



GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

January 28, 2005

The Honorable Condoleezza Rice
The Secretary of State

Subject: *State Department Needs to Resolve Data Reliability Problems that Led to Inaccurate Reporting to Congress on Foreign Arms Sales*

Dear Madam Secretary:

Under Section 655 of the Foreign Assistance Act, as amended, the Department of State reports annually to Congress on the aggregate dollar value and quantity of all defense articles and services that State licensed for direct commercial sale to each country.¹ State's report is intended to be an accurate record to ensure that Congress and the public are informed regarding foreign arms sales by U.S. industry. In the course of a previous GAO review on the proliferation of man-portable air defense systems (MANPADS),² we found that State reported to Congress that it had approved licenses for the commercial sale of Stinger missiles to foreign countries in five instances during fiscal years 2000 and 2002. However, U.S. government policy precludes the commercial sale of Stinger missiles, and State had not approved licenses for the commercial sale of Stinger missiles. State officials stated in May 2004 that the information the department had reported in its fiscal years 2000 and 2002 reports was incorrect. In response to our ongoing review, State submitted an amended 2002 report to Congress in September 2004 and posted corrected 2000 and 2002 reports to its Web site.

Under the authority of the Comptroller General, we assessed the reasons for State's misreporting of Stinger missile sales authorizations in its fiscal years 2000 and 2002 Section 655 reports. To address this objective, we reviewed licensing data on the commercial sale of Stinger-related commodities from the Department of Defense (DOD), the Department of State, and Raytheon Corporation—the company that produces Stinger missile systems. We met with officials at the Departments of Defense and State. We interviewed Raytheon officials in Washington, D.C., and Tucson, Arizona. We performed our work from June 2004 to November 2004 in accordance with generally accepted government auditing standards. For additional information on our scope and methodology, see enclosure I.

¹22 USC 2415.

²GAO, *Nonproliferation: Further Improvements Needed in U.S. Efforts to Counter Threats from Man-Portable Air Defense Systems*, [GAO-04-519](#) (Washington, D.C.: May 13, 2004).

Summary

State officials attributed State's inaccurate reporting on the licensing of Stinger missiles for commercial sale to errors in the license data entry process. In addition, State's multioffice review of the draft Section 655 reports failed to discover the inaccurate reporting. Furthermore, we found data reliability problems that raise additional questions about the accuracy and reliability of data in State's Section 655 reports to Congress. Although State's report is intended to ensure that Congress and the public are informed about foreign arms sales by U.S. industry, deficiencies in State's processes for preparing its Section 655 report inhibit the ability of Congress to obtain accurate information needed to provide effective oversight of these weapons sales programs.

To ensure that Congress obtains accurate information on foreign arms sales by U.S. industry, we recommend that the Secretary of State establish and implement procedures to resolve data reliability problems that affect direct commercial sales information in State's Section 655 report, including the review of data entered and database-design limitations.

State did not comment on the recommendation in this report. State and DOD provided technical comments that we incorporated as appropriate.

State concurred with our finding that it had incorrectly reported to Congress on the commercial sale of Stinger missiles but said that such instances were limited and do not call into question the overall reliability of its Section 655 report. However, the data reliability concerns we identified are not limited to Stinger-related items but apply to all commercial license application data used by State to compile its Section 655 report. In addition, State asserted that the introduction of its new licensing database, D-Trade, will address several data reliability concerns raised in the report. However, DDTC officials were uncertain when D-Trade would be fully implemented and have full industry participation.

Background

Section 655 of the Foreign Assistance Act requires the President to report annually on the dollar value and quantity of defense articles, defense services, and military training transferred to each foreign country and international organization during the previous fiscal year. The Section 655 report is intended to ensure transparency, accountability, and effective oversight of U.S. arms transfers. The report is specifically intended to ensure that Congress and the public are correctly informed about the volume and the costs of U.S. military assistance and exports, as well as foreign arms sales by U.S. private industry. The report covers defense articles and services licensed for export and must specify whether the defense articles were furnished under the foreign military sales (FMS) program or licensed for direct commercial sale.

Through the FMS program, DOD manages the sale of weapons systems and technologies from the U.S. government to foreign governments. According to DOD officials, the FMS program is intended to provide additional scrutiny to weapons systems and technologies

deemed sensitive for export. As such, the U.S. government designates specific weapons and technologies that must be sold exclusively through FMS. For example, Stinger missile systems and Stinger missiles are sold to foreign governments only through the FMS program. If the U.S. government does not require that a weapon or technology be sold through the FMS program, U.S. companies may sell to private or government customers overseas. For example, Stinger missile spare parts are sold through direct commercial sales. The State Department's Directorate of Defense Trade Controls (DDTC) reviews and approves licenses for the direct commercial sale of weapons systems and technologies from U.S. companies to foreign companies or governments.³ As part of its review process, DDTC sends some commercial licenses to DOD for review when DDTC deems it appropriate.

The United States government requires that U.S.-produced MANPADS be sold through the FMS program, rather than commercially,⁴ because the U.S.-produced version of MANPADS—the Stinger missile system (see fig. 1)—is among the most advanced of all MANPADS produced worldwide. Since 1982, the United States government has sold more than 20,000 Stinger missiles to 17 foreign countries and Taiwan. In addition, the United States has licensed Raytheon and several subcontractors to sell spare parts for Stinger missile systems to these same countries and to foreign companies.

Figure 1: Components of Stinger MANPADS



Source: DOD.

³Section 38 of the Arms Export Control Act (AECA) authorizes the President to control the import and export of defense articles and services and to implement regulations for the import and export of such items. Executive Order 11958, as amended, delegates the President's defense export authorities to the Secretary of State. The Secretary of State delegates these responsibilities to State's Bureau of Political-Military Affairs, Directorate of Defense Trade Controls (DDTC).

⁴The U.S. National Disclosure Policy (NDP) #1 requires the United States to authorize the sale of MANPADS through DOD's foreign military sales (FMS) program. According to DOD and State, the U.S. National Disclosure Policy Committee, made up primarily of agencies and offices within DOD and State, decides U.S. policy on the release of classified weapons technology, including MANPADS.

Data Reliability Problems Have Resulted in Inaccurate and Incomplete Section 655 Reports to Congress

State inaccurately reported in Section 655 reports to Congress that it had authorized licenses for the direct commercial sale of Stinger missiles in fiscal year 2000 to the United Kingdom and in fiscal year 2002 to Finland, Sweden, Turkey, and the United Kingdom. We reviewed Stinger-related licensing documentation provided by State for fiscal years 1999 to 2003. In documentation for more than 250 Stinger-related licenses authorized over that period, we found no instances in which State authorized licenses for the commercial sale of Stinger missiles; licenses were for Stinger spare parts and technical data or Stinger-related defense services.⁵ We also reviewed Stinger-related licensing documentation for fiscal years 1999 to 2003 that DOD and Raytheon provided and found no evidence of direct commercial sales of Stinger missiles.⁶ In addition, senior DOD, DDTC, and Raytheon officials said that they had no knowledge of Stinger missiles' being sold commercially.

DDTC officials said that the misreporting was due to coding errors by its data entry employees during the license data entry process. Specifically, DDTC officials said that the military commodities "Missile Stinger Spare Parts and Supplemental Equipment" and "Missile AMRAAM"⁷ were miscoded as the commodity "Missile Stinger" in its Defense Trade Application (DETRA) licensing database. DETRA is DDTC's database for storing and processing the information on license applications submitted by companies. DDTC officials said that data entry employees manually enter codes into DETRA from a hard-copy list of codes for weapons systems, spare parts, and technical data. Included on this list are commodities, such as Stinger missiles, that are not permitted to be sold commercially. It was from this list that Stinger missile codes were obtained and then used. DDTC did not have any specific guidance to prevent data entry employees from entering codes for commodities not permitted for commercial sale. In addition, DETRA does not have automatic checks that alert data entry employees if they are entering license information for commodities not permitted for commercial sale.

DDTC officials said that the department has an internal, multioffice review process to ensure the accuracy of State's annual Section 655 report to Congress. The review involves DDTC; the Office of Regional Security and Arms Transfers (RSAT); the regional bureaus; the Bureau of Democracy, Human Rights and Labor (DRL); the Office of Legislative Affairs; and the Office of the Undersecretary for Arms Control and International Security. However, DDTC officials said that the reviewers failed to identify

⁵In addition, State has occasionally licensed Stinger components for commercial sale. For example, Stinger launch tubes and gripstock halves were sold to Greece in 2001; the Stinger Standard Vehicle Mounted Launcher and the Air-to-Air Stinger launcher systems were sold to Turkey in 2002; Stinger battery kits were sold to Greece in 2002; and Stinger launch tubes were sold to Greece in 2003.

⁶DOD had Stinger-related documentation because it reviews some Stinger-related commercial license applications when referred by State.

⁷AMRAAM stands for Advanced Medium Range Air-to-Air Missile.

the inaccurate reporting of commercial sales authorizations for Stinger missiles in the Section 655 reports for fiscal years 2000 and 2002.

Based on our inquiries, State revised its fiscal year 2002 Section 655 report on its Web site in May 2004. In September 2004, State submitted an amended 2002 report to Congress. In response to our review, State also revised the fiscal year 2000 report on its Web site in September 2004 to reflect corrections.

In the course of reviewing State's Stinger missile coding errors, we discovered other data reliability problems that have resulted in inaccuracies and incompleteness in State's annual Section 655 reports to Congress. First, we identified a limitation in the design of the licensing database. DDTC's data entry employees can only enter one commodity and one country code into DDTC's DETRA licensing database per license application regardless of how many commodities and countries appear on a license application. As a result, State's Section 655 report does not include the additional commodities or countries listed on some license applications. DDTC officials stated that their data entry employees code licenses for multiple commodities according to the one commodity on the license that appears to best represent the total set of commodities on the license application. For example, DDTC coded a license application in fiscal year 2003 as being for spare parts for an aircraft when the application was for spare parts for five different systems, including the Stinger. In addition, DDTC officials stated that their data entry employees typically enter a code for "various" if multiple countries are listed on a license application; however, in some instances, data entry employees single out one of the countries on the application and enter only that country's code. For example, in fiscal year 2002, DDTC data entry employees coded a license application for the commercial sale of Stinger spare parts only to Greece when the license application included Germany, the Netherlands, and Turkey. DDTC officials said that they have no written criteria for such coding decisions regarding multiple commodities and countries and that data entry employees use their discretion when coding these licenses.

Second, we identified inaccurate reporting practices. Specifically, State incorrectly reports the provision of some defense articles, such as weapons systems, as defense services, which generally applies to the provision of technical assistance and training. This results in inaccurate information to Congress on the actual value of defense articles licensed to foreign countries. For example, in the fiscal year 2002 report, State reported that Raytheon provided nearly \$33.8 million in defense services to the Government of Turkey. However, approximately \$33.3 million of the transaction was for a commitment for the future sale of Stinger missile launchers, and only \$493,000 was for defense services to be provided by Raytheon. DDTC officials stated that this transaction was part of a Technical Assistance Agreement (TAA) and that State reports the total value of the TAA as defense services in the Section 655 report regardless of whether the TAA is primarily for defense articles or defense services. In addition, DDTC officials stated that after a TAA is approved, DDTC authorizes licenses for the commercial sale of the defense articles that are part of the TAA. For example, State later approved licenses for the direct commercial sale of the Stinger missile launchers included in the original TAA with Turkey and reported the value of these licenses as defense articles in the Section 655 report. As a result, State reports defense articles associated with TAAs twice. First,

they are reported in the Section 655 report as defense services; second, the value of licenses for the commercial sale of these articles is reported in the Section 655 report as defense articles.

Finally, we identified State miscoding practices. DDTC officials stated that DDTC has specific codes for most commodities for which license applications are received, and when specific codes are not available, its data entry employees use generic codes. However, we found that in many instances DDTC data entry employees assigned generic codes when specific codes were available. We reviewed documentation for more than 250 license applications in DDTC's DETRA licensing database in which the text "Stinger" appeared and found 126 instances in which Stinger parts were licensed by DDTC. In 41 of the 126 instances, DDTC's data entry employees used generic codes for Stinger commodities when specific Stinger codes were available, and in 37 instances data entry employees used other non-Stinger commodity codes when specific Stinger codes were available. For example:

- A license for the sale of Stinger launch tubes and Stinger gripstock and other spare parts to the Government of Greece was coded in DETRA as "Missile Launcher Spare Parts and Supplemental Equipment," despite the availability of the specific commodity code "Missile Stinger Spare Parts and Supplemental Equipment."
- A license for the sale of Stinger missile motor spare parts to the Government of the Netherlands was coded in DETRA as "Missile Spare Parts (Non-specific Type)," despite the availability of the specific commodity code "Missile Stinger Spare Parts and Supplemental Equipment."

Because of such miscoding practices, State's Section 655 report does not provide an accurate and complete record of all instances when Stinger-related parts were sold through direct commercial sales.

DDTC officials stated that they were aware that these problems resulted in inaccuracies and incompleteness in State's Section 655 reports to Congress; however, they said that they did not know the extent to which these problems occurred. DDTC officials stated that DDTC performs no regular data reliability checks and has not corrected these data reliability problems in its DETRA licensing database.

DDTC officials stated that they have launched a new licensing database, D-Trade, that will address some of these data reliability problems. D-Trade eliminates State's role in entering license application data by allowing companies that have chosen to participate to submit license applications electronically. However, almost all of the more than 50,000 license applications submitted in fiscal year 2004, including all Stinger applications, were handled through DDTC's older system because, according to DDTC officials, many companies submitting license applications do not use the electronic D-Trade system. For example, Raytheon does not use the D-Trade system for the Stinger-related license applications it sends to DDTC. DDTC officials could not provide the date by which Stinger-related license applications would be submitted under D-Trade. In

addition, D-Trade currently addresses only problems caused by the design limitations of the older database, DETRA, and not those caused by TAA reporting and generic coding practices. DDTC officials envision D-Trade eventually addressing these data reliability issues; however, they could not determine when DDTC would be able to offer these capabilities in D-Trade. To improve coding practices, DDTC officials stated that they are working with DOD to create an updated list of commodity codes that will contain more specific codes for use in D-trade. However, DDTC officials could not provide the date when the new codes would be ready for use, and senior DOD officials stated that the updated codes might not be in use for years.

Conclusion

The magnitude of DDTC's commercial sales licensing data reliability problems is not known; however, reporting and coding practices, limitations in the design of DDTC's licensing database, a lack of reliability checks performed on the database, and the specific inaccuracies we found raise questions about the accuracy and reliability of the data that State uses to compile its annual Section 655 report to Congress. Improvements to State's review process and data reliability checks and adjustments to its licensing database could reduce the potential for further reporting errors, thus enhancing the ability of Congress to obtain the accurate information it needs to provide effective oversight of these weapons sales programs.

Recommendations for Executive Action

We recommend that the Secretary of State establish and implement procedures to resolve data reliability problems that affect direct commercial sales information in State's Section 655 report, including the review of data entered and database-design limitations.

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretaries of Defense and State for their review and comment.

The State Department did not comment on our recommendation. State concurred with our finding that it had incorrectly reported commercial arms sale information to Congress and provided additional written comments, which are reprinted in enclosure II. In its comments, State said that our findings were limited to relatively few instances of misreporting on Stinger-related items that do not call into question the overall reliability of its Section 655 report. In addition, State asserted that the introduction of D-Trade will address a number of reliability concerns raised in the report. However, we believe that the data reliability concerns we identified are not specific to Stinger-related items and call into question the overall reliability of the commercial licensing data in the Section 655 report. DDTC officials indicated to us that the more than 200,000 commercial license applications that they received between fiscal years 1999 and 2003 were processed with the same coding and reporting practices as those for Stinger-related items, resulting in the same opportunity for miscoding and misreporting. In addition, while D-Trade,

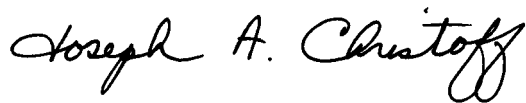
DDTC's new electronic licensing system, may address several data reliability concerns, DDTC officials were uncertain when it would be fully implemented and have full industry participation.

The Department of Defense also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to interested congressional committees and other parties. Copies will be made available to others on request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me at 202-512-8979 or at christoffj@gao.gov. Another GAO contact and staff acknowledgments are listed in enclosure III of this report.

Sincerely yours,

A handwritten signature in black ink that reads "Joseph A. Christoff". The signature is written in a cursive style with a large, stylized "J" and "C".

Joseph A. Christoff
Director, International Affairs and Trade

Enclosures

Scope and Methodology

To assess the basis for the State Department's misreporting of Stinger missile commercial sales authorizations in its Section 655 reports to Congress for fiscal years 2000 and 2002, we obtained and analyzed documents from the Departments of Defense and State and from Raytheon Corporation. We also met with officials at the Departments of Defense and State and interviewed Raytheon officials in Washington, D.C., and Tucson, Arizona. We reviewed State, DOD, and Raytheon Corporation licensing data from 1999 to 2003. Specifically, we reviewed license applications and supporting documentation submitted by companies to determine that State's reporting of the commercial sales authorization of Stinger missiles for fiscal years 2000 and 2002 was inaccurate. In testing the reliability of relevant Stinger data in State's licensing database, we identified other problems, as detailed in our report, that raised questions about the reliability of data used in the Section 655 reports. We performed our work from June 2004 to November 2004 in accordance with generally accepted government auditing standards.

Comments from the Department of State



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

JAN 12 2005

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "State Department Needs to Resolve Data Reliability Problems that Led to Inaccurate Reporting to Congress on Foreign Arms Sales," GAO Job Code 320285.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Terry Davis, Deputy Director, Bureau of Political and Military Affairs, Office of the Defense Trade Controls, at (202) 663-2739.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher B. Burnham".

Christopher B. Burnham

cc: GAO – Addison Ricks
PM – Lincoln Bloomfield
State/OIG – Mark Duda

Department of State Comments On GAO Draft Report
State Department Needs to Resolve Data Reliability Problems that Led To
Inaccurate Reporting to Congress on Foreign Arms Sales
(GAO 05-156R, GAO Code (320285))

The Department of State thanks the Government Accountability Office (GAO) for the opportunity to respond to their draft report, "State Department Needs to Resolve Data Reliability Problems that Led to Inaccurate Reporting to Congress on Foreign Arms Sales." In general, we concur that there were some data entry errors made to the report, which subsequently required amended submissions to Congress. In general, we believe that the recent revision to the commodity codes used to prepare the reports as well as implementation of the fully electronic trade licensing system will reduce and mitigate these errors in the future. We note that the entries in the Section 655 report are based on approved applications submitted by registered companies under the direct commercial sale system administered by the Department's Bureau of Political-Military Affairs, Directorate of Defense Trade Controls (DDTC). In drafting the Section 655 report, these applications are given descriptive entries based on commodity codes generated by DDTC to identify various weapon systems according to the complete system itself and any specifically related parts and components. The database reviewed by GAO consisted of some 254 cases in which action was completed in the CY 1999-2003 period. Based on its review, the following issues were raised regarding the reporting inaccuracies:

1. That in several cases, approved applications were incorrectly coded as Stinger Missiles when in fact, they were for parts and components. This led to the misconception that all Stinger systems, which due to their sensitivity are licensed through the government to government Foreign Military Sales Program, in fact were authorized for export under commercial license. In at least one case, an entirely different system was coded as Stinger Missile when, in fact, it was an AMRAAM – an air to air missile unrelated to Stinger. As noted, the Department subsequently issued revisions to the report to correct this.

We agree that there were instances when some cases were miscoded as Stinger missiles and they were subsequently the subjects of corrected Section 655 reporting. Based on the total numbers of cases involved, these were not numerically significant enough to undermine overall data reliability

See comment 1.

in the report. As noted in our discussions with GAO, Stinger systems are typically the subject of the Foreign Military Sales Program, with follow-on support in terms of parts and components through the Direct Commercial Sale system.

See comment 2.

2. That due to limitations in the design of the data base, only one commodity code and country code can be entered into the database, regardless of how many commodities or countries appear on the application. This resulted in one application for parts and components to be coded to include only one system when there were several. This included one application to designate the country of ultimate destination as Greece, when in fact Germany, the Netherlands and Turkey were included on the license.

The current system allows for entry of one country code or “various” in the field for ultimate destination. For defense articles and hardware, our practice has been to permit one country of ultimate destination. In the majority of cases for Stinger hardware, the database reflects this as having been consistently applied. We would note that the country of ultimate destination reflects the end user as determined at the time of export and that there may be numerous other parties on the license in terms of forwarders, suppliers and manufacturers and intermediate consignees not accounted for in the Section 655 report.

In the 254 entries provided GAO, only two were coded with country of ultimate destination as “various” when the license was for the permanent export of defense articles/hardware (as opposed to technical data licenses which are not included in the Section 655 report and marketing efforts). These were for fuzes ordered by LFK in Germany on behalf of the SPG. The entries could have been coded with the country of ultimate destination of Germany. Given the scope and scale of these two cases, however, we do not believe the country coding was the cause of any unreliability in the database.

Also, the Stinger Program has been the subject of a European production program initiated in the 1980’s that originally included the Federal Republic of Germany, Greece, Italy, the Netherlands and Turkey. Each country had industrial participation that produced segments of the system and using for many parts and components from U.S. manufacturing sources, which are reflected in the export license applications in the database provided GAO. By the nature of this program, when the European manufacturers place

orders for part components (fuze, electrical components, etc.), these items are incorporated into larger subsystems and into the weapon system for use by the armed forces of the consortium members. At the time the component orders are made, the ultimate destination of the individual systems is not known, so the license application will generally specify either the European manufacturer that is purchasing the component or the Stinger Program Office made up of various member countries.

See comment 3.

3. In the case of Technical Assistance Agreements, which are broad approvals for a range of technology transfers, that the value reported in the Section 655 report includes not only the services and technical data but also the hardware. In most cases, shipment of the hardware is done under separate license and is also subsequently notified in the Section 655 causing, in effect, duplicate reporting of the export.

Technical Assistance and Manufacturing License agreements differentiate between the value of the technical data/services and any hardware exports authorized. In general, hardware is usually subsequently exported under separate license. Hence, both the aggregate value of the overall effort, including the hardware and the subsequent export of hardware will be included in the Section 655 report. Although this may result in some double counting, at the time the Technical Assistance Agreement/manufacturing License Agreement is submitted the hardware value is only an estimate, and the exact amount/nature of the hardware will not be known until the actual license is submitted. Based on the number of such agreements in support of Stinger in the database where hardware exports were also authorized, we do not believe this accounts for any significant inflation in the Section 655 report.

See comment 4.

4. Miscoding of applications occurred when data entry personnel utilized generic codes in lieu of more specific and descriptive codes. According to the report, of the 250 Stinger licenses reviewed, 126 were for parts and components. In 41 of these cases, data entry personnel used generic codes when specific Stinger codes were available, and in 37 cases, non-Stinger codes were used when specific Stinger codes were available.

We concur that examples noted by GAO where Stinger licenses were coded as generic missile spare parts should have been placed into a more Stinger specific category. Beyond that, the data entry personnel may have entered codes that, while not Stinger specific codes, may have reflected the

nature of the exported item equally accurately. In one case, GAO noted that a license for sale of Stinger gripstock as “Missile Launcher and Spare Parts” should have been coded as “Missile Stinger Spare Parts.” We would add that in other instances, Stinger night sighting equipment went into “Night Vision Spares and Components.” We would contend that the categorization of the gripstock as a launcher component or the night sighting as “Night Vision Spare Parts” is not inaccurate.

As DDTC officers have detailed to GAO representatives, an extensive effort related to electronic licensing is under way that will substantively address these issues. D-Trade, a fully electronic licensing system, that was inaugurated in January 2003 does not allow “various” as an entry for ultimate destinations and allows for multiple entries. Industry participation in this system, limited currently to the processing of permanent, unclassified exports, is growing, and within the next 12-18 months, DDTC anticipates that virtually all unclassified licensing will be handled via D-Trade.

Also, as part of the D-Trade system, DDTC is working with the Department of Defense to significantly expand the commodity code listing to reflect much more detail in terms of the systems, subsystems, and parts and components that subject to export control review. When this listing is refined, entry of the U.S. Munitions List categories and subcategories will be an industry requirement and subject to DDTC defense control analyst review. The electronic system will accommodate entry of multiple codes, per commodity line item. Finally, the review process for Technical Assistance Agreements under development in the D-Trade system will incorporate the above noted features and will also include a field for separately noting the value of hardware exports made pursuant to the Agreement.

GAO Comments

1. State said that the instances of Stinger missiles miscoded and reported to Congress as commercially licensed were not numerically significant enough to undermine overall data reliability in the Section 655 report. Although State's inaccurate reporting on the commercial sale of Stinger missiles represented five instances in the Section 655 reports from 1999 to 2003, DDTC officials told us that the more than 200,000 license applications for commercial sales received for those years were subject to the same processes for coding and reporting license information. These license applications, therefore, are subject to the same opportunity for miscoding and misreporting, calling into question the overall reliability of the commercial licensing data in the Section 655 report.

2. As we noted in the draft report, because of limitations in the design of DDTC's DETRA database, only one commodity and one country from a license application can be entered into the database. In its comments, State highlighted only one instance in which DDTC coded a license application for multiple commodities as being for a single commodity. However, during our review we found that of the 126 license applications for Stinger parts approved by DDTC in fiscal years 1999 to 2003, more than 67 licenses, or 53 percent, were coded by DDTC as being for a single commodity when the license application listed multiple commodities.

State incorrectly noted in its comments that two license applications for Stinger parts from 1999 to 2003 had the country of ultimate destination coded as "various" when multiple countries were listed on the application. State did not believe that these two instances were significant enough to call into question the reliability of data in its Section 655 reports to Congress. However, we found eight instances in which license applications for Stinger parts were coded by DDTC as "various." In addition, DDTC officials told us that their practice of coding license applications as "various" in their DETRA database applies to all license applications with multiple countries, not only to Stinger-related license applications. This practice calls into question the reliability of the commercial licensing data in the Section 655 report.

3. State commented that its practice of reporting defense articles as defense services when they are associated with a Technical Assistance Agreement (TAA) does not account for significant inflation of data in the Section 655 report. As we noted in the draft report, we reviewed one Stinger-related TAA and found that State reported in its Section 655 report for fiscal year 2002 that approximately \$33.8 million in Stinger-related defense services would be provided to the Government of Turkey through that TAA; however, only \$493,000 was actually estimated in the TAA for defense services and \$33.3 million was estimated for defense articles. Thus, the Section 655 report inflated the cost of defense services associated with a single TAA by approximately \$33.3 million. In addition, State then reported the value of the defense articles associated with the same TAA a second time, in its Section 655 report for fiscal year 2003. Furthermore, DDTC officials told us that it is standard practice to report defense articles as defense services for all TAAs, not only for Stinger-related TAAs.

Enclosure II

These reporting practices for TAAs raise questions about the reliability of data in State's Section 655 report to Congress.

4. State concurred that in examples noted by GAO, DDTC had coded Stinger licenses as generic missile spare parts rather than placing them in a Stinger-specific category. State also said that its data entry personnel may have entered non-Stinger codes that may have reflected the nature of the exported item as accurately as a Stinger-specific code. However, DDTC officials said that in practice it sometimes codes the same items differently, using either specific or generic codes. This inconsistent use of the codes creates inaccurate and unreliable data in the Section 655 report to Congress.

State said that D-Trade, its new electronic licensing system, will substantively address the data reliability problems with DDTC's DETRA licensing database. We acknowledged in our draft report D-Trade's value in addressing certain data reliability problems with DETRA. However, D-Trade does not currently address problems caused by TAA reporting practices or the use of generic codes. In addition, although State and DOD officials said they are developing new commodity codes for use in D-Trade that they believe will address data coding issues, DOD officials said that the commodity codes may not be available for use for years. Furthermore, DDTC officials told us that they were unsure when D-Trade would be fully used by industry or when any Stinger licensing would be handled through D-Trade.

Enclosure III

GAO Contact and Staff Acknowledgments

GAO Contact

David Maurer, (202) 512-9627

Acknowledgments

In addition to the individual named above, Addison Ricks, Jonathan Ban, Martin de Alteriis, Ernie Jackson, and Lynn Cothorn made major contributions to this report.

(320285)

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