



Highlights of [GAO-05-681](#), a report to Committee on Armed Services, U.S. Senate

Why GAO Did This Study

The Department of Defense (DOD) is responsible for ensuring that U.S. contractors safeguard classified information in their possession. DOD delegates this responsibility to its Defense Security Service (DSS), which oversees more than 11,000 contractor facilities that are cleared to access classified information. Some U.S. contractors have foreign connections that may require measures to be put into place to reduce the risk of foreign interests gaining unauthorized access to classified information.

In response to a Senate report accompanying the National Defense Authorization Act for Fiscal Year 2004, GAO assessed the extent to which DSS has assurance that its approach provides sufficient oversight of contractors under foreign ownership, control, or influence (FOCI).

What GAO Recommends

GAO recommends that DOD direct DSS to improve data collection and analysis of FOCI transactions and protective measures and direct DSS to systematically assess the effectiveness of the FOCI process to reduce risk of foreign interests gaining unauthorized access to classified information. DSS should formulate a human capital strategy and plan to evaluate whether its staff need better information, training, and tools to perform FOCI responsibilities. DOD did not concur with our recommendations and stated the process is sufficient.

www.gao.gov/cgi-bin/getrpt?GAO-05-681.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Ann Calvaresi-Barr at (202) 512-4841 or calvaresibarra@gao.gov.

INDUSTRIAL SECURITY

DOD Cannot Ensure Its Oversight of Contractors under Foreign Influence Is Sufficient

What GAO Found

DSS's oversight of contractors under FOCI depends on contractors self-reporting foreign business transactions such as foreign acquisitions. As part of its oversight responsibilities, DSS verifies the extent of the foreign relationship, works with the contractor to establish protective measures to insulate foreign interests, and monitors contractor compliance with these measures. In summary, GAO found that DSS cannot ensure that its approach to overseeing contractors under FOCI is sufficient to reduce the risk of foreign interests gaining unauthorized access to U.S. classified information.

First, DSS does not systematically ask for, collect, or analyze information on foreign business transactions in a manner that helps it properly oversee contractors entrusted with U.S. classified information. In addition, DSS does not collect and track the extent to which classified information is left in the hands of a contractor under FOCI before measures are taken to reduce the risk of unauthorized foreign access. During our review, we found instances in which contractors did not report foreign business transactions to DSS for several months. We also found a contractor under foreign ownership that appeared to operate for at least 6 months with access to U.S. classified information before a protective measure was implemented to mitigate foreign ownership.

Second, DSS does not centrally collect and analyze information to assess its effectiveness and determine what corrective actions are needed to improve oversight of contractors under FOCI. For example, DSS does not know the universe of all contractors operating under protective measures, the degree to which contractors are complying overall with measures, or how its oversight could be strengthened by using information such as counterintelligence data to bolster its measures.

Third, DSS field staff face a number of challenges that significantly limit their ability to sufficiently oversee contractors under FOCI. Field staff told us they lack research tools and training to fully understand the significance of corporate structures, legal ownership, and complex financial relationships when foreign entities are involved. Staff turnover and inconsistencies over how guidance is to be implemented also detract from field staff's ability to effectively carry out FOCI responsibilities.