



Highlights of [GAO-04-507](#), a report to the Honorable Tom Harkin, U.S. Senate

## Why GAO Did This Study

From 1993 through 2002, the Department of Defense (DOD) delivered over \$150 billion in services and defense articles, including classified and controlled items, to foreign countries through foreign military sales programs administered by the military. Foreign countries may request items using blanket orders, which are for a specific dollar value and are used to simplify supply actions on certain types of items. GAO was asked to review whether the Navy's key internal controls restricted blanket orders for (1) classified spare parts and (2) controlled items sold to foreign countries. Also, GAO was asked to determine if periodic tests were conducted to ensure that the Navy's system is working as intended.

## What GAO Recommends

GAO recommends that the Navy resolve the differences between DOD and Navy policy on foreign countries' use of waivers, establish policies to recover items shipped to countries not entitled to receive them, and document the reasons for overriding the Navy's system. Also, GAO recommends that the Navy strengthen the system's internal controls to ensure that blanket orders are always reviewed and revalidated, and periodically test these controls.

DOD concurred with five of GAO's recommendations and partially concurred with three other recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-04-507](http://www.gao.gov/cgi-bin/getrpt?GAO-04-507).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William M. Solis at (202) 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov).

## FOREIGN MILITARY SALES

# Improved Navy Controls Could Prevent Unauthorized Shipments of Classified and Controlled Spare Parts to Foreign Countries

## What GAO Found

The Navy's internal controls over foreign military sales using blanket orders are not adequate, placing classified and controlled spare parts at risk of being shipped to foreign countries that may not be eligible to receive them. The internal control inadequacies are as follows:

- The Navy might not have followed DOD policy when it approved 26 blanket orders leading to the release of classified spare parts to foreign countries. Navy policy states that classified parts can be requested under blanket orders when countries obtain waivers, but the Defense Security Cooperation Agency indicated that this Navy policy contradicts DOD policy, which prohibits the use of waivers. Navy officials have no plans to recoup these parts because the countries were approved to purchase them, and they were entitled to receive the parts under a different process. GAO agrees. However, Navy officials stated, there are no written policies to recover parts that countries should not have requested and received under blanket orders.
- The Navy does not always document the reasons for overriding its system and releasing classified parts. According to the Standards for Internal Control in the Federal Government, all transactions and other significant events need to be clearly documented. GAO identified four blanket orders for which the Navy's country managers overrode the system, but the files did not contain documents explaining the reasons for releasing the parts.
- The Navy lacks written policies to process blanket orders from countries requesting spare parts by manufacturer or vendor part numbers. GAO identified two blanket orders for which the Navy released four classified parts. The release occurred because the Navy's country manager substituted classified parts for parts ordered, which caused the system to bypass the control-edit function designed to check a country's eligibility to receive the parts.
- The Navy's system lacked control edits over controlled cryptographic parts and allowed countries to obtain them under blanket orders without determining the countries' eligibility to receive the parts. GAO identified five blanket orders for which the Navy's system approved and released 32 controlled cryptographic circuit card assemblies. According to DOD and Navy officials, the system has been modified and now reviews controlled cryptographic codes. Also, Navy officials do not plan to recover these parts because the countries were approved to purchase the parts and GAO agrees.
- The Navy has not conducted periodic tests to ensure that its system is accurately reviewing and approving blanket orders in accordance with its foreign military sales policies. DOD and Navy officials said that the last systemwide test was conducted in 2000. However, according to the Defense Security Cooperation Agency, the Navy is not prohibited from periodically testing the system.