



Special Inspector General for Afghanistan Reconstruction

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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

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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 2013¹ and proposes to increase the annual fuel funding to \$555 million for fiscal year 2014 and beyond². 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 million³ 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

¹Based 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.

²This 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.

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

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

⁵The 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

⁶TF2010 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.

⁷Fuel 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

⁸On 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



REPLY TO
ATTENTION OF

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



NTM-A/CSTC-A 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 an 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 contract 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.

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