

United States General Accounting Office

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GAO

Report to the Chairman, Subcommittee  
on Europe and the Middle East,  
Committee on Foreign Affairs, House of  
Representatives

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January 1994

# SECURITY ASSISTANCE

## Need For Improved Reporting on Excess Defense Article Transfers



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United States  
General Accounting Office  
Washington, D.C. 20548

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**National Security and  
International Affairs Division**

B-252694

January 18, 1994

The Honorable Lee H. Hamilton  
Chairman, Subcommittee on Europe and  
the Middle East  
Committee on Foreign Affairs  
House of Representatives

Dear Mr. Chairman:

In response to your request, we conducted a review of excess defense articles (EDA) provided at no cost or reduced cost to foreign countries. In the report, we recommend that the Secretaries of Defense and State provide Congress with consistent and reliable data on the value of the EDA program.

We are sending copies of this report to the Secretaries of Defense and State and to other interested congressional committees. Should you or your staff have any questions, please contact me on (202) 512-4128. Major contributors to this report are listed in appendix II.

Sincerely yours,

Joseph E. Kelley  
Director in Charge  
International Affairs Issues

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# Executive Summary

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## Purpose

Each year, the United States supplements the billions of dollars appropriated by Congress for foreign military assistance by furnishing its allies with significant quantities of defense articles declared excess to U.S. needs. Such defense articles include tanks, fighter and cargo aircraft, ammunition, trucks, spare parts, military rations, and clothing. While most transfers of these excess defense articles (EDA) are provided free of charge to eligible countries, some are sold at discounted prices.

As U.S. forces continue to downsize, more defense articles are becoming excess and, therefore, available for transfer. Accordingly, the Chairman of the Subcommittee on Europe and the Middle East, House Committee on Foreign Affairs, requested that GAO review the implementation of the EDA program. Specifically, GAO analyzed the scope and growth of the program and the types of EDAS transferred; examined the process used to report EDA transfers to Congress; determined whether the EDA pricing/valuing procedures are accurate; and examined various aspects of how the EDA program is managed, including identification of excess articles.

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## Background

EDAS include lethal and nonlethal defense articles that can be granted or sold at reduced prices in "as is/where is" condition. Under the Arms Export Control Act, EDAS may be sold at prices generally ranging from 5 percent to 50 percent of their original acquisition value. Under what is called the Southern Region Amendment to the Foreign Assistance Act, countries in and around the North Atlantic Treaty Organization's Southern flank are authorized to receive EDAS as grants and have priority in the delivery of such items. This act authorizes grant transfers of EDAS to Latin American and Caribbean countries, countries and international organizations involved in conservation of natural resources and wildlife management activities, and countries that receive foreign military assistance. Also, EDAS may be leased or transferred under drawdown authority provided for in section 506 of the Foreign Assistance Act.

The Departments of Defense (DOD) and State jointly manage the EDA program through the EDA Coordinating Committee, which evaluates country requirements, assesses the ability of countries to effectively use EDAS, considers regional balance and foreign policy issues, and decides on a proposed allocation of EDAS to eligible foreign countries. DOD's Defense Security Assistance Agency is responsible for coordinating all aspects of the EDA transfers and for notifying congressional committees.

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In March 1993,<sup>1</sup> GAO reported that the data on the status of proposed transfers received from each of the services were not very reliable, and therefore, the value of items transferred was difficult to estimate.

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## Results in Brief

During fiscal years 1990 through 1992, Congress received notifications of proposed EDA transfers totaling \$3.5 billion in acquisition value with a current value of about \$1 billion. EDA equipment ranged from boots to tanks and aircraft. The most advanced EDAS were offered, free of charge, to the Southern Region Amendment countries. The number and acquisition value of EDAS notified to Congress during this time period increased significantly, but the current value of EDAS fluctuated.

The law only requires reporting on the total value of EDAS sold during a fiscal year. Therefore, the value of the EDA program has only been partially reported to Congress by DOD and State in their yearly budget request for security assistance in the Congressional Presentation Document. This document informs Congress of the total dollar value of EDAS sold. It does not provide information on the total value of EDAS granted in the previous fiscal year, although grants constitute the majority of all EDA transfers, nor does it give information on EDAS that have been leased or provided under drawdown authority.

The military services have not always adhered to DOD's guidelines for pricing/valuing EDAS, and as a result, the total acquisition and current values of the EDA program were understated. Also, the military services did not always follow departmental directives for identifying EDA.

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## Principal Findings

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### EDA Acquisition Value Nearly Doubled, but Current Value Fluctuated

The acquisition value of proposed EDA transfers has increased significantly since 1990, but the current value of EDAS fluctuated between fiscal years 1990 and 1992. For example, in fiscal year 1990, the acquisition value notified to Congress was about \$880 million and the current value was \$330 million. By comparison, in fiscal year 1992, the acquisition value was nearly \$1.4 billion and the current value was \$230 million. The Defense Security Assistance Agency estimates that the total acquisition and current values of EDAS notified to Congress in fiscal year 1993 exceeded that of the

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<sup>1</sup>Security Assistance: Excess Defense Articles for Foreign Countries (GAO/NSIAD-93-164FS, Mar. 23, 1993).

previous year. As of May 1993, the agency had notified Congress of \$900 million in proposed transfers of EDAs.

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**Proposed EDA Transfers  
Supplemented Military  
Assistance**

Between fiscal years 1990 and 1992, Congress appropriated a total of more than \$13 billion to provide military assistance to eligible countries. Each year, however, the levels of appropriations for military assistance declined. At the same time, DOD notified Congress of hundreds of proposed EDA transfers with a current value of \$1 billion and an original acquisition value of \$3.5 billion. Thus, the relative significance of the EDA program as a supplement to military assistance is continuing to increase as appropriated military assistance is reduced.

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**Total Value of the EDA  
Program Only Partially  
Reported**

Although the program supplements military assistance, relevant congressional committees lack information on the total acquisition and current values of the program when they consider appropriation levels for foreign military assistance. The Congressional Presentation Document provides the acquisition and current values of EDAs sold but does not include those values for EDA grants, although the grants make up 80 percent of the total acquisition value for the entire program. Also, the value of EDAs transferred using drawdown authority or leased is not tracked as part of the EDA process and, therefore, not included in the document. The agency acknowledges that providing information on the amount of EDAs transferred under grant authorities would allow Congress to make better informed decisions on the military assistance appropriations.

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**DOD Does Not Track  
Actual EDA Transfers**

The value of EDAs actually delivered to eligible countries each year is difficult to estimate because until recently, the agency did not have a data management system capable of tracking the status of proposed EDA transfers. The lack of such information makes it difficult to develop accurate estimates of the current value of EDAs actually transferred to foreign countries. A recently developed data management system will allow the agency to maintain information on all grants and sales of EDAs, including the acquisition and current values of EDAs actually transferred in the previous year.

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**Discrepancies in  
Pricing/Valuing EDAs Exist**

The methods each military service uses to determine the current price/value of EDAs are, in some cases, at variance with DOD directives.

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Discrepancies in establishing prices/values for EDAS among the military services may understate the acquisition and current values of items transferred and affect the total value of the program. For example, the Army has adopted a policy of pricing/valuing excess Army trucks at 5 percent to 10 percent of acquisition cost, regardless of their condition, although DOD directives require that a range of 5 percent to 50 percent of acquisition value be applied depending on condition. Also, the Air Force undervalued 9 out of the 11 aircraft transfers GAO reviewed by more than 30 percent.

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**Inconsistencies in EDA Identification and Definition Exist**

DOD has not ensured that the military services comply with relevant departmental directives regarding the identification and definition of EDAS. This causes problems for the agency's effective planning and management of eligible country requirements.

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**Recommendations**

GAO recommends that the Secretary of Defense direct the Director of the Defense Security Assistance Agency to include the acquisition and current values of EDA grant transfers in the Congressional Presentation Document to ensure that Congress has complete information on the EDA program when considering funding levels for military assistance. GAO also recommends that the Secretary of Defense direct the Director of the Defense Security Assistance Agency to ensure that the value of EDAS transferred under lease and drawdown authorities be tracked and included in the Congressional Presentation Document.

GAO recommends that the Secretary of Defense direct the military services to (1) provide the Defense Security Assistance Agency timely and consistent information on the status and value of EDA transfers so that it can maintain the recently developed data management system, (2) adhere to DOD pricing/valuing directives to avoid undervaluing of EDAS, and (3) ensure that they comply with directives and guidelines for properly identifying EDAS.

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**Agency Comments**

DOD provided written comments on a draft of this report. DOD generally concurred with most of GAO's findings and recommendations. (See app. II for DOD's comments.)

The Department of State also provided written comments on a draft of this report. It disagreed with GAO's draft recommendation regarding State's

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**Executive Summary**

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practices with respect to end use and retransfer agreements because it already had taken action on the matter; in view of this, GAO has withdrawn that recommendation. (See app. III for State's comments.)



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**Abbreviations**

CPD	Congressional Presentation Document
DOD	Department of Defense
DSAA	Defense Security Assistance Agency
DRMO	Defense Reutilization and Marketing Office
EDA	excess defense articles
NATO	North Atlantic Treaty Organization
SRA	Southern Region Amendment

# Introduction

Excess defense articles (EDA) refer to the quantity of defense articles<sup>1</sup> owned by the U.S. government that are in excess of the Approved Force Acquisition Objective and the Approved Force Retention Stock. Under a recently revised Department of Defense (DOD) directive, these two categories were combined into the Approved Acquisition Objective. The Approved Acquisition Objective refers to the quantity of an item authorized for peacetime and wartime requirements needed to equip and sustain U.S. and allied forces in accordance with current DOD policies and plans. EDAs can be transferred at no cost to countries under the provisions of the Foreign Assistance Act of 1961, as amended, in "as is, where is" condition, or they can be sold at discounted prices to eligible countries under Foreign Military Sales, as provided for in the Arms Export Control Act. In fiscal year 1992, a total of 58 countries received EDAs as grants and/or purchased them through foreign military sales.

The EDA program allows for the disposal of defense articles no longer needed due to the downsizing and modernizing of U.S. forces while promoting U.S. foreign policy initiatives by providing defense articles to U.S. allies. Transferred EDAs include aircraft, naval vessels, spare parts, tanks, ammunition, tactical wheeled vehicles, military rations, and clothing.

## Grant Transfers of EDAs Under the Foreign Assistance Act

Section 516 of the act, known as the Southern Region Amendment (SRA), authorizes grant transfers of EDAs to countries in and around the Southern Flank of the North Atlantic Treaty Organization (NATO) for the purposes of modernizing their defense capabilities. These countries are Greece, Portugal, Turkey, Israel, Egypt, Morocco, Senegal, and Oman. The SRA countries receive priority for delivery of EDAs. A 30-day notification to Congress is required before EDAs can be transferred.

Other sections that authorize grant transfers follow.

- To modernize the counternarcotic capabilities of military forces in countries such as Bolivia, Colombia, Peru, Mexico, and Jamaica, section 517 authorizes the grant transfer of EDAs. Congress must be notified 15 days prior to the military services making a formal offer. This section places a ceiling of \$10 million, per fiscal year, on the total amount of EDAs that can be granted to a recipient country.

<sup>1</sup>The International Narcotics Control Act of 1992, P.L. 102-583, amends the definition of EDAs to exclude construction equipment such as tractors, loaders, bulldozers, and dump trucks.

- Section 518 authorizes the transfer of nonlethal EDAs to countries and international organizations that are involved in conserving natural resources and protecting endangered species. A 30-day notification to Congress is required before EDAS can be transferred.
- Section 519 allows grant transfers of nonlethal EDAS to countries that have an approved foreign military financing program<sup>2</sup> for the fiscal year in which the transfers occur, unless there exists a prohibition against transferring equipment to certain countries. The Freedom Support Act (section 906, P.L. 102-511) made Estonia, Latvia, and Lithuania eligible to receive grant transfers under this section. Congress must be notified 15 days before the EDAS can be transferred.

The 1992 International Narcotics Control Act, however, states that recipients under section 517 may not receive EDAS under sections 518 and 519. This means that countries eligible for grant transfers under section 517 may only use EDAS for counternarcotic purposes. In addition, the International Narcotics Control Act expanded eligibility for grant transfers under section 517 to all major illicit drug producing or drug transit countries in Latin America and the Caribbean that have a democratic form of government and whose armed forces meet minimal human rights standards. The new eligibility provision also extends to local law enforcement agencies within the recipient countries.

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## Transfers of EDAs Under the Arms Export Control Act

EDAS may be sold or leased under authorities provided in the Arms Export Control Act. Section 21 of the act authorizes the sale of defense articles and services to foreign countries for not less than the value thereof. Section 31(d) limits the aggregate acquisition value of EDAS delivered to foreign countries by grants or sales to \$250 million per year exclusive of ships and onboard stores and exclusive of EDAS requiring notification under section 36(b)<sup>3</sup> of the act. A 15-day congressional notification before the sale of any EDAS under this act is required by section 546 of the Foreign Operations Appropriations Act of 1993.

Section 61 of the act authorizes the lease of EDAS. In such cases, title is retained by the United States so that if the need arises, the items can be quickly returned to the U.S. inventory. In the past the United States had

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<sup>2</sup>Foreign military financing refers to a mostly grant program that enables U.S. allies to acquire American military equipment, related services, and transportation.

<sup>3</sup>Section 36(b) requires a certification to Congress for the sale of any defense article or service for \$50,000,000 or more or any major defense equipment for \$14,000,000 or more.

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not recalled leased ships, but it is now in the process of recovering ships leased to Pakistan.

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## EDA Transfers Under Drawdown Authority of the Foreign Assistance Act

EDAS can be made available to foreign countries under section 506 (a)(1) of the Foreign Assistance Act, which allows for the drawdown of defense articles from DOD stocks<sup>4</sup> and defense services and training at the President's direction. The President must determine that an emergency exists requiring immediate military assistance to a foreign country or international organization and that the need cannot be met under the authority of the Arms Export Control Act. An aggregate limit of \$75,000,000 applies to this authority.

Section 506 (a)(2)(A) also allows transfers when the President determines and reports to Congress that it is in the national interest of the United States to draw down defense articles from DOD stocks to assist in international narcotics control programs and provide international disaster assistance and migration and refugee assistance. This authority is also limited to an aggregate value of \$75,000,000 in any fiscal year. Transfers must occur within 120 days of notification to Congress, otherwise a new notification must be provided and Congress must be notified 15 days prior to the drawdown.

Section 484(a)(1) generally prohibits transfers of aircraft to countries involved in counternarcotic operations, except under a lease or loan agreement. Therefore, leasing authority is used to transfer excess aircraft to countries involved in counternarcotic operations.

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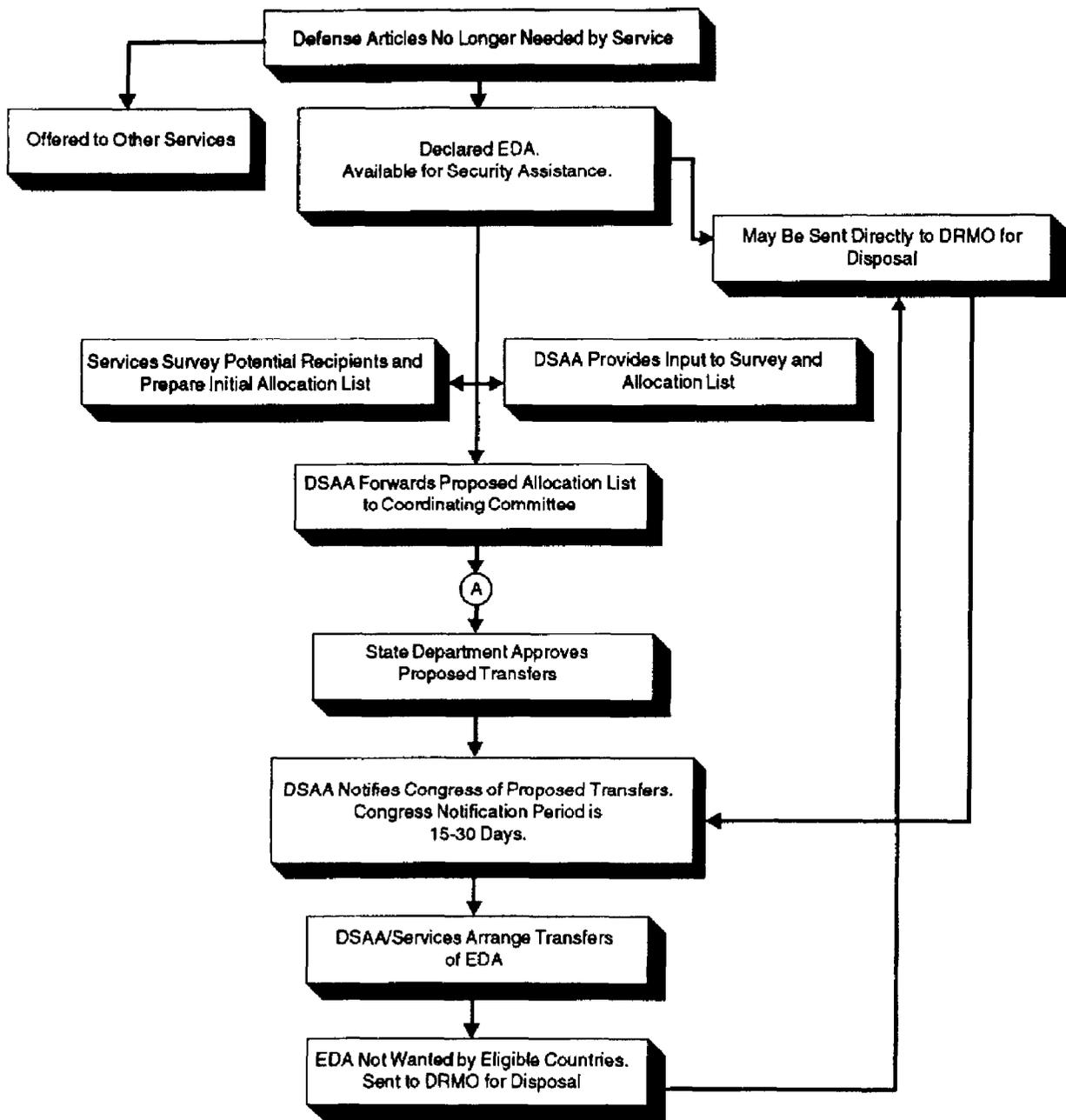
## EDA Identification and Allocation Process

The EDA identification and allocation process involves the military services; DSAA; various DOD organizations, including the Defense Reutilization and Marketing Office (DRMO); and regional and Politico-Military bureaus at the State Department. (See fig. 1.1.)

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<sup>4</sup>According to the Defense Security Assistance Agency's (DSAA) legal counsel, excess and nonexcess defense articles in DOD stocks may be furnished under drawdown authority.

Figure 1.1: EDA Process



(A) EDA Coordinating Committee Convenes to Decide on Proposed Transfers: DSAA, Military Services, DOD ISP, DOD ISA, SO/LIC, DOD Drug Coordinator, State Department, Joint Staff.

DOD and the State Department jointly manage allocation of EDAs through a coordinating committee, although State is responsible for final approval. EDAs become available for transfer to foreign countries after the military services determine that the defense articles are not needed to meet their force requirements and that other DOD components cannot use them. Once the determinations have been made, each service recommends an EDA allocation to eligible countries based upon information that security assistance organizations<sup>5</sup> located in each country have gathered in coordination with the regional Commanders in Chief. Each service then provides DSAA with its initial allocation listings. DSAA, in conjunction with the Bureau of Political Military Affairs at State Department, works with the services to develop a survey message that is sent to all interested countries in order to match available EDAs with each country's interest and needs.

A meeting of the EDA Coordinating Committee is convened to evaluate country requirements, ability of countries to effectively use the defense articles, regional military balance, and foreign policy issues. The Committee then decides on a proposed allocation of EDAs to eligible recipient countries and notifies Congress<sup>6</sup> of the proposed EDA transfers. The congressional notifications include a description of EDAs, quantity, acquisition, and estimated current values. If Congress does not object, then EDAs are transferred.

Items not transferred under the EDA program enter the Defense Reutilization and Marketing Service<sup>7</sup> for disposal. Foreign countries may receive EDAs once the items have been transferred to various locations called DRMOS.

## Determination of Recipients' Needs for EDAs

According to the military services, security assistance organizations work with their host governments to assess the requirements of each country's military. These requirements are forwarded to the U.S. military services' security assistance personnel who match requirements with what each

<sup>5</sup>Security assistance organizations/offices encompass all DOD elements, regardless of actual title, located in a foreign country with assigned responsibilities for carrying out security assistance management functions.

<sup>6</sup>Relevant congressional committees include the Senate and House Committees on Appropriations and on Authorizations.

<sup>7</sup>The Defense Reutilization and Marketing Service has the responsibility for conducting sales of DOD excess property and disposable property to foreign governments and international organizations. EDAs not accepted by countries within the period during which the military services determine whether they can afford to retain the equipment, such as during base closures, are in many cases transferred to the marketing service for disposal.

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service has identified as excess equipment. Also, eligible countries may directly contact the U.S. security assistance community with lists of desired equipment. The services, in consultation with the security assistance organizations in country, the regional Commanders in Chief, and other DOD agencies such as DSAA, assess the needs of potential recipient countries and their ability to use, maintain, and support the equipment.

According to the military services, if a country does not have the technical knowledge to maintain and support the requested equipment, they do not recommend the transfer of the equipment on their allocation listings. The services want to help modernize the military forces of potential recipients but do not want to provide equipment that the countries cannot use.

Each country's financial constraints are also considered in determining who receives EDAS. Potential recipient countries may be denied EDAS because they cannot afford the transportation, maintenance, and support costs associated with EDAS offered in as is, where is, condition, but on certain occasions, drawdown authority has been used to pay for transportation costs for countries such as Ecuador.

After being approved, each country is provided an opportunity to inspect EDAS before acceptance. Many countries, however, decline the offer because they cannot afford the travel costs associated with the inspections.

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## Scope and Methodology

At the request of the Chairman, Subcommittee on Europe and the Middle East, House Committee on Foreign Affairs, we (1) analyzed the scope and growth of the EDA program and the types of EDAS transferred; (2) examined the process used to report EDA transfers to Congress; (3) determined whether the EDA pricing/valuing procedures are accurate; and (4) examined how the EDA program is managed, including the identification of the excess articles. In addition, we reviewed how the lease and drawdown authorities are sometimes used to transfer EDAS. (See app. I for a complete discussion of our scope and methodology.)

# EDA Program Is Increasing

Between fiscal years 1990 and 1992, DOD notified Congress of proposed<sup>1</sup> transfers of EDAs with an estimated current value<sup>2</sup> of nearly \$1 billion and an original acquisition value of about \$3.5 billion. In terms of acquisition value,<sup>3</sup> about 70 percent were proposed grant transfers for countries in and around NATO's southern flank, including Greece, Turkey, Egypt, Israel, and Morocco; 10 percent were proposed grant transfers for countries primarily in Latin America; and 20 percent were proposed sales at discounted prices to other eligible countries that normally receive foreign military assistance.

Based on the total acquisition value notified to Congress, the EDA program grew by more than 50 percent between fiscal years 1990 and 1992. Total current values, however, increased between fiscal years 1990 and 1991 from \$330 million to \$435 million, but decreased in fiscal year 1992 to \$230 million. This decrease is, in part, due to irregularities in the methods used by the services to estimate the current prices/values of EDAs. Those irregularities are addressed in chapter 4.

## Increase in Acquisition Value of Proposed EDA Transfers

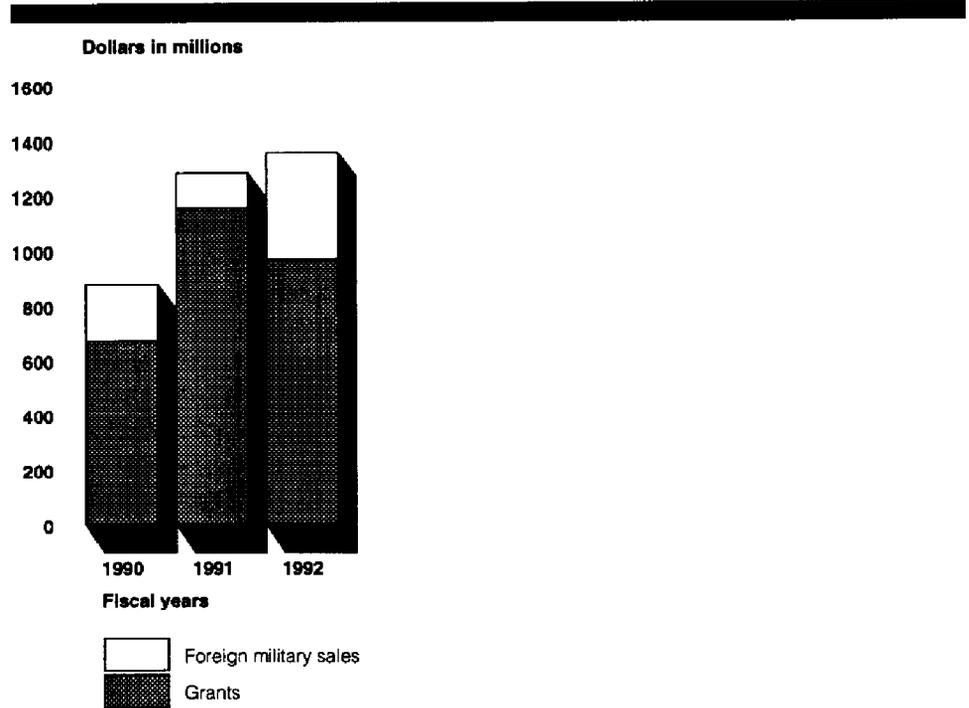
Between fiscal years 1990 and 1992, the total acquisition value of proposed EDA transfers notified by DSAA to Congress increased by more than 50 percent, from about \$879 million in fiscal year 1990 to about \$1.4 billion in fiscal year 1992 (see fig. 2.1). This increase was primarily due to the increased availability of EDAs because of the downsizing of U.S. forces. According to DSAA officials, fiscal year 1993 levels will exceed those of fiscal year 1992. As of May 1993, DSAA had notified Congress of about \$900 million in proposed EDA transfers.

<sup>1</sup>DSAA notifies Congress of each proposed EDA transfer but is not required to provide it with information on the number and value of EDAs actually transferred. Therefore, DSAA has not maintained data on actual EDA transfers, and it was unable to provide us with reliable data. Consequently, our analysis of EDA program trends is based on congressional notification data.

<sup>2</sup>Current value refers to what the item is actually worth at the time the transfer is proposed.

<sup>3</sup>Although a clear and consistent definition of acquisition value is not provided in the legislation or in DOD directives, acquisition value generally refers to an item's initial procurement cost. The Army obtains the acquisition value from its master data file, the Navy uses the "standard" price, and the Air Force uses the model year acquisition value.

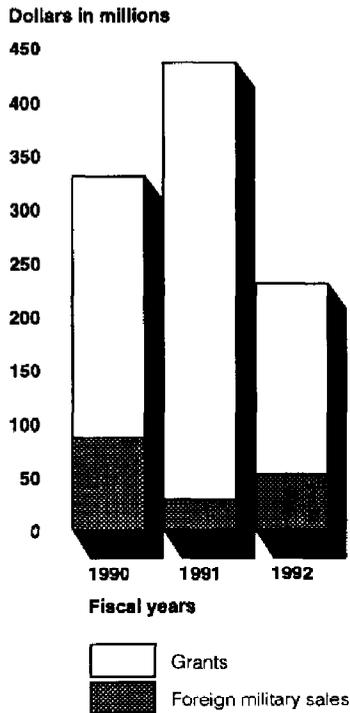
**Figure 2.1: Acquisition Value of Proposed EDA Transfers** (Fiscal Years 1990-92)



## Current Values Fluctuated

The total current value associated with the EDA notifications to Congress increased between fiscal years 1990 and 1991 but dropped in fiscal year 1992 (see fig. 2.2). DSAA officials were generally unable to explain the decrease. However, a DSAA official explained that the decrease may be due to transfers of older equipment or equipment in poorer condition in that year as well as a few large transfers in the two previous years.

**Figure 2.2: Current Value of Proposed EDA Transfers (Fiscal Years 1990-92)**



Our case study analysis of how the current value is determined indicates that current values are generally unreliable because of irregularities in the pricing/valuing methods the services use, which are addressed in chapter 4.

In our March 1993 report<sup>4</sup> dealing with EDA transfers to the SRA countries, we stated that the services do not routinely follow DOD pricing directives, and as a result, have sometimes understated the current value of EDAs. We also stated that it is difficult to account for the status of proposed EDA transfers. As a result, of the \$2.5 billion in acquisition value of proposed transfers notified to Congress between fiscal years 1990 and 1992, we could only account for \$400 million in current or delivered value for transfers to seven SRA countries.

<sup>4</sup>Security Assistance: Excess Defense Articles for Foreign Countries (GAO/NSIAD-93-164FS, Mar. 23, 1993).

A summary of the acquisition and current values of proposed EDA transfers for fiscal years 1990, 1991, and 1992 under the various authorities in the Foreign Assistance and Arms Export Controls Acts is provided in table 2.1.

**Table 2.1: Value of EDAs Notified to Congress**

Dollars in thousands		
Type of transfer authority	Acquisition value	Current value
1990		
Sec. 519	<sup>a</sup>	<sup>a</sup>
Sec. 517	\$19,901	\$1,203
Sec. 516	653,934	242,122
Foreign military sales	204,779	86,838
<b>Subtotal</b>	<b>878,614</b>	<b>330,163</b>
1991		
Sec. 519	42,934	16,121
Sec. 517	6,746	968
Sec. 516	1,105,377	388,741
Foreign military sales	126,199	28,708
<b>Subtotal</b>	<b>1,281,256</b>	<b>434,538</b>
1992		
Sec. 519	257,846	61,883
Sec. 517	5,167	1,484
Sec. 516	704,650	114,227
Foreign military sales	388,929	52,468
<b>Subtotal</b>	<b>1,356,592</b>	<b>230,062</b>
<b>Total</b>	<b>\$3,516,462</b>	<b>\$994,763</b>

<sup>a</sup>Section 519 authority did not exist in 1990. Section 518 authority was not used.

Source: Compiled from DSAA's EDA notification listing.

## Proposed Grants Exceeded Value of Proposed Sales

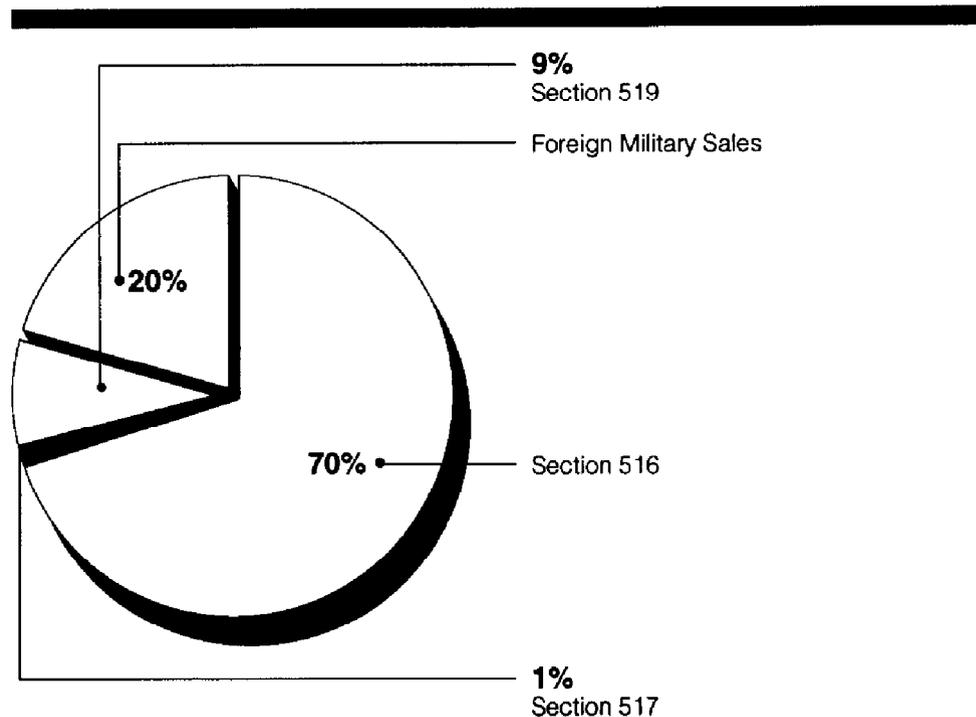
Because the general objective of the program is to provide EDAs whenever possible to supplement funded security assistance programs, EDAs offered free of charge exceeded EDAs offered for sale at discounted prices. Of the total acquisition value notified to Congress between fiscal years 1990 and 1992, \$2.8 billion (80 percent) was for grants and \$720 million (20 percent) was for sales. Countries eligible to receive EDAs as grants were also eligible to purchase EDAs at discounted prices. The military services explained that

countries generally receive major end items as EDA grants and purchase excess spare parts and support equipment.

### Section 516 Countries Receive Highest Proportion of EDAs

As required by section 516 of the Foreign Assistance Act, the SRA countries received priority and, therefore, about 70 percent of the total acquisition value of EDAs notified to Congress was for these countries. (See fig. 2.3 for the distribution of EDAs by types of authority.) Section 518 of the Foreign Assistance Act was not used to transfer EDAs during the period we reviewed. However, in fiscal year 1993 Congress was notified of proposed EDA transfers under section 518.

**Figure 2.3: Acquisition Dollar Value of Proposed EDA Transfers by Authority**  
(Fiscal Years 1990-92)



### Range of Acquisition Value for Proposed Sales

Between fiscal years 1990 and 1992, DOD notified Congress of EDA sales worth about \$720 million in acquisition value and \$168 million in current value. These proposed sales represented 20 percent of the total \$3.5 billion in acquisition value notified to Congress during that period and 17 percent of the \$995 million in current value. The prices for these proposed sales

ranged from a low of less than 1 percent of the acquisition value to a high of 80 percent of the acquisition value.

According to the acquisition value reported in the congressional notifications between fiscal years 1990 and 1992, the highest value of proposed sales was \$237 million for Thailand, followed by \$95 million for Korea, \$59 million for Morocco, \$47 million for Spain, and \$36 million for Mexico. In general, the current value of vehicles was about 5 percent of the acquisition value. For aircraft, the current value ranged between 5 percent and 85 percent<sup>5</sup> of the acquisition value. Navy aircraft and ship spares were generally priced at about 50 percent of their acquisition cost.

## Equipment Ranges From Boots to Tanks and Aircraft

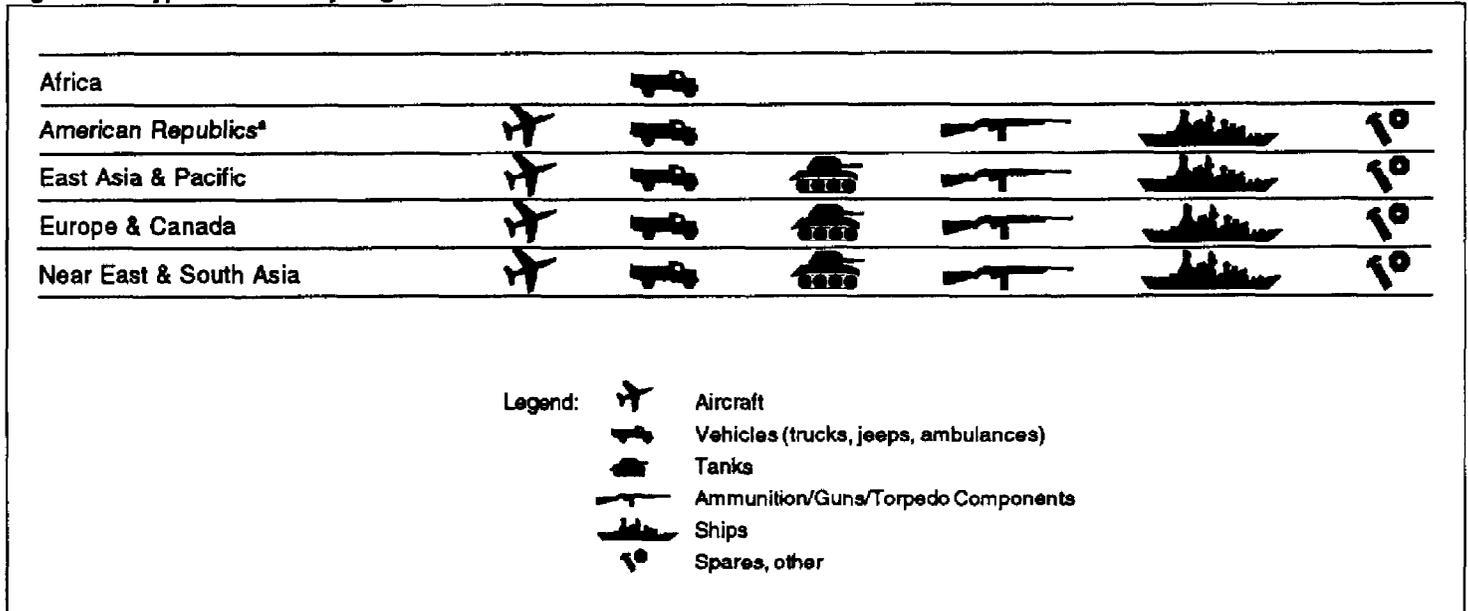
EDA transfers include items ranging from boots to tanks and aircraft. EDAS for the SRA countries include the most advanced equipment. For example, proposed EDA transfers to Israel in fiscal year 1992 included CH-53 helicopters and Patriot/Hawk spares. Turkey and Greece received C-130B aircraft in 1992. Proposed fiscal year 1991 EDA grants to Israel included 15 F-15A/B aircraft. In the same year, Morocco accepted 20 F-16A/B airframes, although the transfer was later canceled. Also, Greece received A-7E and C-130B aircraft. In fiscal year 1990, Egypt received 700 M-60A1 tanks as well as over 1,400 machine guns.

EDAS allocated to countries involved in counternarcotic operations generally included C-130B aircraft and various types of Army trucks. Figure 2.4 shows types of EDAS notified to Congress by region for fiscal years 1990 through 1992.

<sup>5</sup>To account for modifications and nonrecurring and overhaul costs that must be added to the value based on condition codes, the estimated current price for aircraft, according to an Air Force official, is in some instances higher than 50 percent of the acquisition value.

Chapter 2  
 EDA Program Is Increasing

Figure 2.4: Types of EDAs by Region



<sup>a</sup>Includes countries in Central and South America and the Eastern Caribbean.

# EDA Congressional Reporting Is Insufficient

Although EDA transfers supplement foreign military assistance programs, the aggregate value of the EDA program is not available to Congress when it considers levels of foreign military assistance for foreign countries. This situation occurs because DSAA does not report actual EDA grant transfers in the Congressional Presentation Document (CPD), and it does not track EDAs that are leased or transferred under drawdown authority.

## EDA Transfers Supplement Foreign Military Financing

Between fiscal years 1990 and 1992, Congress appropriated over \$13 billion in foreign military financing to help U.S. allies improve their defense capabilities by financing acquisition of U.S. military articles, services, and training. Yearly appropriations for foreign military assistance, however, have decreased each year: in fiscal year 1990, foreign military financing totaled \$4.8 billion; in fiscal year 1991, it declined to \$4.7 billion; and in fiscal year 1992, it declined to \$3.9 billion.

EDA transfers to eligible countries do not require yearly congressional appropriations, but the transfers do supplement the amount of military assistance Congress appropriates each year to assist U.S. allies. Between fiscal years 1990 and 1992, DOD notified Congress of proposed EDA transfers to 58 countries worth nearly \$1 billion with an acquisition value of about \$3.5 billion. Most of these proposed transfers were free of charge to the recipient countries.

This supplementary form of military assistance is likely to continue to increase as long as the U.S. armed forces downsize. Recognizing the potential for increased availability of EDAs as U.S. forces downsize, in 1991 Congress urged the President to make maximum use of available EDAs as a cost-effective supplement to funded security assistance programs.<sup>1</sup>

Table 3.1 compares the amount of foreign military financing with the current value of proposed EDA grant transfers notified to Congress between fiscal years 1990 and 1992 for the top 10 recipient countries.

<sup>1</sup>Contained in section 596 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991.

**Table 3.1: Foreign Military Financing Levels and Current Value of Proposed EDA Grant Transfers to Top 10 Recipients (Fiscal Years 1990-92)**

Dollars in thousands

<b>Country</b>	<b>Foreign military financing</b>	<b>EDA current values</b>	<b>Foreign military financing+EDA</b>
Turkey	\$1,672,850	\$197,845	\$1,870,695
Greece	1,048,495	190,372	1,238,867
Egypt	3,894,410	155,857	4,050,267
Israel	5,392,260	103,000	5,495,260
Morocco	125,815	67,166	192,981
Portugal	309,635	30,850	340,485
Philippines	540,395	30,746	571,141
Chile	4,000	14,755	18,755
Ecuador	7,485	7,851	15,336
Colombia	176,730	7,191	183,921

Based on their current value, proposed EDA transfers were more than three times the value of foreign military financing for Chile. The value of proposed EDA transfers for Ecuador was slightly more than the amount Ecuador received in financing. The top 10 recipients are different when comparing current values to acquisition values, as in table 3.2. For example, while Greece was the top recipient in terms of proposed acquisition value, it was in second place in the current value ranking. The differences are explained by variations in the type, condition, and quantities of equipment transfers proposed.

**Table 3.2: Foreign Military Financing Levels and Acquisition Value of Proposed EDA Grant for the Top 10 Recipients (Fiscal Years 1990-92)**

Dollars in thousands

<b>Country</b>	<b>Foreign military financing</b>	<b>EDA acquisition value</b>	<b>Foreign military financing+EDA</b>
Greece	\$1,048,495	\$809,559	\$1,858,054
Turkey	1,672,850	637,529	2,310,379
Israel	5,392,260	454,583	5,846,843
Egypt	3,894,410	296,678	4,191,088
Morocco	125,815	179,855	305,670
Philippines	540,395	155,048	695,443
Portugal	309,635	85,757	395,392
Chile	4,000	50,156	54,156
Ecuador	7,485	31,503	38,988
Oman	8,000	19,443	27,443

Based on their acquisition value, proposed EDA transfers for Chile were more than 12 times the amount of foreign military financing, while for Ecuador, proposed EDA transfers were more than 4 times the amount of financing.

Because eligible countries may pay for EDA purchases with foreign military financing funds, we did not include sales in our figures so as to avoid misrepresenting the net increase in funded assistance. As explained in the previous chapter, however, EDAs may be purchased at prices ranging from 5 percent to 50 percent of acquisition cost.

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## Congress Lacks Aggregate Value of EDA Program

As required by legislation, DSAA notifies Congress of each proposed EDA grant or sale and provides the acquisition and current values of the items being proposed for transfer. Updates on the number of proposed transfers actually completed, the decreases or increases in the quantity of items, and in some cases, the changes in the types of items offered for transfer are not provided to Congress because the legislation does not require it.

Moreover, when DOD and the Department of State present their annual security assistance budget request to Congress, their CPD<sup>2</sup> only informs Congress of the acquisition and current values (delivery values) of EDAs sold through foreign military sales; a CPD provides no information on the acquisition and current values of EDAs transferred as grants. As a result, Congress does not have the aggregate acquisition and current values of EDAs delivered to foreign countries as it considers military assistance appropriations.

DSAA officials agreed that the inclusion of acquisition and current values of grant transfers would improve congressional understanding of the EDA program, and they have recently implemented an automated data management system that will allow both grants and sales to be tracked. DSAA has tasked the services to begin providing information to cover all EDAs delivered to date during fiscal year 1993. DSAA plans to begin including EDA grant transfers information in next year's CPD.

Also, because there is no requirement to provide Congress with information on actual transfers, DSAA did not consistently track actual transfers, as compared to proposed transfers, until this year. As we reported in March 1993, DSAA did not have an integrated data management

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<sup>2</sup>A CPD offers Congress a general perspective on the administration's budget request for security assistance, together with specific justification for each regional or country program.

system to track proposed EDA transfers from initial offer through final delivery to recipient countries. While many DOD offices are involved in the EDA process, no one office can account for the entire program. Presently, one person in the DSAA operations office serves as the focal point for the program with some assistance from another staff person.

## Transfers Under Lease and Drawdown Authorities Not Included in Overall Value of Program

EDAs that are leased or that are provided under drawdown authority also are not tracked by DSAA. The number and value of EDA leases cannot be determined because the lease agreements do not indicate whether the defense articles are EDAs and because DOD does not distinguish whether the defense articles being provided are excess or nonexcess. Not doing so further contributes to the general undervaluing of the EDA program.

### Leases of EDAs

The Arms Export Control Act authorizes DOD to lease defense articles for a specified period of time not to exceed 5 years. DSAA manages the lease program and certifies to Congress, if the lease is longer than 1 year, that (1) the lease is in the foreign policy and national security interest of the United States, (2) the articles are not needed for public use, and (3) the receiving country has agreed to reimburse the United States for depreciation and replacement if the articles are damaged while leased, although authority to waive this requirement exists.

While the language in the legislation authorizing leases of defense articles applies to defense articles that may be subject to immediate return if needed, EDAs are by definition no longer needed to fulfill U.S. military requirements. However, Navy documents show that the Navy is leasing excess ships to countries such as Brazil, Greece, and Taiwan. Furthermore, DSAA officials told us that other defense articles being leased may include EDAs but that this cannot be determined from the congressional notification information.

Additionally, aircraft were leased using section 506 drawdown authority because there is a restriction on transferring title of aircraft to countries involved in counternarcotic activities. Other provisions make it prohibitively expensive for these countries to pay the required lease charges; therefore, DSAA has charged the value of the leased aircraft against drawdown amounts authorized for each country. For example, on February 24, 1992, 12 UH-1H helicopters were leased to Mexico for 22 months at a charge of \$9 million against the \$26 million drawdown authorized for that country. Recent amendments to the restriction,

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however, allow for a presidential waiver, making it possible to grant equipment to these countries, and recently two C-130 aircraft were transferred to Ecuador under the waiver provision.

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### Use of Section 506 Drawdown Authority to Transfer EDA

In some cases, section 506 has been used to transfer EDAS because the recipient country could not afford to pay for the assets or the associated transportation costs. According to DSAA, EDAS are considered defense stocks and may, therefore, be transferred under this authority. Advantages to receiving EDAS under this section are that recipient countries do not pay transportation costs and that the items normally are in good operating condition.

For example, in fiscal year 1990, excess tactical wheeled vehicles were granted to Ecuador under section 517 of the Foreign Assistance Act. The acquisition and current values of these vehicles were nearly \$6 million and over \$330,000, respectively. Section 506 drawdown authority was used to pay the transportation costs for these vehicles, which were \$1.2 million. That same year Ecuador also received over \$220,000 worth of excess vehicles under the drawdown authority.

Because the military services are not reimbursed for the defense articles and services under the drawdown authority, they told us that they prefer providing EDAS when the drawdown authority is invoked. However, the military services do not provide, and DSAA does not require, a distinction between excess and nonexcess defense articles made available under these authorities.

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### Conclusions

Although the EDA program supplements military assistance, relevant congressional committees do not know how many transfers were actually executed and what the total acquisition and current values of EDAS transferred to various recipients were. The recently implemented data management system will allow DSAA to provide Congress with accurate and up-to-date information on all grants and sales, including the acquisition and current values of EDAS actually transferred in the previous year. Also, DSAA plans to begin including such information in the CPD.

In addition, EDAS being transferred under lease and drawdown authorities are not identified as such, and DSAA does not track the extent to which EDAS are being transferred under these authorities. These factors

contributed to the lack of reliable data on the overall value of the EDA program.

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## Recommendations

We recommend that the Secretary of Defense direct the DSAA Director to begin including the acquisition and current values of EDA grant transfers in the prior fiscal year in the CPD since grants constitute over 80 percent of all EDA transfers. This will provide Congress with relevant and needed information on this form of supplementary military assistance.

We also recommend that the Secretary of Defense direct the DSAA Director to maintain data on the types and value of EDAS made available under both leasing and drawdown authorities and that this information be included in the CPD.

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## Agency Comments and Our Evaluation

DOD agreed with our first recommendation and stated that DSAA will include such information in the fiscal year 1995 CPD and has instituted an EDA data base to assist in gathering this information.

DOD agreed in part with our second recommendation. While acknowledging that there is no information on the value of materiel (whether excess or not) transferred through leases or under drawdown authority, DOD does not believe it is significant to distinguish between excess and nonexcess items and, thus, plans to begin reporting the total value of items transferred under these authorities. We continue to believe that, in order to have an accurate and complete value of the EDA program, Congress should be informed of the value of EDAS transferred under lease and drawdown authorities.

# Discrepancies Found in EDA Pricing and Valuing

The military services report a lack of incentives to manage the EDA program because no direct benefit accrues to them when EDAs are sold or granted, and they do not always adhere to guidelines for pricing/valuing EDAs. As a result, obtaining reliable figures on the acquisition and current values of EDA transfers is difficult.

Another result of not adhering to the guidelines is that the current value of EDAs granted or sold to foreign countries is understated. For example, for the fiscal years we reviewed, the Army adopted a policy of pricing/valuing excess trucks so that the current value of proposed transfers was 5 percent to 10 percent of acquisition cost, regardless of condition. Also, due to errors in computing acquisition and current values, the Air Force understated several proposed grant transfers of C-130B aircraft to Turkey by over \$8 million in acquisition value and \$6.8 million in current value.

## Irregularities in EDA Pricing/Valuing

Irregularities in pricing/valuing EDAs compromise the reliability of EDA data. DSAA obtains acquisition and current values from the services that are supposed to calculate the values using DOD directives. The services, however, do not routinely follow the directives for establishing the current value of EDAs, thereby contributing to the general unreliability of EDA prices/values.

DOD directives provide three alternative methods for pricing/valuing EDAs. The directives state that the price of excess material, exclusive of repair or modification cost, should be the higher of its market value, its scrap value, or its fair value. Since there is no practical way to determine market value for excess defense articles and generally articles are worth more than scrap, EDA prices/values are usually based on the fair value method.<sup>1</sup> Also, in accordance with DOD directives, fair value prices should range from a high of 50 percent of the original acquisition value for equipment in good condition to a low of 5 percent for equipment in need of repairs. If a military service wants to deviate from the directives, it must provide full justification to the DOD Comptroller who can grant waivers to the pricing directives. The waivers, however, must be requested before a transfer is implemented.

Countries that purchase EDAs through foreign military sales must pay for the articles and the related handling charges, whereas countries that receive EDAs on a grant basis only pay for the packing, crating, handling,

<sup>1</sup>According to DOD officials, the same pricing/valuing procedures apply to EDAs transferred as grants or sales. Therefore, we use the term pricing interchangeably with valuing of EDAs that are granted or sold.

and transportation costs.<sup>2</sup> In most cases, spare and replacement parts are required to maintain EDAs. If the needed parts are available as excess, they are usually transferred on a grant basis. If the required parts are not excess to U.S. needs, then the recipient countries must purchase the spares and replacement parts through foreign military sales. Eligible countries may use foreign military financing to pay for the EDA sales and transportation costs or they may use their own monies.

During our review, we identified several cases where the services deviated from the existing pricing/valuing procedures and, thus, understated the value of EDAs notified to Congress.

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### Air Force Pricing/Valuing Irregularities

Although many of the congressional notifications for proposed Air Force EDA transfers showed high current values as a percentage of acquisition costs, we found that current values were often understated as were acquisition costs. Of the 11 Air Force EDA grant transfers we reviewed, the acquisition and/or current values in 9 cases were understated. For example, the acquisition and current values notified to Congress of six C-130B aircraft proposed for transfer to Turkey in fiscal year 1992 were \$5.5 million and \$2.2 million, respectively. The correct figures were \$13.7 million in acquisition value and \$9 million in current value. The discrepancy occurred because the Air Force pricing officer did not calculate the values for these aircraft as required by Air Force regulations. Instead, the Air Force country managers established the values for the aircraft, pricing them erroneously. The Air Force pricing officer recalculated the acquisition and current values for these 11 cases at our request, using the DOD established guidelines. On the basis of these recalculations, we determined that the total acquisition value notified to Congress for these 11 cases should have been \$480 million; Congress was notified of about \$347 million in acquisition value. Similarly, while the total current value for the 11 cases should have been about \$218 million, Congress was notified of about \$150 million, an underreporting of more than 30 percent.

To ensure that proper pricing procedures will be followed in the future, the Air Force has briefed its country officers on following DOD and Air Force regulations. While undervaluing of aircraft offered as grants does not constitute a loss of revenue, it generally understates the total EDA assistance provided to eligible countries.

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<sup>2</sup>There are exceptions. In some cases, nonlethal EDAs may be transported by DOD to section 518 and 519 recipients without charge.

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## Army Pricing/Valuing Irregularities

Despite DOD's pricing directive, the Army has adopted a policy for valuing EDA tactical wheeled vehicles at 5 percent to 10 percent of original acquisition value regardless of condition. Army officials explained that the policy is designed to expedite the disposal of excess vehicles in Europe, to meet deadlines for closing military facilities, and to minimize the costs of storing and maintaining the excess vehicles. We reviewed nine transfers of excess tactical wheeled vehicles, which included EDA grants and sales.

In all cases, the current value of the proposed vehicle transfers was 5 percent to 10 percent of acquisition value. For example, M880 trucks that were proposed for Morocco in fiscal year 1992 had an acquisition value of \$1.4 million and a current value of \$68,400. Army M880 trucks intended for sale to Mexico in fiscal year 1992 had an acquisition value of \$599,625 and a current value of \$30,000. Also in fiscal year 1992, Colombia was to receive Army M51A1 trucks as grants with an acquisition value of \$32,776 and a current value of \$3,276.

In accordance with the DOD directive, the Army has recently requested a waiver from the DOD Comptroller, who has yet to approve it. The Army claims that due to the quantity of excess vehicles in its inventory, establishing condition codes for each vehicle is neither economical nor efficient. Between fiscal years 1990 and 1992, Congress was notified of proposed transfers for over 20,000 excess tactical wheeled vehicles.

This Army practice of pricing/valuing all vehicles at 5 percent to 10 percent of acquisition value, regardless of condition, has the effect of generally undervaluing the total amount of the EDA program. When the vehicles are sold as EDAs, there could be a loss of revenue associated with blanket pricing/valuing.

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## Navy Pricing/Valuing Irregularities

In its March 1992 report,<sup>3</sup> the Naval Audit Service criticized the Naval Air Systems Command for failing to (1) use the highest method of pricing excess aircraft (i.e., market price) and (2) obtain waivers before offering aircraft valued at less than their value based on condition. The report concluded that the Command generally priced aircraft at a low value to ensure a sale. For instance, 20 F-8J aircraft were priced for sale at scrap value, or about 1 percent of the acquisition value. The aircraft should have been priced at 5 percent of the acquisition value based on condition codes. The Naval Audit Service stated that proper pricing would have increased

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<sup>3</sup>System Support Buy-Out and Excess Material Sales Processes, O43-C-42, Naval Audit Service, Mar. 24, 1992.

revenue on the sale from \$269,180 to \$1,302,000. The Command responded that, in general, the fair value was used to price excess aircraft because a market value for excess articles cannot be determined and stated that DOD should clarify how to use the market value method or eliminate it.

During our review, we found that the Navy notified Congress of a proposed sale of 31 A-7E excess aircraft to Thailand in fiscal year 1992 at 5 percent of acquisition value. The aircraft, however, were to be sold for \$943,981 (or less than 1 percent of acquisition value) even though the current value was \$5.8 million as determined by their condition, a difference of about \$5 million. The lower price was based on the scrap value of an A-7E aircraft, and no condition codes were used in establishing the sale price. While the Navy obtained a waiver from the DOD Comptroller allowing the sale at scrap value, the lower price was not renotified to Congress. At present, a requirement to renotify Congress of proposed EDA transfers because of changes in value or quantity does not exist.

Navy officials explained that no other foreign military sales customers expressed interest in purchasing the aircraft in spite of offerings to several countries and that the price was lowered because Thailand could not afford to purchase the aircraft at the higher price. In addition, the Navy wanted to dispose of the excess aircraft to avoid incurring storage costs. A Navy official noted that Thailand will be purchasing a support package needed to maintain and operate the aircraft and that such a package will represent revenues to the United States in addition to those generated by the discounted sale price.

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## Conclusions

The military services did not always adhere to guidelines for pricing/valuing EDAs, and as a result, the acquisition and current values of the EDA program were understated. The general strengthening of pricing/valuing EDA practices would contribute to providing Congress with more complete information on the total amount of EDA assistance being provided to foreign countries.

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## Recommendations

We recommend that the Secretary of Defense direct the military services to (1) provide DSAA timely and consistent information on EDA transfers and (2) adhere to DOD pricing/valuing directives so that the data management system DSAA recently implemented contains accurate and reliable information on the EDA program.

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**Agency Comments**  
**and Our Evaluation**

DOD agreed with our conclusion and recommendation, and on June 30, 1993, it directed the military services to provide data electronically on EDA deliveries so that DSAA can input it into its data base. Two of the services have provided test data, and provision of real data should begin in the next 6 months.

# Other Management Aspects of the EDA Program

In addition to the EDA data weaknesses previously addressed, we found that the military services have difficulty identifying and forecasting EDAs. Although the services are required to provide yearly projections of expected EDA availability, they contend that uncertainties about additional budget reductions and force structure composition hinder their ability to do so. The services also use various ways of defining EDAs.

Additionally, our review of statutory requirements and State Department policy with regard to end use and retransfer agreements indicates that several countries are exempted from the requirement to have these agreements signed prior to the transfer of EDAs. The State Department has adopted a policy of seeking to secure these agreements with all countries whenever possible.

## Services Do Not Provide Projections of EDA Availability

Even though the Security Assistance Management Manual requires the military services to provide DSAA with information on items expected to become excess each year, the services have not complied with this requirement. For the first time this year, the Navy provided DSAA with EDA forecasts. The services claim that it is difficult to identify and label items as excess to U.S. force requirements due to uncertainty about the future force structure and additional reductions in defense budgets. The lack of EDA forecasts causes problems for DSAA in managing the EDA program effectively because the agency cannot plan ahead in terms of filling recipient countries' requirements. Lack of advance planning may result in substantial storage costs for the services as eligible countries need time to plan their budgets and allocate funding to cover the transportation and maintenance costs associated with receiving EDAs.

## Inconsistencies in Methods Used to Identify and Define EDAs

Defense articles not included in the Approved Acquisition Objective are not necessarily excess because other requirements must be met before the services can label items as excess. For instance, under DOD guidance, defense articles may be retained for economic reasons, specific contingency purposes, or for reutilization efforts before being declared excess. Each of the military services apply these definitions somewhat differently in determining what is excess to their requirements and adjust their definitions of what constitutes EDAs.

In general, the military services contend that they have no incentives to manage their EDAs because any monies obtained from EDA sales return to the U.S. Treasury and that grant transfers yield no revenue unless a

support package is sold to accompany the major end item. The services would like to see a system that permits them to use part or all of the funds received from EDA sales and to apply the funds to storage and maintenance costs.

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### EDA Identification and Definition in the Air Force

The Air Force Deputy Chief of Staff for Plans and Operations determines which articles are excess to Air Force operational requirements and notifies the various commands that determine what will be deactivated. The commands notify the Programs and Evaluation Directorate who determines if any other DOD requirements exist for the items such as operational requirements, spare parts, museums, and trainers or other U.S. government requirements (i.e., another federal agency may need the items). If no such requirements exist, then the office of the Deputy Secretary for International Affairs declares that excess items are available for security assistance transfers. Recently, however, the Air Force has indicated that it is revising its EDA definition guidelines to favor retention of defense articles in the contingency requirements category, which were available for security assistance transfers. DSAA is reviewing the Air Force's alternative way of defining EDAS.

To further complicate definitional categories, defense articles once declared excess and offered to an eligible country may later be reinstated to the active inventory. For example, in fiscal year 1991, Morocco was to receive 20 F-16 airframes as a grant under section 516 of the Foreign Assistance Act free of charge, but it would have had to pay for the engines, the spares parts, and the transportation and training costs. Due to financial difficulties, however, Morocco could not afford to support the airframes and, therefore, the transfer was canceled. Initially, the Air Force had declared the F-16s as excess because it had expected to order 600 newer F-16 models, but due to budget reductions, the Air Force could only order 300 new aircraft. As a result, the once excess airframes were returned to the Air Force's inventory. This example illustrates the difficulty in systematically determining what constitutes excess defense articles.

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### EDA Identification and Definition in the Navy

The Office of the Chief of Naval Operations is responsible for identifying defense articles as EDAS. For Navy aircraft, the Navy Strike Board compiles a quarterly report designating what aircraft will remain active and what aircraft will be cannibalized, held for foreign military sales and grant purposes, or placed in war reserves. For ships, a Ship Disposition Review occurs annually to determine what ships should be scrapped, placed in

reserve, leased, or kept in operation. Subsequently, the Navy's International Programs Office prepares the initial allocation listing of EDA recipients.

However, whether ships are identified and defined as excess is continuously undergoing revision. According to Navy International Programs officials, the Navy only leases equipment that is still part of its defined force structure needs; therefore, by definition, excess equipment should not be leased. A recent Navy ship allocation document, however, suggests that ships declared EDA are being leased to Greece and other countries.

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## EDA Identification and Definition in the Army

Twice each year the major Army commands develop plans that contain troop lists for current and projected forces. Once approved, these plans help to identify what equipment is needed and which is excess. When the Army's national inventory control points declare certain items excess to total Army needs, the Army's Operations and Logistics staff develop plans to either transfer the excess equipment by sale or grant to foreign customers or send the items to the Defense Reutilization Management Service for final disposition.

According to Army officials, between fiscal years 1990 and 1992, some 56,500 Army vehicles became available as excess due to modernization and downsizing. The Army, however, was unable to provide a breakdown of how many vehicles became excess because of these reasons. Prior to declaring the vehicles as excess, the Army categorized items as "displaced" or "in long supply." According to an Army official, displaced refers to equipment in Army stock that could be offered as a replacement for modernization sale, at a reduced price, because it is not economical to repair and/or transport the equipment to a location where it is required. Available stocks that have not been declared excess, but for which there is no Army requirement, are said to be items in long supply. Although the Army uses these terms for equipment disposal, neither is recognized by the DOD Comptroller's Office, and no DOD directives define these categories. Further, the Army did not provide any documentation for its definitions.

The Army's use of these two categories is questionable. By categorizing items as displaced or in long supply, the Army could be selling vehicles through foreign military sales and/or withholding EDAs that should be made available for security assistance purposes. The Army's use of the

terms displaced and in long supply illustrates yet another difference in identifying EDAS.

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## Policy Regarding End Use and Retransfer Agreements

To receive EDAS as grants, recipient countries are required to have agreed to the conditions of subsections 505(a) and (f) of the Foreign Assistance Act, which deals with end use of and rights to proceeds of sales of the equipment transferred. For sales of EDAS, the Arms Export Control Act, section 3, requires recipient countries to agree not to transfer title or possession of defense articles furnished by the United States. The State Department is responsible for final approval of EDA transfers and for ensuring that these agreements are completed.

Several countries, however, are exempt from the requirement in section 505 because of a "notwithstanding other provisions of law" clause in sections 516 and 519 of the act. The State Department, however, has adopted a policy that seeks to obtain these agreements in all possible instances.

While acknowledging that the State Department is permitted to approve transfers of EDAS to certain countries without these agreements, we found that its policy in some cases allowed transfers to occur without prior end use and retransfer agreements. For example, we found that while the transfer of 700 M60-A1 tanks to Egypt took place in 1990, the end use and retransfer agreements were not signed until 1992. Egypt also received another transfer of excess wheeled vehicles and machine guns before it signed the agreements. Similarly, C-130 aircraft were transferred to Chile in 1991, but the end use and retransfer agreements were not signed until 1992.

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## Conclusions

DOD has not effectively managed the EDA program so as to ensure compliance with relevant departmental directives. Although the services must contend with the uncertainties of military force and budget reductions, proper identification of EDAS could enable DSAA to fulfill EDA recipients' requirements in a more timely manner.

We agree with the State Department that it makes good policy sense to obtain agreements with all EDA eligible countries, including those exempted by the Foreign Assistance Act in sections 516 and 519.

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## Recommendation

We recommend that the Secretary of Defense direct the military services to ensure that they comply with relevant departmental directives and guidelines for properly identifying EDAS.

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## Agency Comments and Our Evaluation

DOD partially concurred with our recommendation, stating that declaring an item excess to service requirements is a force structure decision that must be made by the military services concerned. DOD stated, however, that DSAA and the Office of the Under Secretary of Defense for Acquisition have recently undertaken discussions with the military services to ensure that guidance on the definition of EDA is understood and that these efforts will continue.

The Department of State disagreed with our draft report and reiterated that the Foreign Assistance Act exempts many countries from the requirement to have signed agreements before EDAS are transferred. Our draft report had correctly stated that section 516 and 519 countries are exempted because of a “notwithstanding provision of law” clause and acknowledged that State is not legally required to obtain these agreements.

Our draft report also addressed State’s policy of seeking end use and retransfer agreements with all countries regardless of exemptions and concluded that EDA transfers to Egypt and Chile took place many months before such agreements were signed. Therefore, the draft report contained a proposed recommendation to State asking that it ensure that agreements with all countries be in place prior to transfers. State commented that its policy is to secure end use and retransfer agreements in all possible instances, even though the law exempts certain countries, and that agreements with Egypt and Chile were eventually concluded bringing all EDA grant transferred articles under the provisions of end use and retransfer agreements. In consideration of State’s comments, we deleted that recommendation from our final report.



# Scope and Methodology

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In performing our work, we interviewed officials in the Department of Defense (DOD), including the Defense Security Assistance Agency (DSAA) country managers and the Excess Defense Articles (EDA) focal point. We met with security assistance representatives from each of the military services, and the DOD representatives to the EDA Coordinating Committee, including officials from the Joint Staff, the Assistant Secretaries of Defense for International Security Policy and International Security Affairs, as well as a representative from the office of DOD's Coordinator for Drug Enforcement Policy and Support and the Special Operations and Low-Intensity Conflict. Within the Department of State, we met with officials from the Regional Bureaus and the Bureau of Political Military Affairs, specifically the Office of Defense Relations and Security Assistance. We reviewed DOD directives and regulations concerning EDA management of EDA, including pricing information.

We reviewed and analyzed DSAA's data on proposed EDA transfers notified to Congress between fiscal years 1990 and 1992. Because DSAA did not have an automated data base, we constructed a LOTUS data base to facilitate analysis by country, type of authority, and fiscal year. We identified some errors and inconsistencies in the data and reported those to DSAA. Working closely with DSAA, we refined the data base to the best extent possible and reconciled most discrepancies.

DSAA was not able to provide the status of each proposed transfer notified to Congress because it lacked a tracking system. While the services provided some information on actual EDA deliveries for fiscal years 1990 through 1992, we did not consider that data to be very reliable. As a result, data on actual EDA deliveries were gathered for section 516 countries from a variety of different sources over a period of several months. Because of the time involved in obtaining the data and the many changes made to the data, we did not attempt to determine actual deliveries for the rest of the proposed transfers. Our analysis, thus, is primarily based on the acquisition value of EDAS notified to Congress. For comparison purposes, we sometimes include DOD's current values for the proposed EDA transfers; however, we cite the lack of reliability for the estimated current values. Whenever possible, we included the status and value of the proposed transfers for our case studies.

To learn how EDAS are identified and to track the process from initial identification to final allocation of EDAS, we selected a case study approach to best respond to the request. We reviewed the proposed transfer of Navy A-7E aircraft and CH-53 helicopters; Air Force C-130B, A-10, F-15A/B, and

F-16A/B aircraft; and Army tactical wheeled vehicles, including M882, M880, and M51A1 trucks. Our selection criteria were based upon (1) EDAS transferred under both grants and foreign military sales, (2) EDAS offered by each of the military services, and (3) EDAS transferred under the various legislative authorities. On the basis of these criteria, we reviewed 24 cases of proposed EDA transfers to 14 countries representing South America, Europe, the Middle East, and the Far East. See table I.1 for a list of the case studies we reviewed and general information on type of EDA, value, and status of each proposed transfer. Conclusions reached cannot be generalized because our sampling was not randomly drawn and is not statistically representative of the entire EDA program, but the information illustrates the EDA process.

We performed our work between March 1992 and May 1993 in accordance with generally accepted government auditing standards.

**Appendix I  
Scope and Methodology**

**Table I.1: Case Studies**

<b>Recipient country</b>	<b>EDA equipment</b>	<b>Quantity of EDAs</b>	<b>Type of transfer</b>	<b>Acquisition cost</b>	<b>Current value</b>	<b>Status</b>
<b>Navy transfers</b>						
Thailand	A-7E aircraft	31	Sale	\$116,257,936	\$ 5,812,903	To be delivered
Greece	A-7E aircraft	26	Grant	101,278,086	10,761,894	Delivered
Israel	CH-53 helicopters	7	Grant	15,400,000	6,580,000	Delivered
<b>Air Force transfers</b>						
Turkey	A-10 aircraft	50	Proposed grant			Pending State approval
Greece	C-130B aircraft	5	Grant	6,919,370	2,767,750	Delivered
Turkey	C-130B aircraft	2	Grant	5,535,496	2,214,200	Delivered
Argentina	C-130B aircraft	2	Grant	5,400,000	4,223,892	Delivered
Chile	C-130B aircraft	1	Grant	2,100,000	840,000	Delivered
Colombia	C-130B aircraft	1	Grant	2,100,000	1,620,146	Delivered
Ecuador	C-130B aircraft	2	Grant	5,500,000	3,518,333	Delivered
Uruguay	C-130B aircraft	2	Grant	4,300,000	2,834,500	Delivered
Bolivia	C-130B aircraft	1	Grant	2,100,000	1,474,000	Delivered
Philippines	C-130B aircraft	2	Grant	3,800,000	3,711,318	Delivered
Israel	F-15A/B aircraft	15	Grant	190,656,210	67,291,875	Delivered
Morocco	F-16A/B aircraft without engines	20	Grant	118,852,840	59,324,000	Canceled
<b>Army transfers</b>						
Morocco	M882 trucks	210	Grant	1,798,020	89,880	110 shipped; 100 canceled
Morocco	M880 trucks	171	Grant	1,367,145	68,400	110 shipped; 61 canceled
Colombia	M882 trucks	5	Grant	42,810	2,140	Canceled
Morocco	M51A1 trucks	20	Grant	327,760	32,760	Shipped
Colombia	M51A1 trucks	2	Grant	32,776	3,276	Canceled
Ecuador	M880 trucks	122	Grant	975,390	48,800	Canceled
Lebanon	Dump trucks	3	Sale	40,233	2,805	Delivered
Mexico	M51A1 trucks	14	Sale	229,432	22,932	Canceled
Mexico	M880 trucks	75	Sale	599,625	30,000	Canceled

# Comments From the Department of Defense



THE ASSISTANT SECRETARY OF DEFENSE

2400 DEFENSE PENTAGON  
WASHINGTON, DC 20301-2400



01 NOV 1993

I-43573/93

Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and International  
Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, entitled -- "SECURITY ASSISTANCE: Need for Improved Reporting on Excess Defense Articles Transfers," dated September 23, 1993 (GAO Code 463821), OSD Case 9377-A. The DoD generally concurs with the draft report.

The Excess Defense Articles program provides a useful and cost effective means of assisting U.S. allies and friends to modernize their defense forces and aid in the pursuit of U.S. national security and foreign policy objectives. Simultaneously, providing Excess Defense Articles to the recipient governments at no cost to the U.S. Government saves the Military Departments millions of dollars in storage, transportation, demilitarization, and disposal costs.

The Excess Defense Articles program has expanded dramatically in recent years as the U.S. force structure has begun to decline. While the DoD agrees with the GAO recommendations on management of the program, it should be recognized that substantial progress has been made in management of the program in the last few years. The DoD is already working on many of the areas where change is recommended.

The assistance of the General Accounting Office in improving management of the Excess Defense Article program is welcome. The detailed DoD comments on the report findings and recommendations are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in cursive script, reading "Chas. W. Freeman, Jr.".

Chas. W. Freeman, Jr.

Enclosure  
As stated



GAO DRAFT REPORT - DATED SEPTEMBER 23, 1993  
(GAO CODE 463821) OSD CASE 9377-A

"SECURITY ASSISTANCE: NEED FOR IMPROVED REPORTING ON EXCESS  
DEFENSE ARTICLES TRANSFERS"

DEPARTMENT OF DEFENSE COMMENTS

\* \* \* \* \*

FINDINGS

**FINDING A: As the U.S. Forces Downsize, More Defense Articles Are Becoming Excess and Available for Transfer.** The GAO reported that Excess Defense Articles refer to the quantity of defense articles owned by the U.S. Government that are in excess of the Approved Force Acquisition Objective and the Approved Force Retention Stock. The GAO observed that Excess Defense Articles include lethal and nonlethal defense articles that can be granted or sold at reduced prices in "as is, where is" condition under the Foreign Assistance Act of 1961 as amended, or may be sold at reduced prices, generally ranging from 5 to 50 percent of their original acquisition value, under the Arms Export Control Act. The GAO also observed that, in FY 1992, 58 countries received Excess Defense Articles as grants and/or purchased them through foreign military sales.

The GAO also noted that the DoD and Department of State jointly manage the program through the Excess Defense Article Coordinating Committee, which (1) evaluates country requirements, (2) assesses the ability of countries to effectively use the articles, (3) considers regional balance and foreign policy issues, and (4) decides on a proposed allocation of Excess Defense Articles to eligible foreign countries. The GAO also reported that the Defense Security Assistance Agency is responsible for coordinating all aspects of the Excess Defense Articles transfers and for notifying congressional committees, as appropriate, under the various legislative provisions. (pp. 2-4, pp. 14-22/GAO Draft Report)

**DOD RESPONSE:** Concur. Recent decreases in U.S. force structure have led to increasing amounts of Excess Defense Articles being available for and being notified for potential transfer to foreign countries under the authorities of the Arms Export Control Act and the Foreign Assistance Act. This will likely continue until the force structure stabilizes, at which time the amount of Excess Defense Articles available will decrease.

**FINDING B: The Excess Defense Articles Acquisition Value Nearly Doubled, But the Current Value Fluctuated.** The GAO observed that, between FY 1990 and FY 1992, the DoD notified the Congress of proposed transfers of Excess Defense Articles with an

Enclosure

Now on pp. 2-3  
and pp. 10-15.

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Comments From the Department of Defense

estimated current value of nearly \$1 billion and an original acquisition value of about \$3.5 billion. The GAO noted that, in terms of acquisition value, about 70 percent were proposed grant transfers for countries in and around the North Atlantic Treaty Organization southern flank, including Greece, Turkey, Egypt, Israel, and Morocco; 10 percent were proposed grant transfers for countries primarily in Latin America; and 20 percent were proposed sales at discounted prices to other eligible countries that normally receive foreign military assistance.

The GAO found that the total acquisition value of the Excess Defense Articles program notified to the Congress grew by more than 50 percent between FY 1990 and FY 1992--from about \$879 million in FY 1990 to about \$1.4 billion in FY 1992--primarily due to the increased availability of Excess Defense Articles because of the downsizing of U.S. forces. The GAO also observed that FY 1993 levels will exceed those experienced in FY 1992, and that as of May 1993, the Defense Security Assistance Agency had notified the Congress of \$900 million in proposed Excess Defense Articles transfers.

The GAO also reported that the total current value associated with the article notifications to the Congress increased between FY 1990 and FY 1991, but dropped in FY 1992, and that DoD officials were generally unable to explain the decrease. However, the GAO noted that one Defense Security Assistance Agency official indicated the decrease may be due to transfers of older equipment or equipment in poorer condition in that year, as well as a few large transfers in the two previous years. The GAO analysis of how the current value is determined indicated that current values are generally unreliable, because of irregularities in the pricing/valuing methods the Services use. The GAO noted in a March 1993 report (OSD Case 9377) that the Services do not routinely follow DoD pricing directives, and as a result, have sometimes understated the current value of Excess Defense Articles. The GAO also noted in the March 1993 report that it is difficult to account for the status of proposed article transfers, and consequently, could only account for \$400 million in current or delivered value of the \$2.5 billion in acquisition value of proposed transfers to seven Southern Region Amendment countries. (pp. 5-6, pp. 24-28/GAO Draft Report)

**DOD RESPONSE:** Concur. The current value of excess equipment is computed based on guidance in DoD 7000.14-R, Volume 15 of the DoD Financial Management Regulation, and usually ranges from 5 to 50 percent of the acquisition value, depending on age and condition. Determining why the current value fluctuated would require examining the age and condition of each item notified during each fiscal year. In general, in FY 1991 several high value items (F-4, F-15, and F-16 aircraft) were notified at a high percentage of acquisition value (30-50 percent). During FY 1992 there was a lesser number of such high percentage value notifications.

The GAO concerns about the reliability of reporting of deliveries of articles notified for transfer is valid for past years. As noted in the report, the Defense Security Assistance Agency has established a central database to which the Services will report delivery information on a regular basis. Two of the Services have already successfully submitted test data to the system and the Defense Security Assistance Agency anticipates having it fully operational in the near future.

**FINDING C: Proposed Grants Exceeded the Value of Proposed Sales.**

The GAO found that, in keeping with the general objective of the program to provide Excess Defense Articles whenever possible to supplement funded security assistance programs, Excess Defense Articles offered free of charge exceeded articles offered for sale at discounted prices. The GAO observed that, of the total acquisition value notified to the Congress between FY 1990 and FY 1992, \$2.8 billion (i.e., 80 percent) was for grants and \$720 million (i.e., 20 percent) was for sales. The GAO noted that countries eligible to receive Excess Defense Articles as grants were also eligible to purchase the articles at discounted prices; however, the DoD officials indicated that countries generally receive major end items as grants and purchase excess spare parts and support equipment. The GAO also observed the Section 516 countries receive priority and, therefore, received that highest proportion of Excess Defense Articles--about 70 percent. (pp. 29-32/GAO Draft Report)

**DOD RESPONSE:** Concur.

**FINDING D: Proposed Excess Defense Article Transfers Supplemented Military Assistance.** The GAO observed that, between FY 1990 and FY 1992, the Congress appropriated over \$13 billion in foreign military financing to help U.S. allies improve their defense capabilities by financing acquisition of U.S. military articles, services, and training. The GAO noted, however, that yearly appropriations for foreign military assistance have decreased each year--from \$4.8 billion in FY 1990 to \$3.9 billion in FY 1992. At the same time, the GAO observed that the DoD notified the Congress of hundreds of proposed Excess Defense Articles transfers with a current value of \$1 billion and an original acquisition value of \$3.5 billion. The GAO concluded that supplementary form of military assistance is likely to continue to increase as long as the U.S. armed forces downsize and appropriated military assistance is reduced. (p. 6, pp. 33-36/GAO Draft Report)

**DOD RESPONSE:** Concur. It should be noted, however, that the Congress clearly intended for the grant transfer of Excess Defense Articles to be complementary to military assistance funding. Sections 516 and 519 both explicitly connect country eligibility to being justified for Foreign Military Financing

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Now on p. 4  
and pp. 23-24.

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and, in the FY 1994 Foreign Operations Appropriations Act, to other forms of assistance as well.

**FINDING E: Total Value of the Excess Defense Program is Only Partially Reported.** The GAO found that, because (1) the DoD does not report actual Excess Defense Articles grant transfers in the Congressional Presentation Document, and (2) the DoD does not track Excess Defense Articles that are leased or transferred under drawdown authority, the aggregate value of the program is not available to the Congress when it considers appropriation levels for foreign military assistance. The GAO observed that the Congressional Presentation Document provides the acquisition and current values of Excess Defense Articles sold, but does not include those values for grants, although the grants make up 80 percent of the total acquisition value for the entire program. Also, the GAO noted that the value of Excess Defense Articles that are transferred using drawdown authority or that are leased, is not tracked as part of the Excess Defense Articles process, and therefore, is not included in the presentation document. The GAO also observed that the number and value of Excess Defense Articles leases cannot be determined, because (1) the lease agreements do not indicate whether the defense articles are Excess Defense Articles, and (2) the DoD does not distinguish whether the defense articles being provided are excess or nonexcess.

The GAO indicated that the DoD officials agreed the inclusion of acquisition and current values of grant transfers would improve congressional understanding of the Excess Defense Articles program, and have recently implemented an automated data management system that will allow both grants and sales to be tracked. The GAO noted that the Defense Security Assistance Agency has tasked the Services to begin providing information to cover all Excess Defense Articles delivered to date during FY 1993, and that the Agency plans to begin including grant transfers information in the Congressional Presentation Document next year. (pp. 6-7, pp. 37-42/GAO Draft Report)

**DOD RESPONSE:** Partially concur. Every transfer of Excess Defense Articles (no matter what the value) under the authority of the Arms Export Control Act or under sections 516, 517, 518, or 519 of the Foreign Assistance Act is notified to the Congress prior to the transfer taking place. In that sense, the reporting requirements for Excess Defense Articles are more stringent than for any other security assistance program.

The DoD agrees, however, that the Department has not in the past reported on actual delivery of grant Excess Defense Articles. There is no legal requirement to do so, except for section 519 for which there is an annual reporting requirement contained in the law. The DOD reported on transfers under section 519 not later than December 15th of each year. The DoD agrees that the information may be useful to the Congress in considering security

assistance matters and intends to provide that information in the FY 1995 Congressional Presentation Document.

The GAO is also correct in stating the DoD does not track Excess Defense Articles that are leased under the authority of Section 61 of the Arms Export Control Act or transferred under the drawdown authorities provided in sections 506 and 552 of the Foreign Assistance Act. Again, there is no legal requirement to do so. The DoD does not agree that reporting the amount of Excess Defense Articles transferred under those authorities would be a useful effort. Unlike those articles transferred under sections 516, 517, 518, and 519 of the Foreign Assistance Act, articles leased or drawdown are not transferred because they are excess, but because they serve the purposes of leases and drawdowns. Whether or not they are excess or nonexcess is immaterial. If the excess were not available, then nonexcess items would likely be leased or drawdown if they met the requirements of law. The Congress might, however, benefit from information on the total drawdown and lease programs, and the DoD will provide such information in future Congressional Presentation Documents.

**FINDING F: Discrepancies in Pricing and/or Valuing Excess Defense Articles Exist.** The GAO found that the Military Departments reported a lack of incentives to manage the Excess Defense Articles program, because no direct benefit accrues to them when Excess Defense Articles are sold or granted. Consequently, the GAO observed that the methods each Military Service uses to determine the current price/value of Excess Defense Articles are, in some cases, at variance with DoD directives. As a result, the GAO indicated that obtaining reliable figures on the acquisition and current values of Excess Defense Articles transfers is difficult. The GAO also found that another result of not adhering to the guidelines is that the current value of Excess Defense Articles granted or sold to foreign countries is understated and affects the total value of the program.

For example, the GAO observed that the Army has adopted a policy of pricing/valuing excess Army trucks at 5 to 10 percent of original acquisition cost, regardless of their condition, even though the DoD directives require that a range of 5 to 50 percent of acquisition value be applied depending on the condition. Also, the GAO observed that the Air Force undervalued 9 out of 11 C-130B aircraft transfers to Turkey by more than 30 percent (i.e., by over \$8 million in acquisition value and \$6.8 million in current value), because the Air Force pricing officer did not calculate the values as required by Air Force regulations, and the Air Force country officers priced them erroneously. The GAO further observed that in a March 1992 report, the Naval Audit Service criticized the Naval Air Systems Command for failing to (1) use the highest method of pricing excess aircraft (i.e., the market price) and (2) obtain waivers before offering aircraft

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valued at less than their value based on condition. The GAO also noted that the Naval Audit Service concluded the Navy generally priced aircraft at a low value to ensure a sale, and that proper pricing in the sale of 20 F-8J aircraft would have increased revenue on the sale from \$269,180 to \$1,302,000.

The GAO concluded that the Military Departments did not always adhere to guidelines for pricing/valuing Excess Defense Articles, and as a result, the acquisition and current values of the Excess Defense Articles program were understated. (pp. 7-8, pp. 43-50/ GAO Draft Report)

**DOD RESPONSE:** Concur. Pricing guidance for valuing Excess Defense Articles is contained in DoD 7000.14-R, Volume 15 of the DoD Financial Management Manual. In specific cases, Military Department pricing may vary from that guidance. The Defense Security Assistance Agency will work with the Military Departments to reinforce the guidance and procedures for obtaining waivers to that guidance.

**FINDING G: Additional Weaknesses Exist in the Management of the Excess Defense Articles Program.** The GAO found that the Military Departments have difficulty identifying and forecasting Excess Defense Articles, and do not provide projections of Excess Defense Articles availability as required by the Security Assistance Management Manual. The GAO observed that the Services claim it is difficult to identify and label items as excess to U.S. force requirements, due to the uncertainty about the future force structure and additional reductions in defense budgets. The GAO concluded that the lack of forecasts causes problems for the DoD in managing the program effectively, because it cannot plan ahead in terms of filling recipient countries requirements. The GAO also concluded that the lack of advance planning may result in substantial storage costs for the Services as eligible countries need time to plan their budgets and allocate funding to cover the transportation and maintenance costs associated with receiving Excess Defense Articles.

The GAO also found inconsistencies in the methods used to identify and define the Excess Defense Articles. The GAO observed that defense articles not included in the approved acquisition objective are not necessarily excess, because other requirements must be met before the Services can label items as excess. For example, the GAO noted that under DoD guidance, defense articles may be retained for economic reasons, specific contingency purposes, or for reutilization efforts before being declared excess. The GAO found that each of the Services apply those definitions somewhat differently in determining what is excess to their requirements and adjust their definitions of what constitutes Excess Defense Articles. The GAO observed that (1) the Air Force Deputy Chief of Staff for Plans and Operations determines which articles are excess to Air Force operational requirements; (2) the Office of the Chief of Naval Operations is

Now on pp. 4-5  
and p. 32.

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responsible for the Navy identification of Excess Defense Articles that will be made available for security assistance; and (3) the Army national inventory control points declare certain items excess to total Army needs.

The GAO concluded that the DoD has not effectively managed the Excess Defense Articles program so as to ensure compliance with relevant departmental directives. The GAO further concluded that proper identification of the articles could enable the Defense Security Assistance Agency to fulfill recipient requirements in a more timely manner. (pp. 51-56/GAO Draft Report)

**DOD RESPONSE:** Concur. The DoD agrees that the Military Departments have not complied with the direction in the Security Assistance Management Manual, DoD 5105.38-M, to project future excesses. The Department of the Navy did so for the first time this year. While it is true that such projections would better enable the DoD to manage the Excess Defense Articles program, the difficulty of making such projections in the current budgetary and world political situation must be recognized. If and when those factors stabilize, it may become possible for all the Services to provide such projections on a regular basis.

Guidance on how to categorize items as excess or nonexcess was issued to the Military Departments by the Office of the Under Secretary of Defense for Acquisition in 1989. The DoD Materiel Management Regulation, DoD 4140.1-R, was reissued in January 1993. The Defense Security Assistance Agency has not attempted to scrutinize Military Department decisions on declaring items excess or not, believing that this is essentially a force structure decision.

**FINDING H: Agreements Against Third Party Transfers Are Not Always Completed.** The GAO reported that Section 505 of the Foreign Assistance Act and Section 3 of the Arms Export Control Act require that certain eligible countries receiving military equipment must first agree not to transfer the equipment to other nations and dispose of or sell the items without the permission of the United States. The GAO noted that, as a matter of policy, the State Department attempts to complete agreements with all of the eligible countries prior to the transfer of the Excess Defense Articles. However, the GAO found that the State Department failed to secure the agreements prior to several transfers. For example, the GAO observed that while the transfer of 700 excess tanks to Egypt took place in 1990, the necessary agreements were not signed until 1992. The GAO also observed that Egypt received wheeled vehicles and machine guns prior to signing the necessary agreements, and that C-130 aircraft were transferred to Chile in 1991, but the agreements were not signed until 1992. (p. 8, pp. 56-57/GAO Draft Report)

**DOD RESPONSE:** Concur.

Now on pp. 34-36.

Now on pp. 5-6  
and pp. 37-38.

Appendix II  
Comments From the Department of Defense

\* \* \* \* \*

**RECOMMENDATIONS**

**RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense require the Director, Defense Security Assistance Agency, to include the delivered acquisition and current values of Excess Defense Articles grant transfers in the prior fiscal year in the Congressional Presentation Document to ensure that the Congress has complete information on the Excess Defense Articles program when considering funding levels for military assistance. (p. 9, p. 42/GAO Draft Report)

Now on p. 5  
and p. 28.

**DOD RESPONSE:** Concur. The Defense Security Assistance Agency will include such information in the FY 1995 Congressional Presentation Document and has instituted an Excess Defense Articles database to assist in gathering that information.

**RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Director, Defense Security Assistance Agency to maintain data on the types and value of Excess Defense Articles made available under both leasing and drawdown authorities and that the information be included in the Congressional Presentation Document. (p. 9, p. 42/GAO Draft Report)

Now on p. 5  
and p. 28.

**DOD RESPONSE:** Partially concur. Whether or not defense articles transferred through leases and drawdown authorities are excess or not is immaterial. The DoD acknowledges there is no information on the value of materiel (without regard to whether it is excess or not) transferred through leases or under drawdown authority in the Congressional Presentation Document. The DoD agrees that such information would help give Congress a complete picture of the security assistance program. Accordingly, the DoD will include information on the value of materiel transferred in these manners in future Congressional Presentation Documents.

**RECOMMENDATION 3:** The GAO recommended that the Secretary of Defense direct the Military Departments to maintain and provide the Defense Security Assistance Agency timely and consistent information on the status and value of Excess Defense Articles transfers so that it can maintain the recently developed data management system. (p. 9, p. 50/GAO Draft Report)

Now on p. 5  
and p. 32.

**DOD RESPONSE:** Concur. On June 30, 1993, the Defense Security Assistance Agency directed the Military Departments to provide data electronically on deliveries of Excess Defense Articles so that information could be input to the Excess Defense Articles database (Defense Security Assistance Agency Report Control Number 1158). Two of the Services provided test data by

Appendix II  
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September 15, 1993. Provision of real data by all the implementing agencies should begin in the next six months.

**RECOMMENDATION 4:** The GAO recommended that the Secretary of Defense direct the Military Departments to adhere to DoD pricing/valuing directives in order to avoid undervaluing Excess Defense Articles. (p. 9, p. 50/GAO Draft Report)

Now on p. 5  
and p. 32.

**DOD RESPONSE:** Concur. The DoD pricing guidance is contained in DoD 7000.14-R, Volume 15 of the DoD Financial Management Regulation. The Military Departments have recently taken action to ensure that their action officers are aware of the correct procedures for pricing of Excess Defense Articles and that DoD Comptroller exceptions to the pricing guidance are obtained where required. Specifically, staff from the Defense Security Assistance Agency Comptroller and Operations Directorates held meetings with the Military Departments to reinforce the guidance. The Department of the Army has since requested waivers for the group pricing of vehicles. A waiver, providing specific guidance, was granted by the DoD Comptroller. The Department of the Air Force has taken several actions to ensure compliance with the guidance, including establishing an internal management control, routine seminar training, and ensuring that their geographic divisions are aware of deficiencies. The Department of the Air Force has asked, and the Defense Security Assistance Agency has agreed, that notifications for Air Force items should not be forwarded to the Congress without positive indication that the Air Force pricing officer has coordinated on the notified values. No recent Navy irregularities were noted. The only recent case cited by the GAO included a waiver by the DoD Comptroller.

**RECOMMENDATION 5:** The GAO recommended that the Secretary of Defense ensure that the Military Services comply with relevant departmental directives and guidelines for properly identifying Excess Defense Articles. (p. 58/GAO Draft Report)

Now on p. 37.

**DOD RESPONSE:** Partially concur. Office of the Under Secretary of Defense for Acquisition guidance on materiel management and property categorization was re-emphasized and discussed with Military Department representatives at May 1993 meetings of the Security Assistance Management Group and with Military Department Excess Defense Article action officers. Representatives of the Office of the Under Secretary of Defense for Acquisition and the Defense Security Assistance Agency also met separately with Air Force action officers to ensure they understood the guidance. The final decision on declaring an item excess to Service requirements is, however, a force structure decision and must, in the final analysis, be made by the Military Department concerned.

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Recommendation  
deleted. See p. 37.

**RECOMMENDATION 6:** The GAO recommended that the Secretary of State ensure that end use agreements are negotiated and signed before Excess Defense Articles are transferred to foreign countries. (p. 58/GAO Draft Report)

**DOD RESPONSE:** Concur. While the DoD does not dispute the facts concerning past transfers and notes that obtaining the agreements is a Department of State responsibility, present Department of State procedures and policy are that section 505 of the Foreign Assistance Act end use and retransfer assurances must be received from the recipient country prior to the transfer of any grant Excess Defense Articles. Department of State concurrence is obtained by the DoD on every proposed notification to the Congress.

# Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Washington, D.C. 20520

NOV 4 1994

Dear Mr. Conahan:

Thank you for the opportunity to comment on your draft report, "SECURITY ASSISTANCE: Need for Improved Reporting on Excess Defense Articles Transfers," GAO Job Code 463821. Comments and suggested changes are enclosed.

If you have any questions concerning this response, please call Clarence Hudson, PM/DRSA, at 647-7972.

Sincerely,

A handwritten signature in cursive script that reads "Carolyn S. Lowengart".

Carolyn S. Lowengart  
Director  
Management Policy

Enclosure:  
As stated.

cc:  
GAO - Ms. Gobin  
State - Mr. Hudson

Mr. Frank C. Conahan,  
Assistant Comptroller General,  
National Security and International Affairs,  
U.S. General Accounting Office.

GAO Draft Report:  
"SECURITY ASSISTANCE: Need for Improved Reporting on Excess  
Defense Articles Transfers"  
GAO Job Code 463821

The language in page 5 (para 3), page 51 (para 2) and page 56 (para 3) incorrectly characterizes Department of State practices with respect to end use and retransfer assurances as inconsistent with statutory requirements.

Section 505 of the Foreign Assistance Act (FAA) provides that no defense articles shall be furnished to any country on a grant basis unless it agrees not to transfer such articles without the consent of the U.S. Government. In addition, Section 505 requires recipient countries to agree to maintain the security of the articles and not to permit unauthorized uses of the articles. Section 3 of the Arms Export Control Act (AECA) contains similar requirements respecting articles transferred under the AECA (e.g., through Foreign Military Sales).

The paragraphs in question fail to point out that FAA Sections 516 and 519 permit EDA grant transfers under the criteria of those sections "notwithstanding any other provision of law." Thus, it is entirely permissible for the Department of State to approve Section 516 and 519 EDA grant transfers without first receiving Section 505 assurances from the recipient country, although it is Department of State policy to obtain such assurances in all possible instances.

In only two cases -- one under Section 516 and one under Section 519 -- have there been transfers "notwithstanding" the provisions of Section 505. The decisions in these cases were made carefully and, as noted, were permissible under applicable statutory requirements. It should also be noted that Section 505 agreements between the United States and the countries in question (Egypt and Chile) were subsequently concluded. Significantly, those agreements were drafted in a manner that brought under the control provisions of the agreement those articles previously transferred as grant EDA by the United States.

In view of the foregoing, the sections in question should be redrafted to reflect the Department's careful adherence to statutory requirements, including those of FAA Section 505, and the fact that all EDA grant transferred articles are covered by effective Section 505 agreements at this time.

See comments  
1 and 2.

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**Appendix III**  
**Comments From the Department of State**

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The following are GAO's comments on the Department of State's letter dated November 4, 1993.

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**GAO Comments**

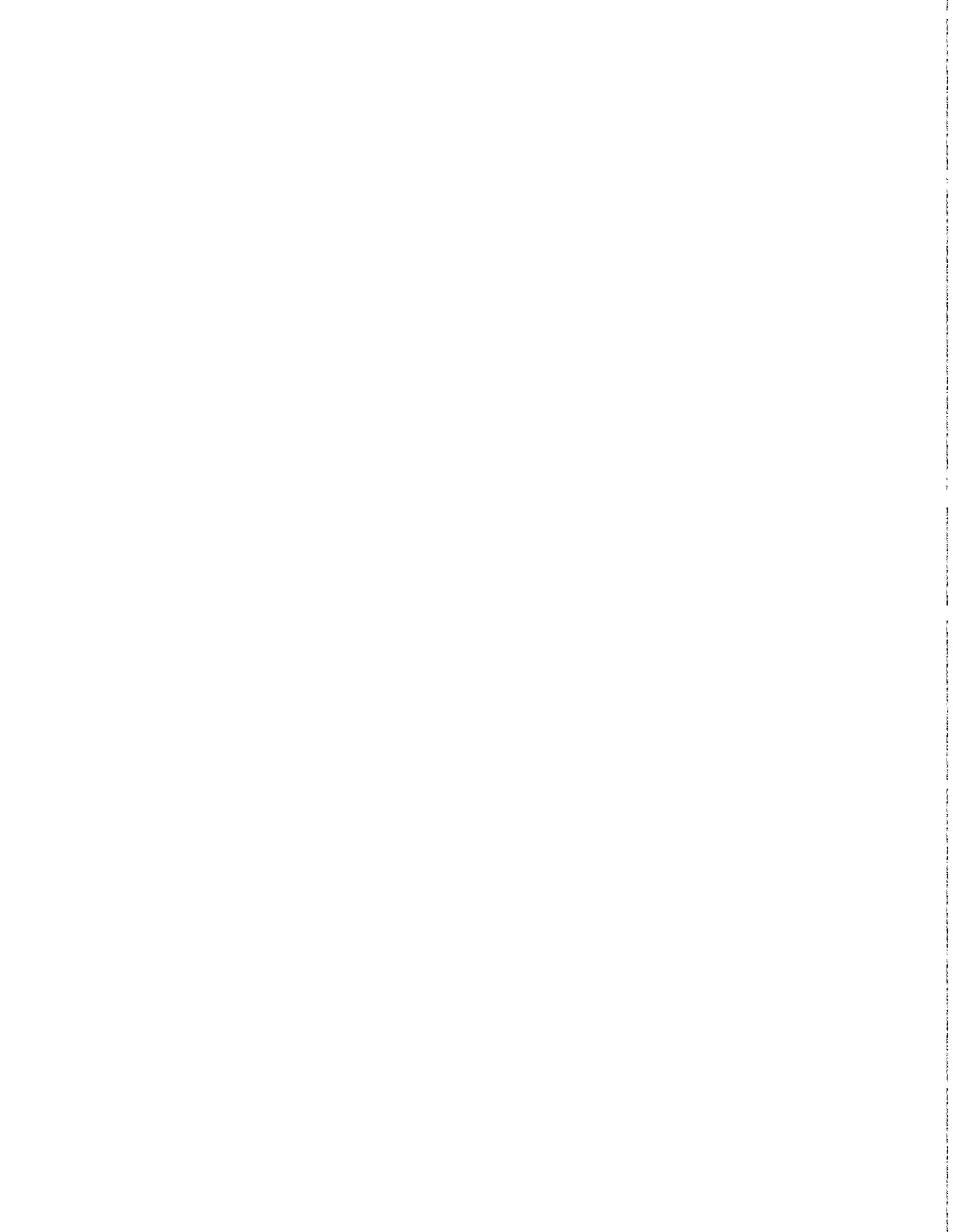
1. The language on these pages was deleted.
2. The recommendation was deleted.

# Major Contributors to This Report

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