



OFFICE OF THE SECRETARY OF DEFENSE  
1000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1000

## INFO MEMO

FOR: SECRETARY OF DEFENSE

FROM: Dr. Ashton B. Carter, Under Secretary of Defense (Acquisition,  
Technology and Logistics)Robert F. Hale, Under Secretary of Defense (Comptroller) *AC* *18 MAY 2010*  
*5/15/2010*

AFGHANISTAN

18 MAY 10

10 MAY 10

SUBJECT: Efforts to Mitigate Corruption Risk in Afghanistan

- This memo responds to your request for us to focus on efforts to minimize risks of corruption in Afghanistan.
- We established an oversight group to assist with business process improvements in Afghanistan, working closely with personnel in Kuwait and Afghanistan.
- The group has determined the best way to address this issue in the near-term is to transition to "near cashless" business and improve contract oversight.
- Cashless efforts include the increase use of electronic funds transfer (EFT) to pay Afghan vendors and the use of cellular phones to pay Afghan National Security Forces (see details attached).
- Contract oversight improvements include the vetting of non-US contractors before contract award, investigating vendor misconduct, and increasing contract peer reviews (see details attached).

COORDINATION: TAB A

Attachment:  
As stated

Prepared By: (b)(6) OUSD(C)/DCFO/AFP, (b)(6)



OSD 05589-10

6/19/2010 1:37:53 PM

## **Efforts to Mitigate Corruption Risk in Afghanistan**

USD(AT&L) and USD(C) have set up a group to assist with business process improvements in Afghanistan, working closely with personnel in Kuwait and Afghanistan. This includes a focus on efforts to minimize risks of corruption in Afghanistan.

Business improvement measures cannot preclude the pervasive socioeconomic corruption that exists in Afghanistan. Transition to "near cashless" business, to the maximum extent possible, and improving contract oversight lowers exposure to corruption risk and fraud and also helps improve internal controls.

Total in-theater cash payments to Afghan vendors are down sharply, from 39% in October 2008 to 9% in February 2010, because of heavy use of electronic commerce.

- Total payments to Afghan vendors in December 2009 were \$225.1M USD, with only \$20.9M USD paid in cash.

We may be able to further reduce cash payments by limiting use of cash in the Commanders' Emergency Response Program (CERP).

- Currently there are no Department limits on CERP cash payments.
- Under proposed new policy, any CERP transaction over a specified limit (e.g., \$5,000 or foreign currency equivalent) can be paid in cash only after approval by Battalion/Task Force Commander.
- Remaining payments would be made by Electronic Funds Transfer (EFT) or check.

We are also seeking to reduce cash payroll payments to Afghan National Security Forces (ANSF).

- One approach is to use more EFT for ANSF payroll.
  - Afghan National Police EFT enrollment rates are up from 39% to 78% over the past 15 months. Afghan National Army rates are up from 27% to 91%.
  - Afghan banking infrastructure is quickly increasing in size but will need to address the following issues in order to effectively accommodate banking expansion:



- More bank tellers at each banking location to expedite customer service throughput;
  - Increased bandwidth to expedite transaction processing time;
  - More generators to protect against electrical outages; and
  - More cash on-hand authority so banks do not run out of money.
- We are working all these issues with the Afghan banking industry, Ministry of Defense and Ministry of Interior.
- Another approach: Make ANSF payroll payments by cell phone where lack of banking access makes EFT difficult.
  - The M-Paisa (pay by phone) initiative was tested on 53 ANP members for ten months beginning July 2009.
  - Reception by those receiving M-Paisa payments was very positive.
    - One recipient said, "I never knew I made this much money."
    - But there was intimidation by individuals who no longer control cash payments paid to ANP. The Afghan Ministry of Interior must hold these "bad actors" accountable.
  - We expanded the test to three districts in March 2010 (about 170 new personnel).

Mitigating corruption and fraud within the contracting community is also a priority.

- There are ongoing efforts, through the Business Development Outreach Program, to train, mentor, and assist local national vendors on how to be legitimate business partners with the United States.
- Several programs have been designed to combat corruption and fraud:
  - There are ongoing efforts to vet non-US contractors before awarding contracts in order to ensure the contractors do not have a history of fraud or are otherwise not eligible for contract awards. Vendor vetting is supported and mandated by GEN Petraeus under Fragmentation Order 08-027.

- The Joint Contracting Command (JCC) has also developed procedures to identify questionable vendor conduct. These procedures include reviewing contract files for missing paperwork, numerous erroneous accounting errors, contracts being awarded to the same vendor, or cyclically awarding to the same vendors. If warranted, the JCC will immediately notify the proper investigative authorities, such as the Army Criminal Investigation Command, and when necessary, the International Contract Corruption Task Force. These organizations will investigate the allegations and forward to appropriate authorities for action.
- The JCC requires a peer review of contract actions between \$25K and \$750K by a contracting officer; those greater than \$750K require policy and legal review. These procedures provide additional assurance that proper procedures and policy are followed.
- Within 30 days of arrival into theater, JCC personnel are required to complete Newcomers Ethics Training and must complete or have completed the annual Department ethics training requirement.
- Contracting officers coach and mentor potential local vendors to explain the procurement process and reinforce the importance of impartiality in order to conduct business with integrity, fairness, and openness.
- The OSD Procurement Fraud Indicators Subcommittee has also developed 49 acquisition and contract-related fraud scenarios and incorporated these scenarios into the contingency contracting handbook and related training courses. These scenarios are used to train contracting officer representatives and auditors so they are aware and cognizant of fraud indicators as well as ways to detect and report potential fraudulent activities.

We will use the USD(AT&L)/USD(C) group to continue to encourage and monitor these initiatives and search for other ways to mitigate corruption risk in Afghanistan.





OFFICE OF THE SECRETARY OF DEFENSE  
1000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1000

INFO MEMO

FOR: SECRETARY OF DEFENSE

FROM: Dr. Ashton B. Carter, Under Secretary of Defense (Acquisition,  
Technology and Logistics)  
Robert F. Hale, Under Secretary of Defense (Comptroller)

BC 5/6/10  
R. Hale 4/26/2010

SUBJECT: Efforts to Mitigate Corruption Risk in Afghanistan

- USD(AT&L) and USD(C) have set up a group to assist with business process improvements in Afghanistan, working closely with personnel in Kuwait and Afghanistan.
  - You asked that we focus on efforts to minimize risks of corruption in Afghanistan.
- Business improvement measures cannot preclude the pervasive socioeconomic corruption that exists in Afghanistan. Transition to "near cashless" business, to the maximum extent possible, and improving contract oversight lowers exposure to corruption risk and fraud and also helps improve internal controls.
- Total in-theater cash payments to Afghan vendors are down sharply, from 39% in October 2008 to 9% in February 2010, because of heavy use of electronic commerce.
  - Total payments to Afghan vendors in December 2009 were \$225.1M USD, with only \$20.9M USD paid in cash.
- We may be able to further reduce cash payments by limiting use of cash in the Commanders' Emergency Response Program (CERP).
  - Currently there are no Department limits on CERP cash payments.
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5/7/2010 11:29:56 AM

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  - One approach is to use more EFT for ANSF payroll.
    - Afghan National Police EFT enrollment rates are up from 39% to 78% over the past 15 months. Afghan National Army rates are up from 27% to 87%.
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      - More bank tellers at each banking location to expedite customer service throughput;
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  - We expanded the test to three districts in March 2010 (about 170 new personnel).
- Mitigating corruption and fraud within the contracting community is also a priority.
  - There are ongoing efforts, through the Business Development Outreach Program, to train, mentor, and assist local national vendors in Iraq on how to be legitimate business partners with the United States.
  - Several programs have been designed to combat corruption and fraud:
    - There are ongoing efforts to vet non-US contractors before awarding contracts in order to ensure the contractors do not have a history of fraud or are otherwise not eligible for contract awards. Vendor vetting is supported and mandated by GEN Petraeus under Fragmentation Order 08-027.
    - The Joint Contracting Command (JCC) has also developed procedures to identify questionable vendor conduct. These procedures include reviewing contract files for missing paperwork, numerous erroneous accounting errors, contracts being awarded to the same vendor, or cyclically awarding to the same vendors. If warranted, the JCC will immediately notify the proper investigative authorities, such as the Army Criminal Investigation Command, and when necessary, the International Contract Corruption Task Force. These organizations will investigate the allegations and forward to appropriate authorities for action.
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- We will use the USD(AT&L)/USD(C) group to continue to encourage and monitor these initiatives and search for other ways to mitigate corruption risk in Afghanistan.

COORDINATION: TAB A

Attachment:  
None

Prepared By: (b)(6) OUSD(C)/DCFO/AFP, (b)(6)  
(b)(6) OUSD(C)/DCFO/AFP, (b)(6)





**THE JOINT STAFF**  
WASHINGTON, DC

Reply ZIP Code:  
20318-0300

DJSM 0219-10  
08 April 2010

**MEMORANDUM FOR THE UNDER SECRETARY OF DEFENSE**  
**(COMPTROLLER/CHIEF FINANCIAL OFFICER)**

**Subject: Efforts to Mitigate Corruption Risk in Afghanistan**

1. Thank you for the opportunity to review and comment on the subject information memorandum.<sup>1</sup> The Joint Staff concurs with the document subject to the incorporation of the enclosed changes.
2. The Joint Staff point of contact is Lieutenant Colonel (b)(6) USA;  
J-8/PBAD; (b)(6)

*Bruce E. Grooms*

**B. E. GROOMS**  
RADM, USN  
Vice Director, Joint Staff

Enclosure

Reference:

- 1 USD(AT&L)/USD(C/CFO) information memorandum, undated, "Efforts to Mitigate Corruption Risk in Afghanistan"

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Withheld pursuant to exemption

(b)(5)

of the Freedom of Information and Privacy Act



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(b)(6)

**Ms OSD COMPT**

**From:** (b)(6) Ms OSD COMPT  
**Sent:** Sunday, March 14, 2010 3:10 PM  
**To:** Nichols, Camille M BG USA JCC-I/A CG  
**Subject:** Re: SUSPENSE: March 19, 2010 - Efforts to Mitigate Corruption Risk in Afghanistan

BG Nichols,

Thank you for the coordination. We will make your requested changes.

(b)(6)

----- Original Message -----

**From:** Nichols, Camille M BG USA JCC-I/A CG  
**To:** (b)(6) Ms OSD COMPT  
**Cc:** (b)(6) Civ JCC-I/A J3 /; (b)(6) CAPT USN JCC IA JCC IA/COS  
**Sent:** Sat Mar 13 13:51:58 2010  
**Subject:** RE: SUSPENSE: March 19, 2010 - Efforts to Mitigate Corruption Risk in Afghanistan

(b)(6) I have attached my coordination sheet as requested. I would like to highlight that the term "near cashless" is a great way to phrase the fact we cannot eliminate cash from the field in Afghanistan. This point is in the action memo but not in the SECDEF Info Memo; request it be added as a point before the CERP section in the SECDEF Info Memo just as it is called out in the Action Memo.

Rationale: the maturity and acceptance of electronic banking in Afghanistan is not to the point of everyone able to get paid in a timely manner - cash has to remain a payment mode.

Thanks, cmn

BG Camille Nichols

CG, JCC-I/A

DSN: (b)(6)

SVOIP: (b)(6)

NIPR: (b)(6)

-----Original Message-----

**From:** (b)(6) Ms OSD COMPT [mailto:(b)(6)]  
**Sent:** Friday, March 12, 2010 5:43 PM

(b)(6)

**Subject:** SUSPENSE: March 19, 2010 - Efforts to Mitigate Corruption Risk in Afghanistan

All,



Attached is a draft package that contains an info memo to the SecDef on "Efforts to Mitigate Corruption Risk in Afghanistan". This package is for CENTCOM, JCC-I/A CG, USARCENT/CFLCC, and CSTC-A J8 formal coordination. Please provide coordination and related comments to me by March 19, 2010.

Please let me know if you have any questions. Thank you for your assistance.

(b)(6)

CPA, CIA, CDFM (YA-3)

Office of the Under Secretary of Defense (Comptroller) Accounting and Finance Policy Crystal Square 4, Suite 201

Email: (b)(6)

Tel:

DSN:

(b)(6)

<<...>>

(b)(6)

**Ms OSD COMPT**

**From:** [REDACTED]  
**Sent:** Wednesday, January 20, 2010 11:09 PM  
**To:** Easton, Mark E DCFO OSD COMPT; Ginman, Richard, SES, OSD-ATL  
**Cc:** (b)(6) CIV, OSD-COMPT; (b)(6) OSD COMPT  
**Subject:** FW: Efforts to Combat Afghan Corruption  
**Attachments:** Info Memo to SecDef-Efforts to Combat Afgahn Corruption.docx; ATT09864.eml (1.28 MB); ATT09866.eml (1.28 MB); Info Memo to SecDef-Efforts to Combat Afgahn Corruption.docx; smime.p7s

Sir, I made a few recommended changes. v/r Phillip

BG Phillip E. McGhee  
Director of Resource Management  
3rd Army/US Army Central/  
Coalition Forces Land Component Command

**DSN:** (b)(6)  
**Comm:** [REDACTED]  
**VOSIP:** [REDACTED]

-----Original Message-----

**From:** Easton, Mark E DCFO OSD COMPT [mailto:(b)(6)]  
**Sent:** Thursday, January 21, 2010 2:43 AM  
**To:** McGhee, Phillip E BG MIL USA USARCENT; Ginman, Richard, SES, OSD-ATL  
**Cc:** (b)(6) CIV, OSD-COMPT; (b)(6) Ms OSD COMPT  
**Subject:** FW: Efforts to Combat Afghan Corruption

Phillip/Dick,

Sharing a very rough draft of an info memo that still needs more work. (b)(6) drafted and I edited it and not sure I added value but have shared with Bob Hale and will await his feedback tomorrow. I would appreciate your feedback in the meantime and will definitely provide anything that I know is going forward. Please take a look and your suggestions for clarity and compression are welcome.

Thanks, Mark

-----Original Message-----

**From:** Easton, Mark E DCFO OSD COMPT  
**Sent:** Wednesday, January 20, 2010 6:40 PM  
**To:** Hale, Robert F Hon OSD COMPT  
**Cc:** Easton, Mark E DCFO OSD COMPT  
**Subject:** FW: Efforts to Combat Afghan Corruption

Bob,

Wanted to show you a draft of a paper on corruption to SECDEF. The phonecall this morning was pretty discouraging in that I'm not sure what we are doing will do much to address the type of corruption that was discussed in the Stars and Stripes article (also attached). Using the continuously improving coverage and quality of the financial information associated with the business we do with locals, Gen McGhee estimates that there is approximately \$400M in exposure to corruption. Much of that is a cost of doing business and they are constantly looking at the various business transaction types (e.g. supply chain, distribution services



etc.) to ensure that while this "cost of doing business" is recognized, they are diligent to measure where we may not always be getting the full goods and services that we have paid for.

I'll share this with him and Dick Ginman as a very rough draft for their comment, and will work to smooth after getting your initial reactions.

VR,Mark

-----Original Message-----

From: (b)(6) Ms OSD COMPT  
Sent: Wednesday, January 20, 2010 12:18 PM  
To: Easton, Mark E DCFO OSD COMPT  
Cc: (b)(6) CIV, OSD-COMPT; (b)(6) Ms, OSD-COMPT  
Subject: Efforts to Combat Afghan Corruption

Sir,

Attached is an info memo on efforts to combat Afghan corruption. Please let us know if you have any questions or require clarification. Thank you.

(b)(6)

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