



*Empowered lives.
Resilient nations.*

29 September 2014

Dear Mr. Sopko,

This refers to your letter dated 12 September 2014 expressing concerns with the administration of the Law and Order Trust Fund for Afghanistan (LOTFA).

The Administrator and I would like to stress again the importance we place on accountability and oversight of the funds entrusted to UNDP and, in particular in the case of LOTFA, overseeing the transfer of payroll funds to the Ministry of Finance for salary disbursements to the Afghanistan National Police.

UNDP fully agrees that preparation of the next phase of LOTFA presents an excellent opportunity for UNDP and all partners to reach a common understanding of accountabilities within LOTFA's payroll process, set common expectations and introduce the notion of risk sharing, taking into account the challenges related to the implementation of this project in a post-conflict scenario. We, therefore, remain committed to continuing close cooperation between our two organizations to improve the transparency and accountability of LOTFA.

I have to reiterate that UNDP's responsibility is restricted to realization of the outputs outlined in the project document which has been agreed with our partners. UNDP has also gone beyond that responsibility in bringing to the attention of the Government of the Islamic Republic of Afghanistan and international partners many issues related to the payroll process outside the parameters of UNDP's responsibility. For example, in the last year, UNDP has brought to the notice of partners: the technical drawbacks and limitations of the payroll process; cooperative tax; pension fund deductions; and non-conformity with the ANP tashkil (Reservist Generals, Standby), to name a few issues. While immediate actions were taken as soon as UNDP became aware of the issues, we have to acknowledge that in some cases there were delays in the discovery of the problems.

Mr. John F. Sopko
Special Inspector General for Afghanistan Reconstruction
SIGAR
Arlington, Virginia



In parallel, UNDP has taken measures to mitigate and improve accountability by creating a technical working group bringing all partners together to discuss and resolve issues pertaining to the payroll process. This has enabled partners to better understand and hold responsible the accountable party, including Government Ministries, for completion of actions to improve the system.

To further minimize the risk of LOTFA funds being used for artificially inflated ANP salaries and “ghost employees”, UNDP has effected improvements to the Electronic Payroll System (EPS) in monitoring and reporting/analysis that will help prevent manipulation of ANP records and wrong use of funds/entitlements; moved to monthly advances from quarterly advances; and added new object codes in consultation with Combined Security Transition Command for Afghanistan (CSTC-A), the Ministry of Interior Affairs (MoIA) and the Ministry of Finance (MoF). After a prolonged negotiation, UNDP succeeded to convince the MOF to give UNDP access to the Afghan Financial Information Management System (AFMIS) which will help UNDP in discharging its responsibility.

UNDP has taken actions to bring transparency to the pension fund deductions and cooperative tax which was terminated from January 2014. In addition, UNDP has taken measures to recover funds that were found to have been made for ineligible expenses. For example, USD 15 million of miscoded and ineligible expenses identified as a result of LOTFA’s direct verification of the payroll expenditures, has been fully deducted from the quarterly cash advances.

Several issues of concern that are outside UNDP remit but are necessary to ensure accountability, transparency and oversight of the funds and payment of salaries, were flagged by UNDP during the LOTFA technical groups and steering committee meetings. For instance, UNDP raised the need for affirmation of responsibility for establishing personnel policy and remuneration, changes in recruitment policy; capacity development and improvement of processes in the Human Resources Directorate; policy and capacity to issue ID cards/Biometrics; validation of bank accounts; and functioning interfaces with Afghanistan Human Resources Information Management System (AHRIMS), EPS and AFMIS or development of a modern Enterprise Resources System for the MoIA that not only provides transparency of payroll but of the complete budget execution. New standard Operating Procedures are needed for MoIA for data entry into the system with accountability and attendance monitoring. Simultaneously, capacity has to be built with the MoIA and other entities of Government of Afghanistan to carry out oversight and independent audit function.



UNDP has been working with partners to raise attention to address these issues through the strengthened governance apparatus since March 2013. UNDP is in the process of contracting an international company, planned to start in October 2014, to conduct a scoping study of the payroll process and provide recommendations to all partners which will guide the preparation of LOTFA Phase VII scheduled to start in January 2015. The recommendations from the scoping study will bring partners together in improving the payroll process and suggest further improvements on the way forward.

We are compiling the detailed information and clarifications which will address the inquiries raised in your letter. We aim to send to your office in two weeks' time the documents and information you have requested in so far they are within our authority. In the meantime, please do not hesitate to contact me for further information or clarification.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'E. Casar'.

María Eugenia Casar

cc: Mr. Haoliang Xu
Assistant Administrator and Director
Regional Bureau for Asia and the Pacific, UNDP

Mr. Nicholas Rosellini
Deputy Assistant Administrator and
Deputy Regional Director
Regional Bureau for Asia and the Pacific, UNDP

Mr. Mark Bowden
Deputy Special Representative of the Secretary General – UNAMA
UN Resident and Humanitarian Coordinator – Afghanistan