be done henceforth.

Mr. CHAFFETZ. I guess part of my concern is that, under the new Forward initiative for USAID, USAID plans to funnel roughly 30 percent of U.S. foreign assistance directly to foreign governments and NGOs in the hopes that this money can, you know, quote/unquote, "build capacity." Yet I don't see examples of where—and maybe, you know, as a follow-up to this—where we can point to something and say, "This is how we are becoming more accountable. This is how we are doing more oversight."

That is the help that this committee would like. It is one of the concerns with this so-called Forward initiative, and it is an even deeper concern in Afghanistan. Because I think one of the untold sad stories that we are going to look back here upon in Afghanistan years, decades from now is the waste, the fraud, the abuse, that we were exacerbating the problem, we were funneling money to the enemy, we were funding the enemy. I mean, the host-nation truck-

ing work that my colleague here, Mr. Tierney, did is crystal-clear in how problematic it was that we were funding the enemy.

And I just can't—I just fundamentally have trouble sending money directly to these governments without the accountability metrics in place.

Mr. SAMPLER. Congressman, you articulated two dimensions of this problem.

One is the 30 percent goal across the world. And that is actually an aspirational goal. And I will note that the 30 percent is aggregate at the agency level. So if in a particular country it doesn't make sense to even attempt to get to 30 percent, we won't. There are no disincentives, there are no punishments if mission directors don't reach this goal. It is an aspirational goal.

And it is actually in the service of good development. Development is one of the few industries, perhaps other than dentists, where we try to put ourselves out of business. And for us to do development——

Mr. CHAFFETZ. Not my dentist, I will tell you that. We are trying to put his kids through college, is what we are trying to do in our family.

Mr. SAMPLER. Well, we work to build the host national capacity. And to not do that would not be to execute our duties as development professionals.

But we do recognize that, as stewards of taxpayer dollars, we have to do it responsibly. And there are examples in Afghanistan where we have done pre-award assessments and we have said, we will not allow you to do what you have described but will allow you to do something lesser.

The Department of Education is an example. The Department of Education wanted us to fund textbooks and training for teachers. Because textbooks can be counted, we actually evaluated the Department of Education and said, you meet a rational standard for being able to on your own execute this budget and buy textbooks. We will give you money, you will buy textbooks, we will count the textbooks, and we will consider it done.

We did not believe that the Department of Education reached a level of ability to take the same kind of money and execute teacher training, because it is harder to count the quality and the number of teachers trained.

So we are still providing technical assistance to the Ministry of Education so that in months or years ahead we will be able then to provide that ministry with a higher level of control and a higher level of autonomy to provide teacher training.

Mr. CHAFFETZ. I would appreciate it—and, again, I am not expecting you to respond right here at the moment to the details of this. But myself and Chairman Issa, on April 26th of this year, sent Administrator Shah a request asking for USAID's internal country assessments—this is also known as the Public Financial Management Risk Assessment Framework, the PFMRAF documents—related to this new direct assistance program. But as of yet, USAID and the State Department have refused to provide this list in an unredacted form.

I guess what I am asking you to respond to is, will you give us and provide the Congress that information?

Mr. SAMPLER. Congressman, I do know that that process is under way and your staff have been talking to State——

Mr. CHAFFETZ. Well, the problem is we asked for it in April, and here we are in September and the process is still under way. I just don't understand why this isn't a photocopying exercise.

Mr. SAMPLER. Congressman, I am sorry, I am not the person who deals with what documents—I am not familiar with the details of that process. I do know that——

Mr. CHAFFETZ. But you were told to say today that we are working on this? Is that the idea?

Mr. SAMPLER. Congressman, I wasn't told to say it. I just know that we are working on it.

Mr. CHAFFETZ. Okay. This is one of the core questions that we have, and it gives some of the oversight that—or some of the information that we need. Would you please talk to Administrator Shah and look at this April 26th letter? Because we still have not had the proper and full response to that letter.

Mr. SAMPLER. I will take that back today.

Mr. CHAFFETZ. Thank you. I appreciate that.

If the ranking member has no additional questions, I wanted to provide you each a very brief—because we have gone exceptionally long—opportunity to give a closing comment, and then we will conclude this hearing.

We will start with you, Mr. Sampler, and then we will just kind of work down the list.

Mr. SAMPLER. Thank you, and I will be very brief.

I think at this committee it is an opportunity to reinforce the importance that oversight and accountability does play in what USAID does.

A large part of our work that is seen is seen to be humanitarian in nature. It is providing education. It is providing opportunities for women. It is providing health and benefits to the people of Afghanistan. But a tremendous amount of our work is done beneath the surface, so to speak, which does involve the kinds of oversight and the kinds of accountability that I think your committee and certainly SIGAR, GAO, and our own inspectors general expect of us.

So it was not gratuitous when I said in my opening remarks that we value and appreciate the value of oversight and accountability. And as we move in the direction of on-budget support, that will become even more important. So I welcome the opportunity to speak to you today.

Mr. CHAFFETZ. Thank you.

General Bash?

General BASH. Mr. Chairman, let me just say that we take these issues very seriously. As the chairman's representative, we do not want to let the taxpayer money go to waste. So we very much appreciate working with the Special Investigator. We will continue to do that, absolutely, as we go forward for their requests to be responsive.

The mission, you know, in Afghanistan is the primary issue, and to build the institutional capacity is really the core thing. As we leave, can they do it on their own? And that is the art of the com-

mander's judgment out there. You know, to use an analogy, how do you take the training wheels off to let them have a chance?

And from a logistics perspective, we have only been doing that for about a year or so. As we move forward, those challenges will only increase. So it is a journey. But with regard to the issues we have discussed today, we are focused, and we will make sure that we make progress.

Mr. CHAFFETZ. Thank you, General.

Mr. Estevez?

Mr. ESTEVEZ. Likewise to what General Bash said.

First, our folks out there are doing some very hard work, and we need to recognize that in trying to build this Afghan capacity. It is the key to our success in Afghanistan.

We appreciate the dialogue with this committee on that matter today. We appreciate the work of the Special Inspector General. Because it is hard work and not everything is gotten right the first time, and we need help. We need help in helping them. So all help is appreciated in doing this.

We are committed to doing that in a transparent way. I think that is important for our forces, and it is important to the American people to know how we are doing it. So we are going to continue pressing that forward. And, again, we appreciate the work.

Mr. CHAFFETZ. Thank you.

Mr. Sopko?

Mr. SOPKO. I would just like to conclude by saying that the importance of the records issue that we have spent so much time talking about is not so much whether the SIGAR got the records; the question is whether the records were used and have been used and will be used to hold the Afghan Government and this program accountable so we don't have fraud, waste, and abuse.

Thank you.

Mr. CHAFFETZ. Thank you.

Gentlemen, I appreciate your commitment and your work to this country, the patriotism and the dedication you bring, but also those men and women, particularly who are serving overseas, who are doing the hard, difficult work away from their families and doing what their country is asking them to do. So please, if nothing else, share that message with them.

I appreciate you spending time before the committee. This is part of the process. It is how our Constitution is set up. And I do appreciate your participation here today.

The committee stands adjourned.

[Whereupon, at 4:10 p.m., the subcommittee was adjourned.]

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John F. Sopko, Special Inspector General

September 10, 2012

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

SUBJECT: Interim Report on Afghan National Army Petroleum, Oil, and Lubricants (SIGAR 12-14)

The Special Inspector General for Afghanistan Reconstruction is conducting an audit of the Afghan National Army's (ANA) logistics capability for petroleum, oil, and lubricants (POL) (code 054A). During the conduct of this audit, two issues arose concerning the accuracy of ANA fuel requirements and accountability for fuel purchases, deliveries, and consumption. We believe these issues warrant immediate attention in light of upcoming budget decisions and the transition of ANA POL responsibilities along with direct transfer of U.S. funds to the Afghan government. This report makes two recommendations to the Commanding General, NATO Training Mission-Afghanistan (NTM-A)/Combined Security Transition Command-Afghanistan (CSTC-A) to (1) maintain the fiscal year 2012 budget request for ANA fuel requirements until it develops a suitable method and systemic process for estimating ANA fuel needs, and (2) improve overall fuel accountability for fuel purchases, deliveries, and consumption.

When preparing the final report, we considered comments from NTM-A/CSTC-A. These comments are reproduced in appendix III. NTM-A/CSTC-A did not agree with the first recommendation and concurred with all four parts of the second recommendation. SIGAR conducted this work under the authority of Public Law 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.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

INTERIM REPORT ON AFGHAN NATIONAL ARMY PETROLEUM, OIL, AND LUBRICANTS

The NATO Training Mission-Afghanistan (NTM-A)/Combined Security Transition Command-Afghanistan (CSTC-A) is responsible for equipping and training the Afghan National Army (ANA) through the Afghanistan Security Forces Fund (ASFF). For fiscal years 2007-2012, ASFF funding for ANA petroleum, oil, and lubricants (POL) totaled almost $1.1 billion. CSTC-A estimates that about $466 million will be required for ANA POL in fiscal year 2013[1] and proposes to increase the annual fuel funding to $555 million for fiscal year 2014 and beyond[2]. Beginning January 1, 2013, CSTC-A plans to transfer POL responsibilities and begin funding ANA fuel through direct ASFF contributions to the Afghan government. However, we are concerned that CSTC-A does not have

1. a valid method for estimating fuel needs on which to base the funding requests or
2. complete records on ANA fuel purchased, delivered, and consumed.

Consequently, unless funding levels based on accurate ANA fuel requirements are developed and effective controls instituted prior to the transition date, both ANA fuel and ASFF funds will be vulnerable to theft and waste. Basic information such as the location and storage capacity of ANA fuel sites, as well as the amount of fuel consumed at these sites, was still unknown as of June 2012.

BACKGROUND

The responsibility for enhancing the ANA logistics capability rests primarily with CSTC-A, although the International Security Assistance Force Joint Command also provides some assistance at the specific ANA units below the regional levels. A supportable and sustainable logistics capability–including the ability to purchase, track, and account for POL–is an essential part of transferring security responsibilities to the ANA. Currently, CSTC-A purchases POL, including diesel, aviation, and other fuels to power ANA's vehicles, generators, and power plants. Once POL is delivered to the ANA, it assumes full responsibility for POL management and distribution across Afghanistan.

To fund ANA POL in fiscal years 2012 and 2013, the Department of the Army's annual budget justifications included about $429 million[3] and $343 million, respectively, in ASFF funds. For fiscal year 2013, the Army's budget excluded $123 million for jet fuel and kerosene, which CSTC-A purchased with ASFF funds through fiscal year 2012 but expects will be funded by international donors in fiscal year 2013 and beyond. Recently, CSTC-A's Deputy Commander-Special Plans and Operations (DCOM-SPO)[4] proposed increasing annual ANA fuel funding to $555 million in its fiscal years 2014-2018 Program Objective Memorandum request for ASFF appropriations.[5] Based on this proposal, two-thirds of this

[1]Based on amounts included in the Department of the Army's fiscal year 2013 budget justification, $20 million for firewood which CSTC-A provides as a direct funding contribution, and about $123 million for jet fuel and kerosene that CSTC-A expects to be funded by donations from other international donors.

[2]This amount excludes $123 million for jet fuel and kerosene estimated to be funded by international donations and about $20 million for firewood CSTC-A provides as a direct funding contribution to the Afghan government.

[3]This amount represents about $306 million for ANA fuel and firewood and $123 million for jet fuel and kerosene.

[4]DCOM-SPO office responsible for ANA fuel operations is the Fuel Ordering Office.

[5]The fiscal year 2014-2018 projections do not include (1) the amounts estimated for jet fuel and kerosene and (2) approximately $20 million in additional ASFF funds that CSTC-A provides each year to the Afghan government as a direct contribution for firewood.

amount will be funded through direct ASFF contributions to the Afghan government, and fuel under the remaining third will continue to be purchased by CSTC-A.

The Afghanistan Ministry of Defense (MOD) has general guidance and procedures for ANA logistical operations, including POL. The MOD *tashkil* is the master government document listing the authorized levels for both ANA personnel and equipment. The MOD issued three decrees related to policies, procedures, and forms to be used for ANA POL logistics operations, including MOD Decree 4.6, *ANA POL Section Organization, Responsibilities, and Procedure.* Four of the key processes prescribed by the decrees require using MOD Form 14 (fuel request form), MOD Form 8 (fuel issuance to ANA non-depot locations), MOD Form 9 (fuel issuance to ANA depots), and MOD Form 32 (POL monthly consumption report). These decrees intend to govern ANA fuel management and accountability through, in part, the use of these required forms. Therefore, CSTC-A's ability to develop ANA POL capability depends on effective implementation of required processes and forms to validate the accuracy of data related to fuel orders, issues, receipts, payments, and, ultimately, overall ANA POL requirements.

Recent reviews conducted by the Department of Defense Office of Inspector General (DOD IG), Task Force 2010 (TF 2010),[6] and other audit and investigative agencies have identified major deficiencies related to ANSF logistics and fuel operations. In a December 2011 report, DOD IG documented deficiencies regarding the ANA logistical system, including POL, that cited undeveloped Ministry of Defense (MOD) planning, programming, budgeting and execution process; inconsistent lines of communication between the chains of command for the MOD, ANA, and coalition forces; a "push" supply process;[7] inadequate internal controls; and ineffective ANA procedures for reporting supply discrepancies. Also in December 2011, CSTC-A initiated the Fuels Infrastructure and Management Improvement project to address these challenges. However, many efforts under the Fuels Infrastructure and Management Improvement project were canceled or are not yet completed. For example, a contract to perform fuel storage surveys of 743 ANSF fuel sites was canceled prior to award.

In May 2012, SIGAR briefed officials at DCOM-SPO on the issues identified in this report, including the fuel requirement and accountability challenges. Since then, DCOM-SPO revised some of its practices and now plans to (1) obtain copies of MOD Forms 8, 9, and 32 each month to perform detailed invoice reviews; (2) implement testing and metering standards to better track fuel quality and quantity when delivered; and (3) revise and consolidate MOD Decree 4.6 with MOD Decree 4.0 to reflect the total POL process. However, these steps are not sufficient for ensuring that accurate ANA fuel requirements are developed and effective controls are instituted to maintain proper accountability for fuel purchases, deliveries, and consumption. As a result, SIGAR decided to issue this interim report to address the outstanding requirement and accountability problems that CSTC-A has not yet addressed.

CSTC-A LACKS AN ACCURATE BASIS FOR ESTIMATING ANA FUEL FUNDING LEVELS

Although CSTC-A does not know the actual fuel funding levels needed to meet ANA mission requirements, it proposes to substantially increase fuel funding levels from current levels. CSTC-A's current method for estimating fuel funding levels does not include basic information, such as the actual number and capacity of authorized ANA storage locations, the inventories of vehicles and generators in

[6] TF2010 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] Fuel orders in a "push" supply process are based on estimates of what is needed; in a "pull" process, orders are based on actual consumption and inventory levels.

use, and fuel consumption at each ANA location. CSTC-A reported using consumption data and rates in developing budget estimates for fiscal years 2012 and 2013 funding requirements, but this information could not be verified due to a lack of supporting documentation. In June 2012, CSTC-A changed its method for determining annual fuel funding levels and estimated ANA fuel requirements for fiscal years 2014-2018 by using data from only 1 month. Specifically, CSTC-A projected fuel funding requirements for a 5-year period using data from March 2012. In addition, CSTC-A has based most ANA fuel orders on what ANA has requested, rather than using the monthly consumption form (MOD Form 32), as required by MOD Decree 4.6.

CSTC-A estimated that approximately 754 ANSF locations, including 254 ANA locations, received fuel directly from vendors. However, CSTC-A had no information on whether these locations had sufficient fuel storage capacity to receive vendor deliveries, which would have enabled CSTC-A to know whether locations were accepting more fuel than they could actually store. CSTC-A also allotted fuel for vehicles listed that do not require fuel, such as trailers. Despite repeated requests to CSTC-A, we were not provided any information on the number and location of generators or the capacity and consumption for each generator. Without this information, we could not determine fuel requirements for generators or assess the extent to which generator requirements were factored into current estimates.

Following our May 2012 briefing to DCOM-SPO, the command initiated efforts to identify and report bulk fuel storage capabilities, reduce the number of ANSF locations that would receive bulk fuel directly (from 754 to 98 sites, including 63 ANA and 35 ANP locations), increase oversight at these locations, and track monthly fuel orders and storage capacity information in a fuel location spreadsheet. While these are positive actions, additional actions are needed to develop accurate fuel requirements. Specifically, for CSTC-A to develop accurate ANA fuel requirements, it needs to identify information on the ANA locations authorized to receive fuel deliveries and associated fuel consumption and usage data.

CSTC-A LACKS ACCURATE INFORMATION ON ANA FUEL PURCHASED, DELIVERED, AND CONSUMED

No single office within the U.S. or Afghan government—including CSTC-A's fuel ordering office, the Kabul Regional Contracting Center, or MOD's Logistics Command Materials Management Center-Army (MMC-A)—has complete records on ANA fuel purchased, ordered, delivered, and consumed, thereby limiting CSTC-A's ability to fully account for POL provided to the Afghan Army. We identified the following problems:

- 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 to February 2011 had been shredded in violation of DOD and Department of the Army policies.[8] It also did not have records or practices in place to fully account for fuel consumption once vendors delivered the fuel directly to ANA locations. In June 2012, CSTC-A was able to reconcile the ANA fuel purchases with payments between March 2011 to March 2012, but still could not account for fuel consumption.
- Controls over fuel ordering are not effective to ensure that the MMC-A is aware of all fuel ordered and whether any ANA unit receives more than its authorized allocation. MOD guidance

[8]On September 10, 2012, we noted this action in a letter to the Secretary of Defense and the Commanding General, NTM-A/CSTC-A, among others, and strongly recommended that DOD look into the causes and circumstances of the reported shredding.

requires ANA units and power plants to (1) prepare MOD Form 14s for all fuel ordered through regional and national depots and (2) submit forms to MMC-A for validation and approval to ensure that fuel orders do not exceed authorized allocations. However, ANA power plants and some ANA units did not use MOD Form 14, and CSTC-A ordered fuel directly from vendors for units without informing or providing fuel orders to MMC-A for approval.

- CSTC-A pays vendors without independent verification of the quantity and quality of fuel delivered. Fuel ordering officers ordered fuel, prepared receiving reports for payment (DD Form 250), and certified the quantity and quality received by the units without the required MOD Forms 8 and 9, which were needed to validate delivery tickets.
- CSTC-A did not track or reconcile delivered amounts with the amounts that ANA issued, stored, and consumed, as required to be reported by MOD Form 32. As a result, CSTC-A cannot identify variances to determine potential theft.
- Fuel vendors did not always comply with the requirements set forth in the fuel blanket purchase agreements used by CSTC-A. For example, vendors did not always provide required fuel quality reports, and vendor delivery tickets that accompanied invoices for payment did not always include the information needed to verify the quantity delivered.

CONCLUSIONS

CSTC-A's current transition plans call for transferring logistics responsibility to the ANA beginning January 1, 2013. However, based on our review to date, CSTC-A does not have accurate or supportable information on how much U.S. funds are needed for ANA fuel, where and how the fuel is actually used, or how much fuel has been lost or stolen. Thus, the extent to which ANA fuel is in stock, consumed, or lost at any given time remains unknown. Despite these significant weaknesses, CSTC-A proposes to increase future ANA POL funding levels through direct ASFF contributions. Before investing additional resources and transferring fuel responsibilities to the Afghan government, CSTC-A must develop accurate and supportable ANA fuel requirements and address outstanding fuel accountability issues.

RECOMMENDATIONS

1. SIGAR recommends that the Commanding General, NTM-A/CSTC-A, reduce current (fiscal year 2013) and planned (fiscal years 2014-2018) ASFF budget requests for ANA fuel requirements to the currently budgeted amount of $306 million for fiscal year 2012, which excludes $123 million for jet fuel and kerosene that was previously purchased with ASFF funds but is expected to be funded by international donors in fiscal year 2013 and beyond. The fiscal year 2012 ASFF amount budgeted should be maintained until a suitable method and systematic process for calculating and developing an accurate projected amount is developed for ANA fuel requirements using valid and supportable fuel consumption and usage data. Relevant factors to be considered include the number of vehicles and generators currently in use and consuming fuel instead of the number in inventory or authorized; listing of and storage capacity for each depot, power plant, and other site authorized to receive fuel directly from vendors; and short- and long-term consumption needs of power plants and fuel usage rates for in-use vehicles and generators to meet the ANA mission.

2. To mitigate vulnerabilities to fraud and waste, SIGAR recommends that the Commanding General, NTM-A/CSTC-A, develop, approve, and implement a comprehensive action plan, focusing on specific internal control processes to verify fuel purchases and deliveries and improve overall fuel accountability:

   - Account for all fuel orders in CSTC-A's fuel ordering office database and Kabul Regional Contracting Center reports, and reconcile fuel orders between offices and to both quantities delivered and invoices paid every month.
   - Ensure that MOD Form 14 is used for all ANA fuel orders, including for power plants and that copies of all fuel orders are submitted to MMC-A to enable complete accountability for all fuel orders and to track them against allocations.
   - Ensure that MOD Forms 8 and 9 are used to document the receipt and issuance of all fuel deliveries to ANA, and copies of all MOD Forms 8 and 9 are submitted to (1) CSTC-A to compare with vendor delivery tickets and verify the fuel quantities received and (2) MMC-A to compare with the respective MOD Form 14 and verify receipts for each fuel order.
   - Ensure that MOD Form 32 is used monthly to account for, reconcile, and report consumption and variances of all fuel distributed to each ANA location and copies are submitted to CSTC-A and MMC-A to enable the consolidation of fuel reports to have complete information on fuel after delivery. This will also facilitate improved reporting of variances to ensure follow up and resolution of any inventory discrepancies.

COMMENTS

NTM-A/CSTC-A provided written comments to a draft of this interim report. We also provided this interim report to the Office of Secretary of Defense for technical comment; however, it did not provide comments. NTM-A/CSTC-A's comments are reproduced in appendix III.

Overall, NTM-A/CSTC-A did not concur with recommendation one and concurred with all four parts of recommendation two. NTM-A/CSTC-A also noted the steps it has taken, or will take, to address specific internal control processes to verify fuel purchases and deliveries and improve overall fuel accountability. We will provide additional details on the issues discussed in this interim report in our full report for this audit, which is scheduled to be released later this year.

Concerning recommendation one, NTM-A/CSTC-A stated that current funding levels must be maintained to sustain current military operations. More specifically, NTM-A/CSTC-A stated that fiscal year 2012 fuel expenditures are expected to be approximately $480 million, which would result in a reduction of approximately 37 percent for all security operations to include combat operations, logistical operations, and border enforcement patrols if fuel expenditures are capped at $306 million as SIGAR recommends. Also, NTM-A/CSTC-A stated that it cannot accurately determine fuel consumption estimates for vehicle usage due to the fielding of additional vehicles, power generation, and other combustion engine power equipment to the Afghan National Security Forces (ANSF) and fluctuations in power consumption due to seasonal changes. NTM-A/CSTC-A further noted that six power generation plants have or are scheduled to come online during fiscal year 2012, and that the unusually colder-than-normal 2011-2012 winter season resulted in a 50-percent spike in all diesel fuel consumed during the winter months.

NTM-A/CSTC-A's comments do not address a key part of this recommendation to develop a suitable method and systematic process for calculating accurate projections of annual ANA fuel estimates. We considered the various factors that CSTC-A cited with regard to the increased fielding of vehicles,

inconsistencies in power consumption due to seasonal changes, and uncertainties in fuel consumption as coalition forces withdraw from Afghanistan and transfer responsibility to the ANSF. However, CSTC-A did not provide specific documentation to support how these factors affect its annual estimates and its assertions that increased funding is necessary. Increasing fuel estimates based on prior fuel purchases or anticipated fuel expenditures–without having actual fuel consumption and usage data or supportable fuel requirements–is not prudent. In addition, CSTC-A did not commit the first $40 million of the fiscal year 2012 ANA POL funds until July 2012—more than 9 months into the current fiscal year—which further calls into question whether a budget increase in ANA fuel for fiscal year 2013 is warranted, especially given expected donations by international donors for jet fuel and kerosene. Consequently, we reiterate our recommendation to maintain ANA POL funding levels for ASFF at $306 million until a valid method is established and annual fuel funding levels are calculated based on actual ANA fuel consumption and supportable fuel requirements.

Concerning recommendation two, NTM-A/CSTC-A concurred with and was generally responsive to all four parts of this recommendation. NTM-A/CSTC-A described some specific actions to improve controls over fuel purchases, vendor deliveries, and the payment of invoice amounts. However, these actions do not fully address the lack of controls over fuel ordering to ensure that ANA units do not receive more than their authorized allocation or noncompliance with MOD guidance concerning the accountability of fuel after vendor deliveries to ANA locations. As a result, we reiterate the need to identify actions to ensure that MOD guidance is followed and all fuel activity is tracked and accounted for.

APPENDIX I – SCOPE AND METHODOLOGY

In February 2012, the Special Inspector General for Afghanistan Reconstruction (SIGAR) initiated an audit of the Afghan National Army's (ANA) logistics capability for 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. Specifically, SIGAR sought to (1) assess the status of the Combined Security Transition Command-Afghanistan (CSTC-A) efforts to develop ANA infrastructure, processes, and systems to acquire, manage, store, and distribute POL, and train the personnel needed to manage and oversee the distribution of POL; and (2) evaluate the internal controls in place to determine if they are sufficient to account for POL and to prevent fraud, waste, and abuse, including the unauthorized diversion or theft of POL. SIGAR issued this interim report to highlight issues requiring immediate consideration related to fuel requirements and accountability prior to the issuance of our detailed audit report scheduled for issuance in late 2012. This audit was performed by SIGAR under the authority of Public Law 110-181, as amended, the Inspector General Act of 1978, and the Inspector General Reform Act of 2008.

To accomplish our objectives, we reviewed relevant Ministry of Defense (MOD) guidance and financial and fuel-related documentation and interviewed officials at the International Security Assistance Force; CSTC-A; Department of Defense (DOD) Inspector General, U.S. Army Audit Agency, Defense Logistics Agency; and Task Force 2010. We reviewed specific ANA paid fuel order documents for the 13-month period from March 2011 to March 2012. The complete results of our audit will be provided in our final report. However, for the purposes of this interim report, the following steps were performed to address the concerns raised.

To determine the funding levels needed to meet ANA POL requirements, we examined the Department of Army's fiscal year 2012 and 2013 budget justification and documentation of CSTC-A's POL program development efforts and the supporting documentation used to project the annual funding levels. The documentation included fuel order summaries and databases, inventory and authorized levels for ANA vehicles, power plant reports, and projected consumption rates.

To determine the extent of accountability, we reviewed MOD logistics and POL guidance; fuel Blanket Purchase Agreements; CSTC-A Operational and Task Force 2010 briefings; reports from the DOD Inspector General, U.S. Army Audit Agency, and Defense Logistics Agency; and U.S. Forces-Afghanistan Fragmentary Orders. We also analyzed the provided MOD Form 14 fuel orders, MOD Form 32 monthly consumption reports to support fuel orders, MOD Forms 8 and 9 documentation of issuance/receipt of fuel orders, MOD Forms 1235 or 1237 daily inventory and reconciliation reports, vendor fuel rates, invoices, delivery tickets, DOD DD-250 requests for vendor payments, and documentation of sampling/quality assurance of fuel delivered.

We reviewed financial and fuel order data, including CSTC-A's fuel order database, invoices, and Defense Finance Accounting Service's computer generated payment data, and interviewed cognizant officials. For the purposes of this interim audit, we determined that only the reconciled paid fuel order data provided from March 2011 to March 2012 was available and sufficiently reliable. We also assessed internal controls over the ANA POL processes and considered fraud through interviews with CSTC-A officials and review of CSTC-A briefings and documentation of fuel contracts, orders, and payments. The initial results of our reconciliation and assessment are included in the body of this interim report and will be covered in more detail in our final audit report.

We believe that the evidence obtained provides a reasonable basis for the observations and conclusions in this interim report. We conducted our work in Kabul, Afghanistan, and Washington, D.C., from

February 2012 to July 2012, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX II–ABBREVIATIONS AND ACRONYMS

Acronym	Description
ANA	Afghan National Army
ANSF	Afghan National Security Forces
ASFF	Afghanistan Security Forces Fund
CSTC-A	Combined Security Transition Command-Afghanistan
DOD	Department of Defense
DCOM-SPO	Deputy Commander–Special Plans and Operations
MMC-A	Material Management Center-Army
MOD	Ministry of Defense
NTMA	NATO Training Mission-Afghanistan
POL	Petroleum, oil, and lubricants

APPENDIX III–NTM-A/CSTC-A RESPONSE TO DRAFT INTERIM REPORT

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

NTM-A
NATO Training Mission AFGHANISTAN

REPLY TO
ATTENTION OF

NTM-A/CSTC-A DCOM-SPO

14 August 2012

MEMORANDUM THRU Deputy Commanding General- Operations, NTM-A, APO AE 09356
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 Interim Report "Interim Report on Afghan National Army Petroleum, Oil, and Lubricants" (SIGAR Interim ANA POL Report 12-14)

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

1. The purpose of this memorandum is to provide responses to SIGAR's draft interim report.

2. Point of contact for this action is Col John V. McCoy at DSN 318-237-9858, or via e-mail at john.v.McCoy@afghan.swa.army.mil.

CLARK W. LEMASTERS
BG, NTM-A
Deputy Commander, Support Operations

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

NTM-A/CSTC-A DCOM-SPO

SUBJECT: NTM-A/CSTC-A Response to the Draft Interim Report "Interim Report on Afghan National Army Petroleum, Oil, and Lubricants" (SIGAR Interim ANA POL Report 12-14)

General/Technical Comments on the Draft Interim Report (if warranted).

1. Recommendation 1, Page 5, states:
"SIGAR recommends that the Commander, CSTC-A, reduce current (fiscal year 2013) and planned (fiscal years 2014-2018) ASFF budget requests for ANA fuel requirements to the currently budgeted amount of $306 million for fiscal year 2012, which excludes $123 million for jet fuel and kerosene that was purchased with ASFF funds but is expected to be funded by international donors in fiscal year 2013 and beyond. The fiscal year 2012 ASFF amount budgeted should be maintained until a suitable method and systematic process for calculating and developing accurate projected amount is developed for ANA fuel requirements using valid and supportable fuel consumption and usage data. Relevant factors to be considered include the number of vehicles and generators currently in use and consuming fuel instead of the number in inventory or authorized; listing of and storage capacity for each depot, power plant, and other site authorized to receive fuel directly from vendors; and short- and long-term consumption needs of power plants and fuel usage rates for in-use vehicles and generators to meet the ANA mission."

NTM-A/CSTC-A: NTM-A response: NON-CONCURS with SIGAR recommendation to reduce amount of coalition-supplied fuel/fuel funding. Current funding levels, although contrary to SIGAR recommendations, must be maintained to sustain current military operations. FY2012 fuel expenditures are anticipated to be approximately $480 million. If fuel expenditures are capped at $306 million, that will result in a reduction of approximately 37% for all security operations to include combat operations, logistical operations, and border enforcement patrols. Fuel consumption estimates for vehicle usage cannot be determined accurately by NTM-A due to the continuing fielding of vehicles, power generation, and other combustion engine power equipment to the ANSF. Since 2010, coalition forces have issued over 25,000 vehicles and generators to the ANSF. The fielding of this equipment has resulted in greater fuel support requirements, thus causing and projecting on increase of fuel usage. Fuel usage associated with power generation at power plants is more consistent, with power consumption changes according to seasonal usage. During fiscal year 2012 six power generation plants have or are scheduled to come online. Coupled with the fact that the 2011-12 winter season was unusually severe with colder-than-normal temperatures, fuel consumption spiked to nearly 50% of all diesel fuel consumed during the winter months. As coalition forces withdraw from Afghanistan and the ANSF takes on greater responsibility for security, ANSF fuel consumption will continue to increase. This increase in OPTEMPO has resulted in greater fuel consumption.

2. Recommendation 2, Pages 5-6, states: "To mitigate vulnerabilities to fraud and waste, SIGAR recommends that the Commander, CSTC-A, develop, approve, and implement a comprehensive action plan, focusing on specific internal control processes to verify fuel purchases and deliveries and improve overall fuel accountability. Account for all fuel orders in CSTC-A's fuel ordering office database and Kabul Regional Contracting Center reports, and reconcile fuel orders between offices and to both quantities delivered and invoices paid every month."

NTM-A/CSTC-A response: NTM-A CONCURS. In response to SIGAR's recommendations made in May of 2012, NTM-A has, or is currently implementing the following internal controls:

(1) Monthly reconciliation of invoices is being conducted to ensure accuracy. Incomplete or inaccurate invoices are returned to the vendor for corrections or modifications by Phoenix Regional Contracting Command (PRCC).

NTM-A/CSTC-A DCG OPS

SUBJECT: Transition of Fuel Funding and Acquisition Responsibilities to the Afghan National Army

(2) Fuel Database: Logistics Operations, Fuel Section is currently working to develop a new fuel database that will utilize a standard unit listing convention to prevent erroneous data entries. The use of a unique Unit Identification Code or UIC will further prevent errors in data entry. Database will be used as the template for fuel operations transition to ANSF fuel operations personnel.

(3) Coalition Fuel Contracts: A new fuel contract will be put into place on 1 November 2012. The new contract will focus on higher fuel quality standards to prevent fuel contamination, mandate fuel testing to ensure purity of fuel, eliminate water or solid particle contamination. Improved controls for the use of subcontractors by vendors. Subcontractors will be required to perform all contracted tasks to same standards as primary contractor. Use of seals for valves and hatches to prevent access to fuel while in transit. Incorporation of contractual penalties for poor performance or violations of the contract. Failure to adhere to contract standards may result in monetary penalties or termination of contact for failure to perform.

(4) Investigation or "vetting" of all potential contractors is conducted by Phoenix Regional Contracting Command prior to the hiring of a contractor. Periodic reviews are conducted to ensure vendors compliance. Within the last 12 months, PRCC has identified (3) fuel vendors that have been linked to corruption or have been identified as having insurgent ties and as a result has terminated their contracts to provide fuel to the ANSF.

(5) Improved controls. NTM-A is planning to reduce the number of coalition-authorized fuel delivery sites from approximately 326 sites to 98 sites in order to maximize coalition oversight at remaining sites. NTM-A is putting in place fuel metering and testing requirements at all enduring locations. NTM-A has received fifty fuel meters and two hundred field fuel test kits are due in shortly. Through contracted trainers, ANSF personnel will be providing additional training on proper receiving, testing and reporting procedures.

3. Recommendation 2, states: "Ensure that MOD Form 14 is used for all ANA fuel orders, including for power plants, and copies of all fuel orders are submitted to MMC-A to enable the complete accountability for all fuel orders and to track them against allocations."

NTM-A/CSTC-A response: NTM-A CONCURS. In accordance with NTM-A Fragmentary Order #12-076 issued May 2012: Logistical Training and Advisor Teams (LTAT's) collect and submit MoD Form 14's to the NTM-A Class-III Fuel Office for review and records. To further improve compliance, the NTM-A DCOM-SPO Log Ops CLIII Section will conduct training for the contracted fuel experts in each region to ensure they are fully versed in the collection and forwarding process. Additionally, the LTAT advisors will advise and assist their Afghan counterparts in the production and transmission of the required Mod-14s. The the DCOM-SPO Log Ops CLIII Section will also monitor LTAT compliance with the FRAGO and implement corrective action with the LTATs as required.

NTM-A/CSTC-A DCG OPS

SUBJECT: Transition of Fuel Funding and Acquisition Responsibilities to the Afghan National Army

4. Recommendation 2, states: "Ensure that MOD Forms 8 and 9 are used to document the receipt and issuance of all fuel deliveries to ANA, and copies of all MOD Forms 8 and 9 are submitted to (1) CSTC-A to compare with vendor delivery tickets and verify the fuel quantities received and (2) MMC-A to compare with the respective MOD Form 14 and verify receipts for each fuel order."

NTM-A/CSTC-A response: NTM-A CONCURS. In accordance with NTM-A Fragmentary Order #12-076 issued May 2012: Logistical Training and Advisor Teams (LTAT's) are required to collect and submit MoD Form 8 and Form 9 to the NTM-A Class-III Fuel Office for review and records. To further improve compliance, the NTM-A DCOM-SPO Log Ops CLIII Section will conduct training for the contracted fuel experts in each region to ensure they are fully versed in the collection and forwarding process. Additionally, the LTAT advisors will advise and assist their Afghan counterparts in the production and transmission of the required MoD Forms 8 and Forms 9. The DCOM-SPO Log Ops CLIII Section will also monitor LTAT compliance with the FRAGO and implement corrective action with the LTATs as required.

5. Recommendation 2, states: "Ensure that MOD Form 32 is used monthly to account for, reconcile, and report consumption and variances of all fuel distributed to each ANA location and copies are submitted to CSTC-A and MMC-A to enable the consolidation of fuel reports to have complete information on fuel after delivery. This will also facilitate improved reporting of variances to ensure follow up and resolution of any inventory discrepancies."

NTM-A/CSTC-A response: NTM-A CONCURS. In accordance with NTM-A Fragmentary Order #12-076 issued May 2012: Logistical Training and Advisor Teams (LTAT's) are required to collect and submit MoD Form 32 to the NTM-A Class-III Fuel Office for review and records. To further improve compliance, the NTM-A DCOM-SPO Log Ops CLIII Section will conduct training for the contracted fuel experts in each region to ensure they are fully versed in the collection and forwarding process. Additionally, the LTAT advisors will advise and assist their Afghan counterparts in the production and transmission of the required MoD Form 32s. The DCOM-SPO Log Ops CLIII Section will also monitor LTAT compliance with the FRAGO and implement corrective action with the LTATs as required.

APPROVED BY:	PREPARED BY:
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(This interim report was conducted under the audit project code SIGAR 054A.)

SIGAR's Mission	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 • improve effectiveness of the overall reconstruction strategy and its component programs; • 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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Opening Statement of Chairman Jason Chaffetz
Subcommittee on National Security, Homeland Defense, and Foreign Operations
"SIGAR Report: Document Destruction and Millions of Dollars Unaccounted for at the Department of Defense. Part II"
September 20, 2012

Good afternoon and welcome to today's hearing: "SIGAR Report: Document Destruction and Millions of Dollars Unaccounted for at the Department of Defense. Part II"

I would like to welcome Ranking Member Tierney, Members of the Subcommittee, and members of the audience.

Today's proceedings continue the Subcommittee's efforts to oversee the billions of taxpayer dollars spent in support of military and civilian operations in Afghanistan.

Last week, the Special Inspector General for Afghanistan Reconstruction, Mr. John Sopko, testified before this Subcommittee on the findings contained in his interim report, entitled, "Interim Report on Afghan National Army Petroleum, Oil, and Lubricants." His report contained serious allegations of potential waste, fraud, abuse, and document destruction associated with POL procurement.

I want to thank Mr. Sopko for being here again today.

Given his findings, we felt it necessary to seek answers from the Defense Department. We also believe it is necessary to talk about the broader issue of direct assistance to foreign governments, including Afghanistan. USAID has considerable experience in this area, and I look forward to hearing about how they ensure accountability in other regions.

From fiscal years 2007-2012, CSTC-A (SEE-STICK-UH) has channeled approximately $1.1 billion through the Afghan Security Forces Fund to purchase petroleum, oil, and lubricants for the Afghan National Army. In FY-13, the U.S. government will purchase $343 million dollars more in POL.

According to Mr. Sopko, CSTC-A (SEE-STICK-UH) does not have accurate or supportable information on:

- How much U.S. funds are needed for ANA fuel;
- Where and how the fuel is actually used; and
- How much fuel has been lost or stolen.

Thus, the extent to which ANA fuel is in stock, consumed, or lost at any given time remains unknown.

Mr. Sopko also testified that "no single office within the U.S. or Afghan government has complete records on ANA fuel purchased, ordered, delivered and consumed." There are allegations that the Defense Department may have shredded financial records for hundreds of millions of dollars in POL.

If accurate, it is totally unacceptable.

Despite the lack of records and justification for fuel purchases, the Department of Defense proposes to **increase** funding. From FY-14 to FY-18, it plans to provide $555 million dollars worth of POL per year.

The Department of Defense plans to give two-thirds of this funding **directly** to the Afghan government starting on January 1, 2013, so that it can buy the POL for itself.

Under the current plan, the Afghan government will be responsible for overseeing the expenditure of roughly $2.8 billion of our taxpayer dollars.

There are virtually no assurances, however, that the Afghans will properly oversee this money.

We simply cannot delegate the authority and oversight of billions of taxpayer dollars to the Afghan government without reliable controls in place.

Afghanistan is not the only recipient of direct assistance, however. This Administration has made it a priority to increase direct assistance to governments in developing countries all over the world.

Under President Obama, the USAID has developed a new initiative called "Forward." Under this program, the Administration plans to double the amount of the US foreign aid budget it gives directly to foreign governments, NGOs and businesses.

Already between FY 2009 and 2010, the Administration more than tripled its awards of direct assistance to Afghanistan, to $2 billion.

And overall, excluding Afghanistan and Pakistan, the Administration's goal is to give 30% of the nearly $40 billion foreign aid budget directly to foreign governments, NGOs and businesses by 2015.

This is a staggering figure. I would like to hear from USAID about how it ensures accountability in other regions, and whether lessons can be applied at the Department of Defense.

We must also get a better handle on who is receiving contracts.

In a letter on Tuesday, Mr. Sopko listed 43 contractors in Afghanistan with affiliations to the Haqqani [Ha-kah-nee] Network, the Taliban, and/or Al Qaeda. According to his letter, these entities have not been suspended or debarred by the U.S. government.

The fact that firms with known affiliations to terrorist groups are omitted from the debarment list is simply outrageous. I want to know why the Defense Department has not acted on the SIGAR's recommendations in a timely fashion.

I hope today's discussion includes solutions on how to prevent groups with terrorist ties from doing business with the United States.

I want to thank all of the witnesses for being here on short notice, and look forward to your testimony.

Special Inspector General for Afghanistan Reconstruction

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

September 20, 2012

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.

[4] The 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 committee[5] 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

[5]This 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.

[6]In 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

[8]GAO 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.

[9]In 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.

[10]SIGAR 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."

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[11] SIGAR 11-14.

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

[13] Army 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.

HOLD UNTIL RELEASED BY THE
U.S. HOUSE OF REPRESENTATIVES

JOINT STATEMENT OF

MR. ALAN F. ESTEVEZ
ASSISTANT SECRETARY OF DEFENSE
FOR LOGISTICS AND MATERIEL READINESS

AND

LIEUTENANT GENERAL BROOKS BASH
DIRECTOR FOR LOGISTICS
JOINT STAFF

BEFORE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE, AND
FOREIGN OPERATIONS

INTERIM REPORT ON AFGHAN NATIONAL ARMY PETROLEUM, OIL, AND
LUBRICANTS

September 20, 2012

HOLD UNTIL RELEASED BY THE
U.S. HOUSE OF REPRESENTATIVES

Chairman Chaffetz, Ranking Member Tierney, and distinguished members of the Committee, thank you for the opportunity to appear before you to review the findings in the Interim Report entitled "Afghan National Army, Petroleum, Oil, and Lubricants" issued by the Special Inspector General for Afghanistan Reconstruction (SIGAR) on September 12, 2012.

Before addressing the issues raised by the report, it is important to put our actions with regard to Afghan forces in context. It is critically important that we build Afghan National Security Force (ANSF) capability and capacity. This is the key to a stable, secure Afghanistan, an Afghanistan that is not a safe haven for extremists, like Al Qaeda, that threaten this Nation. As part of the process to build ANSF capability, we must also build ANSF sustainment capabilities. This POL program is a critical part of that process.

The SIGAR report identified many important areas in which we can improve our processes for administering the petroleum, oil and lubricant (POL) program for the Afghan National Army (ANA). We welcome the opportunity to report to you on our efforts to (1) improve the accountability of ANA fuel purchases, deliveries and consumption, and (2) improve forecasting of ANA fuel requirements. Additionally, we will address in this statement the issue SIGAR identified in its interim report regarding the accountability of records. Developing the capability within the ANA to procure, track, deliver, and account for fuel and other petroleum products is an important step towards the ultimate goal of enabling the Afghan government to provide for its own security. The Department is committed to ensuring the close stewardship of resources provided by this Congress in the performance of this critical mission.

SIGAR Concerns with ANA Fuel Purchased, Delivered, and Consumed

The SIGAR addressed concerns with Combined Security Transition Command-Afghanistan's (CSTC-A) ability to fully account for POL provided to the ANA, stating that "officials shredded all ANA POL financial records related to payments totaling nearly $475 million from October 2006 to February 2011.[1]" To the best of our knowledge, no documents have been shredded and records have been appropriately maintained. We continue to provide SIGAR with all documents relevant to this audit as

[1] Special Inspector General for Afghanistan Reconstruction, *Interim Report on Afghan National Army Petroleum, Oil, and Lubricants* (SIGAR 12-14) dtd. 10 September 2012.

we accomplish our on-going mission in theater. To date, 97% of the documents SIGAR requested have been collected. Included in the documents that have been archived are scanned copies of delivery tickets, invoices, and DD Forms 250 dating back to 2006.

Logistics training for the ANA is ongoing, to include developing within the ANA the proper procedures for fuel ordering, receipt of fuel, and the verification of the quantity and quality of fuel delivered. In order to requisition fuel, ANA units (to include power plants), are required to submit the appropriate requisition and consumption forms. Without provision of these forms, ANA fuel orders are refused. At the Material Management Center, ANA personnel working under the guidance of coalition advisors process fuel order documents by verifying the quantity of fuel authorized and comparing it with fuel received to ensure that allocations are not exceeded.

The quantity and quality of fuel delivered to ANA sites is verified through the reconciliation of the requisition and consumption forms. Once these forms are verified, the NATO Training Mission Class III fuel office places orders to the vendor and records the order information into a database. Once the fuel delivery is complete, the vendor provides the delivery ticket and invoice to the Class III Office where they are verified for payment.

Forecasting Afghan National Army Fuel Requirements:

In its report, the SIGAR auditors address concerns over the method by which NATO Training Mission- Afghanistan/Combined Security Transition Command-Afghanistan (NTM-A/CSTC-A) estimates ANA fuel requirements: SIGAR auditors found that CSTC-A does not know the actual fuel funding levels needed to meet ANA requirements, and that CSTC-A's current method for estimating the amount of fuel the ANA requires lacks basic information, such as: the actual number and holding capacity of ANA fuel storage locations; the inventories of vehicles and generators in use; and fuel consumption at each ANA location.

The NATO Training Mission has refined its method for estimating fuel funding levels for fiscal years 2014-2018. NTM-A used consumption data from August 2011 to July 2012 to establish an annual requirement baseline. From the baseline, using simple trend analysis, and taking into account ANA operational tempo increases, planned

equipment fieldings, and seasonal weather factors, NTM-A developed future year fuel requirements.

To improve accountability of supplies NTM-A/CSTC-A issued a memorandum on April 22, 2011, prior to the SIGAR audit, to the Afghan Ministry of Defense noting that it would begin to apportion fuel based on vehicles that were properly accounted for by the ministry and coalition forces rather than by the absolute number of vehicles issued. The NATO Training Mission also issued a fragmentary order in May 2012, directing ANA sites to report the fuel storage capacity at all 46 ANA fixed-location fuel storage sites. This data allows the NATO Training Mission to compare quantity of fuel requested with capacity of potential storage in either fixed storage fuel tanks or mobile fuel transportation assets.

Ongoing efforts to improve accountability of fuel and provide for closer oversight include consolidating the number of ANA fuel delivery sites. In the past, deliveries of fuel were associated with units not locations resulting in deliveries to 754 sites. The number of delivery locations has been reduced to 191 (46 ANA fixed-location fuel storage sites and 145 unit locations) with plans to further reduce to 68 primary "enduring" sites. Furthermore, NTM-A has fielded 50 fuel meters and fuel test kits for use at these 68 enduring sites, with a follow-on purchase request for additional fuel meters. These enhancements will allow ANA units to verify the quantity and quality of fuel received from commercial vendors.

TRANSITION:

The SIGAR interim report states that the ANA is not prepared to accept the responsibility for the procurement, tracking, delivery and accounting of fuel and other petroleum products. In accordance with overall campaign objectives, the NATO Training Mission is currently working with its Afghanistan partners in the Ministry of Defense to transition fuel management responsibilities in a controlled, phased, conditions-based approach. Next year, the NATO Training Mission will transfer the responsibility for only one-third of the estimated 2013 fuel budget to the ANA. The remaining fuel budget will remain under the control of NTM-A. This will allow the ANA to execute a process and demonstrate that it is able to manage the fuel program.

Throughout the transition process NTM-A will mentor, monitor and provide oversight. Additionally, to mitigate any financial risk, disbursements of funds for future ANA fuel orders will occur quarterly and will be subject to the outcome of quarterly financial audits to ensure responsible use of funds. If the transfer of the 2013 budget is properly handled, the entire budget will be transferred in 2014.

Next Steps

The Department recognizes the SIGAR's findings and recommendations in this report, and we are working to address them in order to affect a smooth transition of this program to the ANA. In addition to the specific actions mentioned above, the NATO Training Mission is instituting a number of initiatives to strengthen the ANA fuel and POL program. First, NTM-A has formed an Assistant Minister-level Bulk Fuel Transfer Executive Committee with members from NTM-A/CSTC-A as well as Afghan Ministries of Defense, Finance, Commerce and Industries. The purpose of this committee is to develop a Memorandum of Understanding that clearly defines roles and responsibilities, synchronizes the efforts among coalition advisors with their Afghan counterparts, and de-conflicts potential disputes that may arise during the implementation and transition process. Second, NTM-A with the assistance of U.S. Central Command-Joint Theater Support Contracting Command will advise Ministry of Defense acquisition personnel in the development of enforceable contracting procedures. Finally, NTM-A has requested Defense Logistics Agency (DLA) to provide experts to review NTM-A procedures and provide feedback to the DCOM-SPO on how it can improve its operation.

Closing

We want to thank the SIGAR for its work. Ultimately the aim of the collective effort is to ensure that ANA POL operations are implemented properly while judiciously managing taxpayer's dollars. We have worked hard to improve our oversight and management of this very critical area and have no intention of losing focus. Much has been accomplished, but of course challenges remain.

Testimony for the Record

Donald "Larry" Sampler, Senior Deputy Assistant to the Administrator & Deputy Director of the Office of Afghanistan & Pakistan Affairs at the United States Agency for International Development

House Oversight and Government Reform, Subcommittee on National Security Hearing Reviewing the Findings of the Interim Report on Afghan National Army Petroleum, Oil and Lubricants

September 20, 2012 2:00 p.m.

Chairman Chaffetz, Ranking Member Tierney, and Members of the Subcommittee, thank you for the opportunity to testify today. My name is Larry Sampler, and I am the Senior Deputy Assistant to the Administrator and Deputy Director of the Office of Afghanistan and Pakistan Affairs at the United States Agency for International Development.

Afghanistan is – and has been – a difficult and dangerous country in which to provide development assistance. USAID maintains a significant effort in Afghanistan and our programs there are delivering results. USAID's development assistance to Afghanistan continues to remain a critical component in supporting our core U.S. national security objective there: to disrupt, dismantle, and defeat al-Qaida, and prevent Afghanistan from ever again becoming a safe-haven from which extremists can attack the U.S. and our allies. USAID's efforts are part of a whole of government, civil-military effort to advance this strategic objective. Together, we are committed to promoting the development of a stable Afghanistan by partnering with the Afghan government and the Afghan people to solidify a foundation of sustainable economic growth and effective, legitimate governance.

I have been working on – and, often in – Afghanistan since 2002, in both civilian and military roles for the U.S government; I've worked as a representative of an international NGO; and as the chief of staff of the U.N. Mission. I have personal experiences with the challenges of implementing assistance programs in such a difficult environment. And I have seen the benefits of our assistance programs in Afghanistan:

- Under the Taliban, less than 900,000 boys and almost no girls had access to schools. Today, more than 8 million children, more than a third of whom are girls, are enrolled in school. Now, a generation of young men and women are graduating with the critical thinking skills that will make them better citizens and more resilient in opposing malicious doctrines of the Taliban and other similar organizations.

- In 2002 only nine percent of Afghans had access to even the most basic health care. Today that number is over sixty percent, and life expectancy at birth has risen by almost twenty years. And maternal mortality and infant mortality have dropped significantly.

- Our work in energy has helped triple the number of Afghans with access to reliable electricity, which has enabled the economic growth of the country. With USAID support, Afghanistan's national power utility has increased its revenues by approximately fifty percent each year since 2009, reducing the needed Afghan government subsidy from $170 million to approximately $30 million in 2011.

Our ultimate goal, of course, is to work ourselves out of a job by enabling Afghanistan to stand on its own two feet, without foreign assistance. To that end, USAID has been working through selected ministries in the Afghan government since the previous Administration. This work is commonly referred to as government-to-government or "on-budget" assistance.

I should note that on-budget assistance encompasses a range of mechanisms. On-budget assistance includes U.S. funds provided to the World Bank's Afghan Reconstruction Trust Fund (ARTF), as well as specific project assistance that we provide through ministries and other agencies of the Afghan government.

USAID has been constantly learning and reforming its operations in Afghanistan over the course of our engagement there since the fall of the Taliban. Oversight and accountability is an area where USAID's leadership has focused intensively throughout the Agency, and particularly in Afghanistan. Protecting taxpayer resources is a vital concern to USAID and we have established a variety of layered measures to ensure that our programs are cost-effective and having the intended impact. We are mindful that we are stewards of U.S. taxpayer funds, and serve as their representatives as we provide assistance to the people of Afghanistan.

USAID seeks to ensure that the ministries and other agencies to which we are providing financial support are capable of implementing the desired programs, achieving the desired results, and doing so in a way that is adequately transparent and fiscally responsible. USAID accomplishes this through a system of pre-award assessments, mitigating measures, financial controls, and rigorous monitoring and evaluation.

As part of the financial controls, USAID maintains control of funds throughout the life-cycle of a project. We work with the Afghan government to develop projects to achieve specific outcomes, whether that is to train teachers or to build a road. We then reimburse and allow funds to be distributed only when certain benchmarks are met. This ensures the funds are accounted for and that we achieve the outcomes that are critical for our success.

Another layer of oversight and accountability is provided by the multiple, independent oversight bodies that review our programs, including the Government Accountability Office, the USAID Inspector General, and Special Inspector General for Afghanistan Reconstruction. They complete numerous audits of our programs in Afghanistan every year that complement and reinforce our own efforts to ensure that U.S. tax dollars are used effectively and efficiently. We welcome the oversight and discipline imposed by these reviews – a number of which are initiated at our request.

There have been significant sacrifices made by the American people in support of a sustainably stable Afghanistan. We are under no illusions about the challenges we face. But these

challenges call for exercising diligence in how we operate as we carefully and deliberately transition to an Afghan-led process which meets our standards of achievement and accountability. Our mission of defeating terrorists and denying them a safe haven remains critical to U.S. national security. The programs implemented by USAID are making important contributions toward that goal by helping Afghanistan to stand on its own.

I look forward to answering any questions you may have.

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