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Report to Congressional Committees

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COOPERATIVE THREAT REDUCTION

DOD Has Adequate Oversight of Assistance, but Procedural Limitations Remain

GAO-01-694

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

June 19, 2001

The Honorable Carl Levin
Chairman
The Honorable John Warner
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Bob Stump
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

Since 1992, the Congress has authorized the Department of Defense (DOD) to provide more than $3 billion for the Cooperative Threat Reduction (CTR) program to help Russia, Belarus, Ukraine, Kazakhstan, Uzbekistan, Moldova, and Georgia secure and eliminate weapons of mass destruction. The Congress was concerned about proper oversight of equipment and services provided under the program and required DOD to report annually on whether the assistance provided was being used as intended.[1] Initially, the program primarily provided equipment, such as cranes and railcars, to the recipient countries, but it has since evolved to a program that provides mostly contracted services, such as the design and construction of a fissile material storage facility.

Section 1311 of the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (P.L. 106-398) requires that we report on DOD's oversight of the CTR program. Accordingly, we assessed (1) whether the Department's oversight procedures produce the necessary information to determine if the threat reduction assistance, including equipment provided and services furnished, is being used as intended and (2) whether improvements can be made in the way the Department carries out its oversight responsibilities. Also, section 1206 of the National Defense

[1]The provisions of section 1206 of the National Defense Authorization Act for Fiscal Year 1996, which required DOD to provide an annual report to the Congress accounting for CTR assistance, were replaced by section 1308 of the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001.

Authorization Act for Fiscal Year 1996 required that we provide assessments of DOD's annual reports accounting for the assistance provided under the CTR program.[2] Our assessment of DOD's 1999 report that was submitted to the Congress in January 2001 is in appendix I.[3]

Results in Brief

DOD has procedures in place that provide reasonable assurance that most of the assistance provided—at least 95 percent—is being used as intended and is adequately accounted for, given negotiated access limitations. The three primary procedures for determining if equipment and services provided under the CTR program are being used as intended are as follows: (1) ongoing day-to-day program management activities, (2) periodic audit and examination team visits, and (3) routine analysis of intelligence information. Notwithstanding these procedures, our analysis indicated that because of access restrictions imposed by the Russian government, a limited amount of equipment—less than 5 percent of the total value of assistance provided—is in locations where access by U.S. personnel is not permitted. The United States, for example, is not provided access to the Russian sites where the equipment associated with the storage and transportation of nuclear warheads is located. Because the recipient governments require DOD to give 30-days notice and receive preapproval for almost all visits to sites, and the Department is sometimes denied access to sites where CTR assistance is located, the Department has reasonable but not absolute assurance that most assistance is used as intended or that it is used only for the purposes intended.

Our evaluation indicated that DOD can enhance the quality of its program oversight function by better targeting and expanding the scope of its formal audit and examination procedure. As currently conducted, audit and examination site visits provide minimal information to DOD in addition to that already provided through the other two procedures. We found that during the audit and examination visits, DOD personnel essentially conducted an inventory of equipment, frequently duplicating equipment verification already performed by program management visits.

[2]Previous GAO reports include *Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Assistance Can Be Improved* (NSIAD-95-191, Sept. 29, 1995); *Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Assistance Has Improved* (NSIAD-97-84, Feb. 27, 1997); *Cooperative Threat Reduction: Review of DOD's June 1997 Report on Assistance Provided* (NSIAD-97-218, Sept. 5, 1997); and *Cooperative Threat Reduction: DOD's 1997-98 Reports on Accounting for Assistance Were Late and Incomplete* (GAO/NSIAD-00-40, Mar. 15, 2000).

[3]See section 1206 of P.L. 104-106 and section 1308 of P.L. 106-398.

Audit and examination visits do not assess the efficiency or effectiveness of the projects receiving U.S. assistance. Although this approach may have been adequate during the early phase of the program when assistance consisted primarily of equipment, the program now provides primarily contracted services that can be overseen through the program management function supplemented by intelligence information. Nonetheless, audit and examination visits are provided for under bilateral agreements with recipient governments and offer an opportunity to more routinely assess project efficiency and effectiveness. Thus, targeting such visits to assistance not fully covered by program management and enlarging their scope to include evaluations of project efficiency and effectiveness would enhance the DOD's overall program oversight.

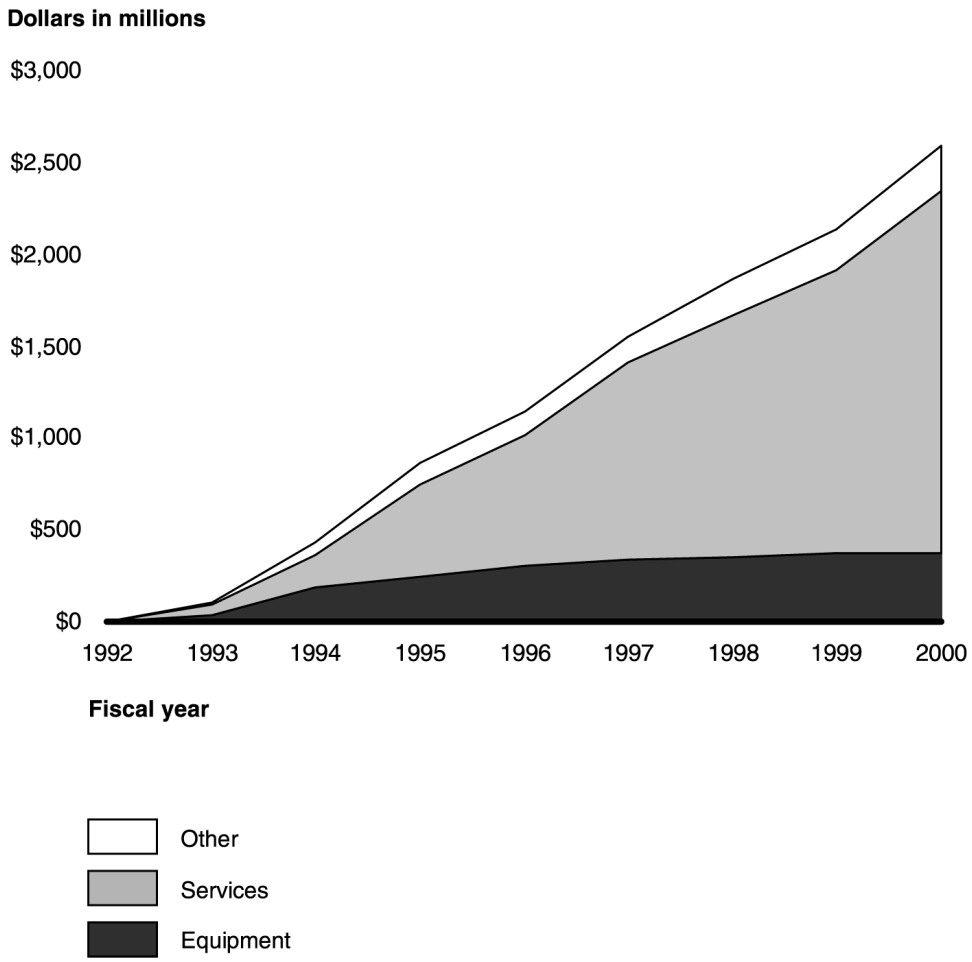
Accordingly, we recommend that the Secretary of Defense better target audit and examination visits to avoid unnecessary duplication of coverage, but expand the scope of such visits to include assessments of projects on the basis of well-defined criteria.

Background

Since 1992, DOD has obligated more than $2.5 billion of the over $3 billion the Congress has appropriated to help CTR recipient countries destroy weapons of mass destruction, transport and store weapons to be destroyed, and prevent weapons proliferation. Early in the program, CTR assistance was largely provided to recipient countries in the form of equipment, such as cranes, trucks, and cutting tools. As the program matured, most of the assistance provided was in the form of services, such as the dismantlement of Russian nuclear submarines that are contracted for or provided by the CTR program to recipient countries. Additionally, other costs have been associated with the program, such as travel expenses, the defense and military contacts program,[4] and contractor support. Figure 1 shows the level and types of assistance provided from fiscal years 1992 through 2000.

[4]The defense and military contacts program consists of training exercises, conferences, and other activities.

Figure 1: Cumulative CTR Obligations, Fiscal Years 1992-2000



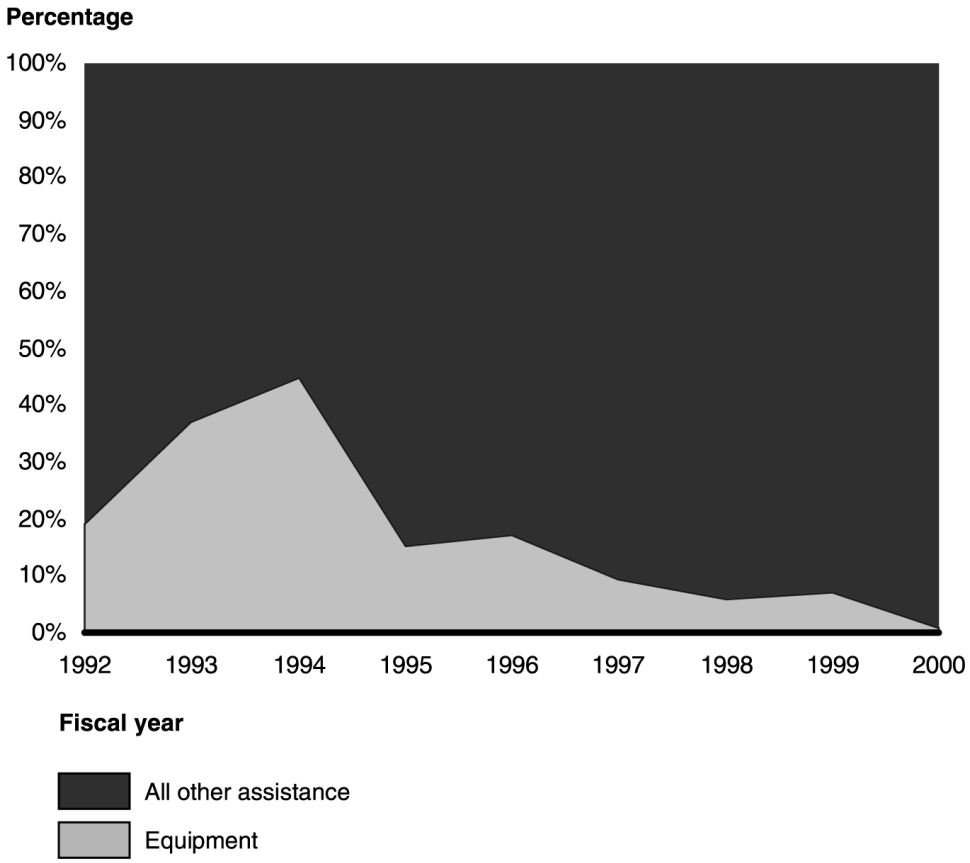
Source: Defense Threat Reduction Agency.

In 1992, DOD began providing equipment to recipient countries for use in destroying weapons of mass destruction and improving the infrastructure needed to destroy these weapons. By the mid-1990s, DOD began to hire U.S. companies to coordinate and integrate the destruction of the recipient countries' weapons of mass destruction because these countries claimed they could no longer afford to complete the work and were falling behind schedule. When work is undertaken at sensitive facilities where access is limited or denied, DOD often contracts directly with recipient country contractors.

DOD uses the following three basic procedures to provide oversight and maintain accountability for CTR assistance: (1) audit and examination team visits, (2) routine program management, and (3) intelligence analysis. At the start of the CTR program, bilateral agreements were signed with recipient countries that established the United States' right to determine if assistance is being used for its intended purposes. To implement its rights under these agreements, DOD initially developed what it calls "audit and examination" procedures to account for CTR-provided equipment. Under these procedures, a DOD team documents equipment condition and use by visiting sites to inspect the equipment and reviewing documents to determine its use, a process of essentially taking an inventory of equipment provided under the program. CTR assistance provided in the form of service contracts is generally overseen and accounted for under the program management function. Program management entails the continual involvement of DOD officials throughout the life of the project to ensure proper use of all services and training before payment, in accordance with Federal Acquisition Regulations. All contracts for services with recipient countries are awarded on a firm-fixed-price basis; that is, contract milestones must be met and work accepted by a U.S. government representative before payment is authorized. The Defense Contract Audit Agency reviews all contract costs and conducts audits of U.S. contractors involved with the CTR program. To compliment its audit and examination and program management oversight, DOD also uses information provided by the intelligence community to account for CTR assistance.

Initially, much of the CTR assistance provided consisted of equipment, whereas now the vast majority of assistance is provided in the form of contracted services. As illustrated in figure 2, in 1994, 45 percent of CTR assistance provided was equipment compared with less than 1 percent in 2000.

Figure 2: Percentage of CTR Obligations Provided as Equipment and All Other Assistance, Fiscal Years 1992-2000



Source: Defense Threat Reduction Agency.

DOD Has Procedures To Provide Reasonable Assurance of Accountability for CTR Assistance

DOD has procedures in place to obtain the information necessary to provide reasonable, but not absolute, assurance that most CTR assistance is used for the purpose intended. Through program management, audit and examination procedures, and intelligence analysis, our analysis indicated that DOD can reasonably account for at least 95 percent of the total program dollars provided to recipient countries. Using these methods, DOD obtains a variety of information, including documentary, visual, testimonial, and photographic evidence, that it then uses to compile its annual accounting report to the Congress. The 5 percent or less of the total value of assistance provided for which DOD cannot give reasonable assurance that it is being used for the purposes intended generally consists of equipment located at sites where DOD's access is restricted or denied.

(See app. I for information on DOD's 1999 report accounting for CTR assistance.)

Procedures Used to Account for CTR Assistance

Through program management, audits and examinations, and intelligence analysis, DOD can account for most of the total program dollars provided to recipient countries. As illustrated in figure 1, approximately $2.2 billion of the $2.5 billion of CTR assistance obligated has been in the form of services and other activities, with the remaining $340 million of assistance provided in the form of equipment. Our review shows that DOD maintains effective accountability for services, other activities, and some equipment through its program management and intelligence analysis. However, the inability to view all equipment, particularly at those sites where Russia does not allow U.S. personnel access, precludes DOD from determining that all equipment is being used for the intended purpose. Our analysis showed that a limited amount of equipment—less than 5 percent of the total value of CTR assistance provided—is in locations where U.S. personnel have no access rights or do not visit. Although DOD has used these procedures to account for CTR assistance since the program began, we found that, in the past, DOD officials did not routinely document the results of their program management visits. DOD has strengthened its procedures for documenting information collected through its program management efforts, which is extremely important now that the vast majority of new CTR assistance is in the form of services, whose accountability primarily relies on program management.

Program Management

DOD partially accounts for CTR assistance through program management, which provides oversight of the majority of CTR assistance. In managing their projects, CTR program officials make frequent visits to recipient countries. Through these site visits, they observe the use of CTR-provided equipment, monitor contract performance and schedule, and inspect and accept the work performed, in addition to discussing technical and programmatic issues with recipient country officials. DOD has recently developed a reporting system to capture these activities more systematically. Since implementing the system at the start of fiscal year 2001, 70 program management visits were conducted through the end of February 2001; 69 of these visits have been documented. Thirteen visits included inspecting and accepting the work performed, and 30 visits included the inspection of CTR-provided equipment and materials, among other activities performed.

Additionally, program managers obtain information from the U.S. contractors that manage some of the projects and maintain CTR-provided equipment. Project managers obtain the status of projects from contractors responsible for managing entire projects. For example, the U.S. contractor for the construction of the Security Assessment Training Center at Sergiev Posad, Russia, maintains U.S. nationals on site to directly oversee ongoing work. Contractor personnel provide weekly status reports and meet frequently with CTR project officials. When we visited Sergiev Posad in January 2001, we observed the interaction between contractor personnel and program officials regarding the construction of a small arms training facility and the testing of various security systems. For example, figure 3 shows several types of vehicle security gates provided through CTR assistance. These gates are tested by U.S. and Russian personnel at the facility to determine which equipment best meets requirements for upgrading security at Russian nuclear storage facilities.

Figure 3: Security Assessment and Training Center in Sergiev Posad, Russia

Note: This photograph contains three vehicle gates, part of one is to the immediate right, the second one is the two large structures to the left and right, and the third has a bar gate that is in the open position on the right. These vehicle gates are not just barriers; they also have sensor components.

Source: GAO.

DOD also has one U.S. contractor providing logistics and maintenance support for all CTR-provided equipment. This contractor has recently developed the Electronic Information Delivery System that tracks equipment location, value, and maintenance. The system also monitors the number of contractor visits scheduled, completed, and denied to the sites where equipment is located. The database is available to program officials through the Internet. Program officials can obtain reliable information from their various contractors on how CTR assistance is used.

Audits and Examinations

DOD personnel conduct audit and examination visits on the basis of formal agreements and procedures with recipient countries. Audit and examination teams essentially take an inventory of CTR-provided equipment to verify location and use for the annual accounting report; however, the teams do not assess the projects' efficiency or effectiveness. For calendar year 2000, DOD scheduled 23 audits and examinations, of which 14 were conducted. The remaining nine were either cancelled or postponed, primarily due to difficulties with the Russians concerning the agreement governing audit and examination procedures. However, CTR program officials stated that they had full confidence that the equipment meant to be inventoried by the audit and examination teams was being used as intended as the result of their program management procedures.

The selection of which projects, sites, and equipment will undergo an audit and examination is judgmental and is based on the risk of equipment loss, misuse, or diversion; the estimated dollar value of the equipment; the date of the last audit and examination of that project; and the site's accessibility. DOD officials, however, could not always specify the rationale used in scheduling audits and examinations.

Audit and examination team leaders determine the specific sites to be visited and equipment to be inventoried on the basis of program manager and contractor input; however, the decision is subject to director approval. Audit and examination teams, through visual inspection and record reviews, annually inventory a selection of CTR-furnished equipment to ensure its proper location and use. The information obtained through audits and examinations varies from project to project, depending upon the implementing agreements with recipient countries. For example, we observed DOD officials conduct two audits and examinations in Russia. One consisted of visiting a site where CTR-provided equipment was located, meeting with the officials who used the equipment, conducting a complete inventory of high-value equipment, and reviewing training documents. Figure 4 shows the Reutov Business Development Center, where we observed an audit and examination team examine about

$270,000 worth of CTR-provided office equipment. The other audit and examination compared detailed photographs, taken by recipient country officials, of CTR-provided equipment with inventory lists provided by DOD and the recipient country. Although the DOD officials who conducted these audit and examination visits verified that equipment provided through the CTR program was in place, the officials did not assess whether the projects examined were conducted in an efficient manner, or whether they were effectively meeting the objectives of the CTR program, because such assessments were not part of the scope of work of the audit and examination teams.

Figure 4: Reutov Business Development Center, Russia

Note: This is a photograph of the Reutov Business Development Center, where we observed an audit and examination team inventory about $270,000 worth of CTR-provided office equipment.

Source: GAO

Intelligence Analysis

The Weapons Intelligence, Nonproliferation, and Arms Control Center provides intelligence analysis to the CTR program. The center's staff analyzes information obtained from across the intelligence community regarding CTR-provided assistance. Its assessments supporting CTR accountability are included in a classified annex to DOD's annual accounting report. The center's assistance also includes briefings to

program and project managers when needed, assessments of ways in which potential CTR projects could enhance recipient countries' military forces, studies of current events and trends, and information helpful in negotiating and implementing projects.

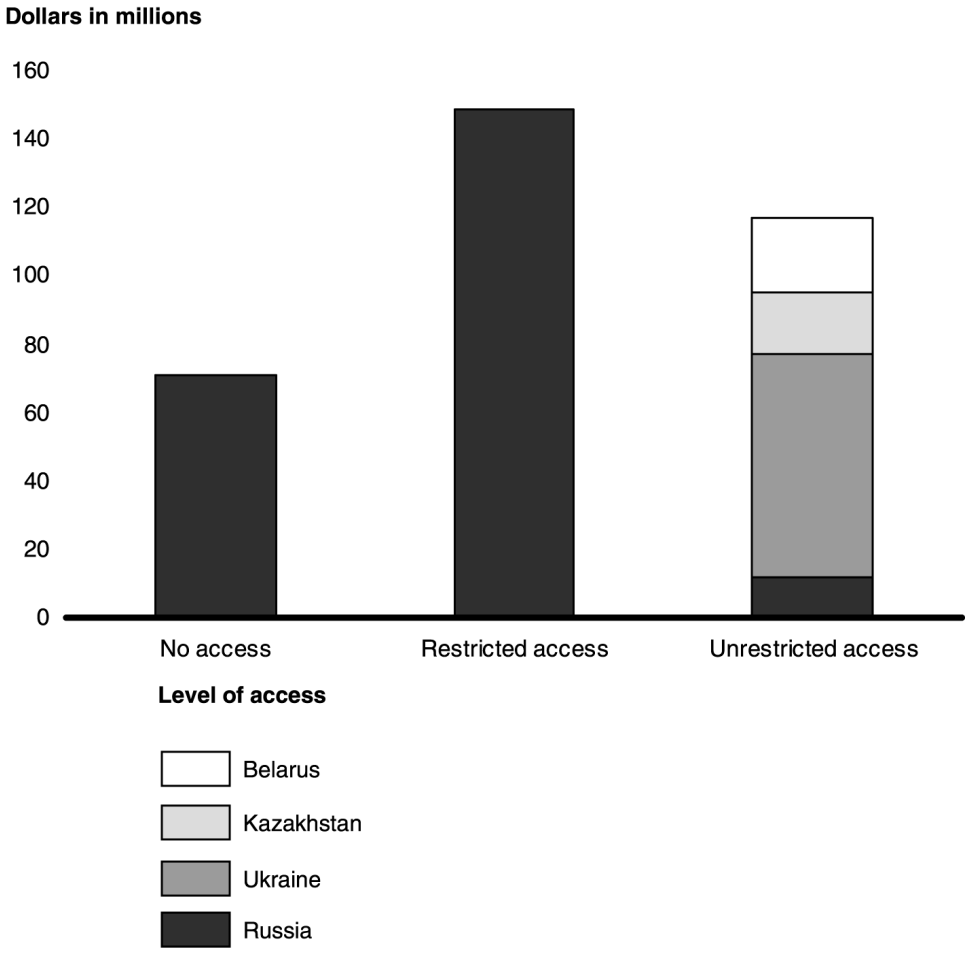
DOD Does Not Have Full Access to All Sites Where Equipment Is Located

DOD's inability to gain access to all sites in some recipient countries where CTR-provided equipment is located has been an issue since the CTR program began in 1992. The U.S. government has been concerned about its ability to examine the use of the equipment, while recipient countries have had security concerns regarding U.S. access to sensitive facilities. In an effort to balance these concerns, bilateral agreements were signed to provide the United States with the general right to audit CTR assistance, but separate agreements were also required specifying the procedures by which the United States can audit individual projects. For example, all audit and examination team visits require a 30-day notice of the audit before arrival of the team and are limited to no more than three visits per calendar year, per project. Due to the extreme sensitivity of nuclear weapon storage sites, Russia did not agree to provide U.S. personnel with access to those sites. Thus, a separate agreement was negotiated to provide photographic audits rather than on-site visits to account for the use of CTR-provided assistance. This agreement stipulates that recipient country officials, after meeting with the audit and examination team, use CTR-provided cameras and film to photograph equipment at sites where U.S. officials are denied access. The team provides the country officials with specific guidance on how to photograph the equipment as well as a unique identifier that must be included in all photographs. Recipient country officials then provide the photographs to the awaiting audit and examination team for review. The team compares the CTR-provided equipment in the photographs with inventory lists maintained by DOD and the recipient country.

Although the level of access varies among CTR projects, nearly all CTR program-related visits must be preapproved by recipient countries. Certain types of documents, such as visas, are required of all visitors. We have grouped the level of access to sites where $340 million worth CTR equipment has been provided into the following three categories: (1) those sites where no access is provided to U.S. personnel, although audits and examinations are performed through alternative methods; (2) those sites where audits and examinations are not performed due to the absence of administrative arrangements but where program managers have access to the project sites (restricted access); and (3) those sites where access has not been denied to either audit and examination teams or project

managers (unrestricted access).[5] Figure 5 shows the value of CTR equipment by recipient country and level of access.

Figure 5: Value of CTR Equipment Impacted by Recipient Country and Level of Access



Note: Georgia also received about $700,000 worth of CTR equipment that falls within the category of unrestricted access. Russia received $3.1 million of equipment for a program that has been completed and is no longer subject to program management or audits and examinations. Moldova and Uzbekistan have not received any equipment.

Source: GAO analysis on the basis of Defense Threat Reduction Agency data.

[5]Information is current through April 30, 2001.

United States officials are not provided access to the Russian sites where the equipment associated with the storage and transportation of nuclear warheads is located. In some cases, equipment such as the U.S.-provided railcars used to transport warheads is delivered to alternate locations for review by U.S. government officials. In other cases, such as for the equipment at warhead storage sites, U.S. government officials are provided with time-stamped photographs of the equipment to account for its use. For example, figure 6 is a photograph of a supercontainer that was used to transport nuclear weapons. The photograph was taken during the January 2001 audit and examination of equipment at Russian nuclear weapons storage sites. DOD accepted the photograph as proof that the equipment was located at a nuclear weapons storage site where U.S. personnel were denied access.

Figure 6: Example of a Photograph Russia Provided to an Audit and Examination Team in January 2001

Note: This is a photograph of a supercontainer that was used for transporting nuclear weapons, with the DOD identifier taped on the side.

Source: Department of Defense.

Audit and examination teams have restricted access to sites containing equipment designed to help the Russians eliminate their strategic nuclear

delivery systems—that is, heavy bombers, intercontinental ballistic missiles, and submarine launched ballistic missiles—and the safe storage of fissile materials. Although program managers usually have access to those sites where such equipment is located, the Russian government has denied access to CTR audit and examination teams since 1999, even though DOD considers this a violation of Russia's obligations under the bilateral agreements. DOD officials said that they are working with the Russian government, primarily the Ministry of Atomic Energy, to negotiate a mutually acceptable arrangement to promote the continuation of audits and examinations.

The final category covers CTR equipment provided to recipient countries where access has not been routinely denied to audit and examination teams and project managers. This equipment ranges from that used to destroy chemical weapons in Russia to that used to eliminate strategic nuclear delivery vehicles in Ukraine and Kazakhstan. However, recipient countries must preapprove virtually all visits to sites where CTR assistance is located, and, occasionally, project managers and audit and examination teams are denied access to CTR-provided equipment. For example, during a September 2000 audit and examination of export control equipment in Kazakhstan, team members were denied access to two buildings for security concern reasons. Furthermore, some contractor personnel have been denied access to recipient country facilities that are normally open to U.S. personnel. From May 2000 through April 2001, the CTR logistics support contractor scheduled 361 site visits to repair and maintain CTR-provided equipment, but in 9 cases, the requests were denied. All nine denials were at sites in Russia involving the elimination of strategic offensive arms.

DOD Can Improve Its Audit and Examination Procedure to Better Oversee CTR Assistance

DOD could improve the quality of its program oversight function by better targeting and expanding the scope of its audit and examination procedure. Audits and examinations have become less useful in accounting for CTR assistance because they frequently duplicate what program managers do on a routine basis, and, as currently conducted, the reviews simply consist of taking equipment inventories. As the CTR program has changed from providing equipment to providing contracted services, audits and examinations have not evolved to include assessments of the effectiveness or efficiency of the services provided.

Many audits and examinations conducted in 2000 appear to provide little value in accounting for CTR assistance beyond the information already provided through program management and intelligence analysis. Of the

13 audits and examinations scheduled for Russia in calendar year 2000, 7 did not take place. However, CTR officials we interviewed stated that it did not matter that these audit and examinations were not conducted because the officials could account for their projects without the information supplied by audits and examinations. The officials said they had sufficient data available from program management and intelligence analysis to provide reasonable assurance on the use of equipment. Figure 7 is a photograph used to inventory CTR-provided equipment at a Russian nuclear weapons storage site. DOD accepted this photograph as proof that U.S.-provided equipment was located at the site where U.S. personnel were denied access.

Figure 7: CTR-Provided Russian Firetruck and Minitractor

Note: This is a photograph of U.S.-provided equipment located at a site where DOD personnel have no access.

Source: Department of Defense.

Our analysis indicated that audit and examination visits often duplicated equipment verification already performed and documented through program management. For example, in October 2000, a project manager visited a strategic nuclear arms elimination site in Ukraine and documented his observation of CTR-provided equipment, including 16 of

33 dump trucks. Later, in December, an audit and examination team visited the same site and inventoried the same equipment, but this time observed 17 of 33 trucks. During both visits, the remaining trucks were accounted for through a review of records.

Although DOD officials acknowledged that audits and examinations, as currently conducted, provide little additional value, they believe that these procedures should continue to be used to account for CTR assistance. The officials commented that the United States should maintain its right to audit and examine CTR-provided assistance as stated in the bilateral agreements with the recipient countries but added that the scope of audits and examinations could be expanded to encompass more than simply taking an inventory of equipment. The results of a recent DOD Inspector General audit of CTR assistance support the concept of broader reviews.[6] For example, the report raised no issues regarding the accountability of assistance but did raise concerns regarding the efficiency of some CTR projects. Specifically, DOD officials questioned how recipient countries would use funds generated by salvageable materials from the elimination of weapons of mass destruction. Furthermore, with the help of the Defense Systems Management College, DOD officials are reviewing CTR program management processes to see if they can be strengthened.

Conclusions

DOD has procedures in place that provide reasonable assurance that most assistance is used for its intended purpose; however, DOD's inability to gain access to some sites preclude it from collecting sufficient evidence to ensure that all CTR-provided assistance is used only for the purposes intended. DOD has developed and begun implementing new procedures for documenting the methods it uses to collect data regarding CTR assistance. Specifically, information obtained from the recently developed reporting system to capture program manager trip activities and the Electronic Information Delivery System for tracking CTR-provided equipment could improve the quality of future accounting reports. Given the program's transition from providing equipment to providing services, most of the audits and examinations conducted in 2000 appear to lack value beyond that provided by program management and intelligence analysis.

[6]Office of the Inspector General Department of Defense Audit Report, *Cooperative Threat Reduction Program*, Report No. D-2001-074, March 9, 2001.

By restructuring and better targeting audits and examinations, DOD would have a more valuable tool to oversee and account for CTR assistance. This may mean doing fewer audits and examinations, but expanding the scope of such audits and examinations to include assessments of projects' effectiveness and efficiency, including the delivery of services. Currently, there are no well-defined criteria for targeting audits and examinations.

Recommendation for Executive Action

To improve DOD's accounting of CTR-provided assistance, we recommend that the Secretary of Defense strengthen audit and examination procedures by

- developing criteria to target audits and examinations at the most vulnerable CTR projects, such as those least accounted for through other means; and
- expanding the scope of audits and examinations from simply taking an inventory of equipment provided under the program to assessing the effectiveness and efficiency of CTR assistance, including contracted services.

Agency Comments

DOD's Defense Threat Reduction Agency commented on a draft of this report and agreed with our findings and our recommendation to enhance the quality of its oversight of the Cooperative Threat Reduction Program. In discussing how it plans to implement our recommendation, DOD said it has developed a methodology to better target audits and examinations at the most vulnerable CTR projects, such as those least accounted for through other means. The methodology includes calculating a weighted risk factor for each CTR project based on 10 criteria. (See appendix II for more details.) By applying these criteria to each project, program officials can better target which audits and examinations to conduct. In addition, DOD officials plan to expand the scope of audits and examinations to periodically assess the effectiveness and efficiency of CTR assistance, including contracted services. DOD did not specify, however, how and when such measures would be incorporated into its CTR audit and examination process.

Scope and Methodology

On the basis of the legislative mandate, our objectives were to assess (1) whether DOD's oversight procedures produce the necessary information to determine if the threat reduction assistance, including equipment provided and services furnished, is being used as intended and (2) whether improvements can be made in the way DOD carries out its oversight responsibilities.

To accomplish our objectives, we examined DOD's scope, procedures, and mechanisms for collecting and analyzing data used to account for the use of CTR assistance; determined what data DOD uses to report on whether CTR assistance is being used for the purpose intended; and reviewed how much of the equipment and services DOD actually accounts for. Specifically, we interviewed Defense Threat Reduction Agency officials, CTR policy officials, and CTR contractors responsible for DOD's CTR accounting reports. We interviewed four of the six primary program managers and several project managers, particularly those who had audit and examination visits for their programs cancelled. We interviewed five of the eight audit and examination team leaders. We also met with officials from the Weapons Intelligence, Nonproliferation, and Arms Control Center to obtain information on certain CTR projects and on how the intelligence community supports CTR program accounting efforts.

We reviewed program management trip reports, weekly reports, quarterly program reviews, and other program documents. We were given a demonstration and were provided documentation of the newly developed Electronic Information Delivery System, which is a contractor-based logistics and maintenance support database. We also spoke with U.S. contractors working in Russia. We accompanied a Defense Threat Reduction Agency audit and examination team on two audits and examinations in Russia from January 19, 2001, to February 1, 2001. Additionally, we reviewed all audit and examination trip reports for 1999 and 2000. We met with and obtained documentation from officials in the DOD Inspector General's Office who had recently examined several CTR projects.

We also reviewed DOD's annual accounting report for 1999 to determine whether the Department had met the legislative requirements of section 1206 of the National Defense Authorization Act for Fiscal Year 1996. See appendix I for our analysis.

We performed our work from October 2000 through May 2001 in accordance with generally accepted government auditing standards.

We are providing copies of this report to other interested congressional committees and the Secretary of Defense. We will make copies available to others upon request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Key contributors to this assignment were F. James

Shafer, Hynek Kalkus, Beth Hoffman León, Martin DeAlteriis, and Lynn Cothern.

Harold J. Johnson
Director, International Affairs and Trade

Appendix I: Review of the Department of Defense's 1999 Report Accounting for CTR Assistance

As required by section 1206 of Public Law 104-106, we reviewed the Department of Defense's (DOD) 1999 accounting report to determine if it (1) contained current and complete data on the Cooperative Threat Reduction (CTR) assistance provided (both equipment and services), (2) described how CTR-provided assistance was accounted for and used, (3) provided a description of how DOD plans to account for the assistance during the following year, and (4) listed specific information on Russia's arsenal of tactical nuclear warheads.[1]

On the basis of our review, DOD's 1999 accounting report covered the legislatively mandated information, yet it did not always convey the information completely and consistently. Specifically:

DOD's 1999 accounting report contained current and complete data on a little over two-thirds of all CTR assistance provided to the recipient countries through September 1999. According to DOD officials, the monies not accounted for in the report were spent on equipment purchased in country; equipment purchased in the United States but not yet shipped; and "other" CTR program costs, such as travel, shipment of equipment, military-to-military contacts, and Defense Threat Reduction Agency contractors. The report lists equipment totaling $314 million, services totaling $1.1 billion, and miscellaneous items totaling almost $16 million, for a combined total of nearly $1.5 billion worth of assistance. By the end of fiscal year 1999, however, the CTR program had provided over $2.1 billion of assistance to the recipient countries. The report lists some of the equipment that was purchased in recipient CTR countries, but it does not distinguish between that equipment and equipment shipped from the United States. According to CTR officials, the draft 2000 accounting report will provide more information about equipment purchased in recipient countries for that year. The 1999 report also included a listing of about $27 million in CTR equipment that DOD provided to recipient states during a 3-month period in 1997 that the 1998 accounting report excluded.

[1]Previous GAO reports include *Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Assistance Can Be Improved* (NSIAD-95-191, Sept. 29, 1995); *Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Assistance Has Improved* (NSIAD-97-84, Feb. 27, 1997); *Cooperative Threat Reduction: Review of DOD's June 1997 Report on Assistance Provided* (NSIAD-97-218, Sept. 5, 1997); and *Cooperative Threat Reduction: DOD's 1997-98 Reports on Accounting for Assistance Were Late and Incomplete* (GAO/NSIAD-00-40, Mar. 15, 2000).

In its 1999 accounting report, DOD described how CTR-provided assistance was accounted for and used. Specifically, DOD explained the methods it used to account for CTR-provided equipment—audits and examinations, program management trips, and intelligence obtained through national technical means. The 1999 accounting report listed where the equipment was located at the time of the report and described the value of contractor services provided for each project. Although the report usually provided summary assessments of whether the equipment at the various projects was being used for its intended purposes, it did not detail the services provided and often did not specifically assess whether such services were satisfactory. DOD officials acknowledged that this was the situation but explained that they judged the amount of information on contractor services to be sufficient. Unlike the 1998 report, the 1999 accounting report summarized how the Departments of State and Energy account for their CTR-funded projects and referred the reader to reports submitted by these departments that detail how the assistance was accounted for.[2]

The 1999 accounting report provided a description of how DOD plans to account for the assistance in fiscal year 2000.[3] Although DOD had planned to conduct 23 audits and examinations during the fiscal year, it only conducted 14. The remaining nine were either cancelled or postponed due to difficulties with the Russians concerning the agreement governing audit and examination procedures.

DOD's 1999 accounting report did not list specific information on Russia's arsenal of tactical nuclear warheads as required by section 1312 of the National Defense Authorization Act for Fiscal Year 2000. However, DOD provided this information in a separate report sent to the Congress on January 9, 2001.

DOD's 1999 report accounting for CTR assistance, like its five predecessors, was submitted late to the Congress. The report was due on January 31, 2000, but was not issued to the Congress until January 17,

[2]Future CTR accounting reports to the Congress will only provide accounting assurances for those projects DOD supports through the International Science and Technology Center. As CTR funds are no longer provided to the Department of Energy's Material Control Accounting and Physical Protection Program, Energy will directly report its accounting efforts to the Congress.

[3]See section 1206 of P.L. 104-106.

2001—a delay of almost 12 months. DOD officials attributed the delay to a prolonged internal review process and to the fact that CTR policy officials revised the draft report, late in the review process, to incorporate the recommendations contained in our March 2000 report. The Department's delay prevented the Congress from knowing the status of CTR-provided assistance while members were considering CTR program funding levels for fiscal year 2001.

Appendix II: Comments From the Department of Defense

Defense Threat Reduction Agency
8725 John J Kingman Road MS 6201
Ft Belvoir, VA 22060-6201

JUN 6 2001

Mr. Harold Johnson
Director, International Affairs and Trade
United States General Accounting Office
Washington, DC 20548

Dear Mr. Johnson:

This is in response to the draft General Accounting Office (GAO) Report (GAO-01-694), "Cooperative Threat Reduction, DOD Has Adequate Oversight of Assistance, but Procedures Could Be Better Targeted."

The Defense Threat Reduction Agency (DTRA) appreciates the opportunity to comment on GAO's draft report on the Cooperative Threat Reduction (CTR) Program. DTRA is pleased that GAO concluded that the "Department of Defense (DOD) has procedures in place that provide reasonable assurance that most of the assistance--at least 95 percent--is being used as intended and is adequately accounted for." DTRA agrees with GAO's evaluation indicating that DOD can enhance the quality of its program oversight function. You recommend that the Secretary of Defense strengthen Audit and Examination (A&E) procedures by:

(1) Developing criteria to target A&Es at the most vulnerable CTR projects, such as those least accounted for through other means; and

(2) Expanding the scope of A&Es from simply taking an inventory of equipment provided under the program to assessing the effectiveness and efficiency of CTR assistance, including contracted services.

We concur with your recommendations. Provided below are the specific details on how we will implement recommendation number one and our plans on how to implement recommendation number two.

Recommendation one: Developing criteria to target A&Es. During the course of the audit, we developed a methodology to better target A&Es at the most vulnerable CTR projects, such as those least accounted for through other means. This methodology is enclosed. Each summer, CTR revises or develops project plans for each project. The enclosed methodology will be part of the project plan report. Each project will have a risk factor assigned to it. Those projects with the highest risk factors will be the leading candidates for A&Es, if an A&E is useful in reducing this risk. The fiscal year 2002 A&E schedule will be developed based on the results of this analysis.

Recommendation two: Expanding the scope of A&Es. We asked the Defense Systems Management College to review our program management practices to see if we can make any improvements. In addition, we will develop a plan to periodically assess the effectiveness and efficiency of CTR assistance, including contracted services.

Thank you for the opportunity to comment on this draft report. I'd also like to praise the professionalism and dedicated efforts of GAO auditors Mr. Hynek Kalkus and Ms. Beth Hoffman Leon, who worked on this audit.

Sincerely,

Robert P. Bongiovi
Major General, USAF
Deputy Director

Enclosure:
As stated

Enclosure

Risk Assessment Methodology to Target Audits and Examinations

1. The National Defense Authorization Act for Fiscal Year (FY) 2001 requires the Secretary of Defense to report on activities and assistance under the Cooperative Threat Reduction (CTR) program to include a description of the audits, examinations, and other efforts, such as on-site inspections, to ensure that assistance provided is fully accounted for and used for its intended purpose. These efforts to account for CTR assistance are detailed in Section IV of the Annual Report to Congress, and include:

(a) The location and condition of equipment provided.

(b) A description of contracts or other services provided.

(c) A determination whether assistance has been used for its intended purpose.

(d) A description of the audit activities planned for the next fiscal year.

2. The Defense Threat Reduction Agency (DTRA) uses a collaborative approach to develop the annual Audit and Examination (A&E) schedules. Inputs are received from DTRA senior executives/staff, CTR Program/Project Managers and the Office of the Secretary of Defense (OSD), CTR Policy.

3. An integral element of this approach is a risk assessment for each CTR project. The purpose of this document is to define the methodology for performing the risk analysis. This methodology uses a number of weighted risk factors that pertain to the potential misuse of CTR provided assistance. Detailed data to analyze each of these risk factors is accumulated by the CTR Program Integration Division (A&E Branch) with inputs received from prior audit documentation, all levels of DTRA management, OSD, CTR Policy and the On-Site Inspection Directorate teams.

4. The following factors will be considered when calculating a weighted risk factor for each CTR project:

(a) The type of assistance provided.

(b) The total dollar value of the project equipment provided to date.

(c) The level of Contractor Officer Technical Representative (COTR) oversight. Considered in this factor are the frequency of Program/Project Management site visits and the level of daily contract oversight.

(d) Whether the contract has recurring contractor oversight. Specifically, "recurring" in this instance refers to daily on-site contractor management oversight during the project term.

(e) The dates and results of prior audits. Audits include CTR A&Es, reviews by the Defense Contract Audit Agency (DCAA), General Accounting Office or Department of Defense/Inspector General and Defense Contract Management Agency (DCMA) equipment inspections.

(f) The completeness and accuracy of project equipment records will have a direct relationship to CTR accountability for that equipment. Projects that have been completed in the 1994-2000 timeframe may be more difficult to audit due to incomplete or inaccurate equipment records.

(g) Whether the project uses types of equipment that are prone to misuse or dual usage (i.e. cell phones, computers, vehicles, etc.). In other words, can the equipment or services be used for weapons proliferation. Equipment that has passed the US export control process should pass this litmus test.

(h) Previous documented misuse of project resources by a particular former Soviet Union ministry or individual; specify equipment that has been misused.

(i) Site access restrictions that lessen visibility and accountability for equipment and services.

(j) Isolated Program Management visibility (i.e. direct contracts, remote project locations) that lessen accountability for equipment and services.

(k) Another factor which is not weighted but should be considered in A&E schedule determination is whether there is an impending expiration of an agreement (umbrella, implementing or administrative), which may affect a future A&E. Although the language in many of the agreements may state that A&Es are allowed up to three years after the expiration of the said agreement, site access may be more difficult. Further, visibility of equipment will be diminished as a transfer to the recipient nation will have occurred.

5. Attached is a matrix that compares and assigns an overall risk score based on the factors listed in paragraph 4 above. This matrix will provide a ranking of projects by overall risk factor to assist in determining which projects to target in the yearly A&E schedule. This matrix will be updated in conjunction with the development of each year's project plans.

6. The current plan for reducing the risk includes:

(a) Improving trip-reporting procedures.

(b) Concentrating A&Es on our higher risk projects.

(c) Incorporating DCAA auditing services in CTR projects implemented through the International Science and Technology Center.

(d) Developing the Electronic Information Delivery System (EIDS) into a consolidated equipment database to enhance present equipment visibility.

(e) Incorporating Contractor Acquired Material (CAM) reporting requirements into both the EIDS and CTR Integrating Contract (CTRIC).

(f) Emphasizing the advantages of using Contractor Logistics Support under CTRIC to increase visibility of CAM equipment.

(g) Bar coding of all CTR equipment, with the exception of expendables.

(h) Enhancing the on-site inspections.

Attachment to Enclosure:
As stated

	PROJECT TITLE			
	Criteria	Risk Score 0 to 10	Weight 1 to 4	Weighted Risk Factor
1	**Dollar value of equipment** One point per $M to a maximum of ten points		2	0
2	**CoTR oversight** Ten minus the # of anticipated yearly PM site visits - with a minimum value of zero.		3	0
3	**US Contractor oversight (can include CLS support)** As rated by PM on a scale of 1 to 10		2	0
4	**Date of last A&E or other audit** 1 year ago = 0 to 2 1 to 2 years ago = 3 to 6 2 to 3 years ago = 7 to 9 3 years ago = 10 Greater than		2	0
5	**Project Schedule** Beginning (up to 30% complete) = 0 to 2 Middle (up to 60% complete) = 3 to 6 End (up to 99% complete) = 7 to 9 Complete (100% complete) = 10		1	0
6	**Accuracy of Equipment Records** Excellent = 0 Good = 3 Fair = 7 Poor = 10		3	0
7	**Possibility of Dual Usage for specified equipment** Based on input from Export Control & PMs Scale of 0 to 10		4	0
8	**Previous documented misuse** No Instances = 0 Minor / isolated misuse = 5 Significant / recurring misuse = 10		2	0
9	**Site Access restrictions** No restrictions = 0 Past / Infrequent restrictions = 5 Recent / Frequent restrictions = 10		4	0
10	**Isolated PM visibility** **(e.g. remote project locations)** Based on input from PMs Scale of 0 to 10		2	0
	Totals			0

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