



GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

February 15, 2011

Congressional Addressees

Subject: *Accountability for U.S. Equipment Provided to Pakistani Security Forces in the Western Frontier Needs to Be Improved*

Al Qaeda, the Taliban, and other extremists have used safe havens along Pakistan's Western Frontier (border) region to attack Pakistani, Afghan, U.S., and coalition troops; plan and train for attacks against U.S. interests and the U.S. homeland; destabilize Pakistan, a nuclear-armed U.S. ally; and spread radical Islamic ideologies that threaten U.S. interests. A key U.S. national security objective is to disrupt, dismantle, and defeat al Qaeda and its violent extremist affiliates in Pakistan and to deny them a safe haven. Since 2002, the United States has provided over \$18 billion in assistance and reimbursement to Pakistan including (1) reimbursements to the Pakistani government for costs incurred in direct support of U.S. counterterrorism operations; (2) security assistance such as grants to Pakistan for the acquisition of military equipment; and (3) development, economic, and humanitarian assistance.

Since 2006, this assistance has included \$1.5 billion to improve the counterterrorism and counterinsurgency capabilities of Pakistani security forces operating along the country's border with Afghanistan, including \$400 million for the Pakistan Counterinsurgency Fund (PCF) and \$700 million for the Pakistan Counterinsurgency Capabilities Fund (PCCF).¹ The President has requested an additional \$1.2 billion for fiscal year (FY) 2011 and \$1.1 billion for fiscal year 2012 to train and equip these forces. U.S. assistance under this initiative has provided military equipment, such as helicopters and night-vision devices; infrastructure, such as border coordination and training centers; and training.² The Office of Defense Representative Pakistan (ODRP), under the U.S. Central Command (CENTCOM), manages this assistance. ODRP is responsible for the receipt and storage of U.S.-provided military equipment at a leased warehouse in Islamabad prior to the equipment's transfer to Pakistan. ODRP is also responsible for, among other things, developing and implementing policies and procedures to document the transfer of the equipment to Pakistan and to ensure that once in Pakistan's custody, items requiring enhanced monitoring³ are subject to periodic inventories. The Defense Security Cooperation Agency (DSCA) is responsible for ensuring that U.S. and Pakistani officials implement appropriate internal control procedures to account for sensitive defense equipment, including conducting compliance assessments.

¹On June 24, 2009, Congress appropriated funding for PCF and PCCF (P.L. 111-32). The PCF appropriation was available on June 24, 2009, but expired on September 30, 2010, while the PCCF appropriation was not available until September 30, 2009, but is available until September 30, 2011.

²According to DOD, security conditions and rough terrain in Pakistan's western border areas have made the provision of this assistance challenging.

³Enhanced end-use monitoring is required for sensitive defense articles, services, and technologies, such as night-vision devices, transferred to foreign security forces.

This report focuses on U.S. activities to ensure accountability of sensitive equipment provided to Pakistani security forces operating along the western border. We have previously reported on Afghan and Iraqi weapon accountability coverage, as well as the importance of accountability and oversight of U.S. efforts in Pakistan, including Coalition Support Fund reimbursements to Pakistan and the planning and documentation of U.S. development assistance in Pakistan's Federally Administered Tribal Areas.⁴

We conducted this review under the authority of the Comptroller General to undertake work under his own initiative because of significant and broad congressional interest. The objectives of this review were to determine the extent to which the Department of Defense (DOD) has (1) ensured accountability for the receipt, storage, and transfer to Pakistan of U.S.-provided equipment at its Islamabad warehouse; (2) responded to reported weaknesses in accountability for night-vision devices in Pakistan's custody; and (3) addressed new accountability requirements established in section 1225 of the 2010 National Defense Authorization Act (NDAA) for defense articles provided to Pakistan.⁵

To address these objectives, we reviewed relevant U.S. laws, federal internal control standards, DOD policies and procedures, reports and other documents; interviewed DOD officials at the DSCA in Washington, D.C.; the ODRP in Fort Belvoir, Virginia, and in Pakistan; at CENTCOM in Tampa, Florida; and at a DOD-leased warehouse in Islamabad where some U.S.-provided equipment is received and stored prior to transfer to Pakistani security forces. To determine what accountability procedures were adequate for equipment received and stored at the warehouse, we used DOD Instruction 5000.64 to identify those requirements that would be needed, at a minimum, to ensure adequate accountability of the equipment received and stored at the Islamabad warehouse. Our analysis resulted in the identification of 17 requirements. We assessed ODRP's standard operating procedures against these 17 requirements to determine the adequacy of DOD's efforts to maintain accountability for equipment. We also interviewed Department of State officials in Washington, D.C., and at the U.S. Embassy in Islamabad.

We completed this performance audit between June 2009 and February 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings based on our audit objectives.

This audit was conducted as part of a larger review of U.S. assistance to enhance the counterterrorism and counterinsurgency capabilities of Pakistani security forces operating along the country's Western Frontier. We plan to report separately on the status of U. S. efforts to provide equipment, training, and infrastructure to enhance the capabilities of these forces, including the impact of the floods on this assistance.⁶ Additionally, we are reviewing

⁴GAO, *Afghanistan Security: Lack of Systemic Tracking Raises Significant Accountability Concerns about Weapons Provided to Afghan National Security Forces*, [GAO-09-267](#) (Washington, D.C.: Jan. 30, 2009); GAO, *Stabilizing Iraq: DOD Cannot Ensure That U.S.-Funded Equipment Has Reached Iraqi Security Forces*, [GAO-07-711](#) (Washington, D.C.: July 31, 2007); GAO, *Combating Terrorism: Increased Oversight and Accountability Needed over Pakistan Reimbursement Claims for Coalition Support Funds*, [GAO-08-806](#) (Washington, D.C.: June 24, 2008); and GAO, *Combating Terrorism: Planning and Documentation of U.S. Development Assistance in Pakistan's Federally Administered Tribal Areas Need to Be Improved*, [GAO-10-289](#) (Washington, D.C.: Apr. 15, 2010).

⁵Pub L. 111-84, sec. 1225.

⁶In late summer 2010, monsoon rains caused massive flooding throughout Pakistan. Our field work in Pakistan preceded the flooding; however, in October 2010, DOD officials confirmed that flooding had affected U.S. assistance efforts in Pakistan.

the President's forthcoming certification relating to Pakistan's counterterrorism and nuclear networks cooperation with the United States and the United States' Pakistan Assistance Strategy report in response to congressional mandates in the Enhanced Partnership with Pakistan Act of 2009.⁷

Written Procedures for Ensuring Accountability for Equipment at DOD's Islamabad Warehouse Are Incomplete, Increasing the Risk for Loss or Misuse

DOD's written procedures for ensuring accountability for equipment received and stored at its Islamabad warehouse do not fully address key requirements on how to maintain accountability and management of property. Federal government standards for internal control⁸ state that federal agencies should design and document internal controls that provide safeguards to help prevent and detect the loss or misuse of equipment. Further, DOD guidance⁹ emphasizes the need to document the internal controls used to maintain accountability for property. Our analysis of the DOD guidance resulted in the identification of 17 key requirements. The key requirements focus on (1) physical controls over vulnerable assets; (2) proper execution of transactions and events; (3) management of human capital and reviews by management at the functional or activity level; and (4) controls over information processing.

During a field visit to Pakistan, we observed that ODRP did not have written procedures to help ensure consistent accountability for the receipt and storage of U.S. defense articles at its Islamabad warehouse prior to their transfer to Pakistan. Further, we observed that knowledge of processes to provide accountability, including the use of the inventory tracking database, resided primarily with the supply officer who had developed these processes starting in May 2009. According to ODRP officials, this officer departed Islamabad in May 2010. At the conclusion of our field work in Pakistan in February 2010, we advised embassy and ODRP officials that without written procedures there was a risk that the inventory tracking process implemented at the warehouse might not be consistently performed or continued when officers rotate. U.S. military assignments to ODRP are generally for 1 year or less and, according to DOD officials, delays obtaining visas have prevented DOD from being able to overlap officer rotations.

In May and November 2010, ODRP issued standard operating procedures¹⁰ for the inventory management process at the warehouse in Islamabad, including the use of an inventory tracking database. Although ODRP's written procedures generally provide an overview of the inventory tracking process, several of the procedures do not provide sufficient information regarding their operational procedures or internal controls. Our review determined that out

⁷Pub. L. 111-73.

⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C., November 1999).

⁹DOD, *Accountability and Management of DOD-Owned Equipment and Other Accountable Property*, DOD Instruction 5000.64, (Washington D.C., November 2006). This guidance incorporates by reference [GAO/AIMD-00-21.3.1](#).

¹⁰These procedures include Standard Operating Procedure (SOP)-1: *Security Assistance Office J4 Responsibilities* (Islamabad, Pakistan, May 1, 2010); SOP-2: *Material Accountability Program* (Islamabad, Pakistan, May 1, 2010); SOP-3: *Material Flow into Pakistan* (Islamabad, Pakistan, May 1, 2010); SOP-7: *Material Accountability Program Access Database* (Islamabad, Pakistan, May 1, 2010); SOP-8: *Information Management* (Islamabad, Pakistan, May 1, 2010); SOP-9: *Accountability and End-use Monitoring* (Islamabad, Pakistan, May 1, 2010); and SOP-11: *Warehouse Procedures* (Islamabad, Pakistan, Nov. 14, 2010).

of the 17 key requirements, 10 were incorporated to a large extent, 2 were incorporated to some extent, and 5 were incorporated to little or no extent. For example,

- DOD guidance requires that certain data elements such as name, unique item identifier (e.g., serial number), description quantity, and location be recorded in the property system to enable the tracking of equipment. However, the written procedures provided did not identify the specific data elements that should be recorded in the property system.
- DOD guidance requires that periodic internal reviews and audits of the property accountability and management system be performed to determine if it is operating as intended. However, the written procedures provided do not require that such internal reviews or audits be performed.

Without robust procedures, there is increased risk of equipment loss or fraudulent activity. See enclosure I for more detailed information on the extent to which the inventory tracking process incorporated the key requirements.

DOD's Follow-Up Actions on Weaknesses in Accountability for Sensitive Equipment in Pakistan's Custody Were Not Completed in a Timely Manner

DSCA did not follow up in a timely manner to ensure corrective actions were taken to fix weaknesses in accountability procedures that it identified in 2008 for sensitive equipment in Pakistan's custody. U.S. government standards for internal control recommend that agencies ensure the prompt resolution of the findings of audits and other compliance reviews. Within DOD, DSCA is the principal agency responsible for implementing the Golden Sentry Program, created to meet accountability requirements under the Arms Export Control Act, for defense articles funded through traditional security assistance programs.¹¹ The Golden Sentry Program requires monitoring of sensitive and nonsensitive defense equipment transferred to foreign countries.¹² Sensitive equipment is subject to enhanced end-use monitoring. Some sensitive equipment, such as night-vision devices, require 100 percent inventory by serial number. DSCA carries out its responsibilities under the program by reviewing the implementation of internal control procedures intended to help maintain security and accountability over sensitive defense articles transferred to foreign countries, and by following up to ensure that its findings are implemented in a timely manner. A key element of the program is compliance assessment visits to assess host nation and U.S. security assistance personnel compliance with end-use, security, and accountability procedures. Although on-site assessments are a key element of end-use monitoring, according to a DSCA official, DSCA also relies on intelligence and other reports to accomplish its oversight and monitoring responsibilities.

In March 2008, DSCA reported that a compliance assessment had identified weaknesses in ODRP's and Pakistan's accountability procedures for sensitive night-vision devices. Among its findings, DSCA reported that ODRP lacked records showing that required quarterly 100 percent inventory of sensitive night-vision devices by serial number had been conducted and that Pakistan's inventory records lacked serial numbers for 64 of the 687 U.S.-provided night-vision devices that were in Pakistan's custody. During the course of the compliance

¹¹Arms Export Control Act, sec. 40A (codified at 22 U.S.C. 2785).

¹²DSCA, *Security Assistance Management Manual*, DOD 5105.38-M, (Washington D.C., October 2003). End-use monitoring responsibilities are performed in conjunction with other required security assistance duties and consist of noting the quality, general physical condition, and use of U.S.-provided equipment.

assessment, ODRP identified the missing serial numbers from its own records and inventoried 60 of the 64 night-vision devices. Based on information provided later by Pakistan, 4 night-vision devices were declared lost in combat.

DSCA recommended to CENTCOM in March 2008 that ODRP correct weaknesses identified during its compliance assessment and improve accountability for sensitive night-vision devices in Pakistan's custody by (1) ensuring that the status of all night-vision devices was accurately reflected in a database used to track sensitive defense articles, (2) updating a June 2004 U.S.-Pakistan bilateral memorandum of agreement¹³ to reflect a revised inventory schedule for night-vision devices, and (3) establishing procedures to ensure that Pakistan inventoried and recorded serial numbers for all night-vision devices. DSCA recommended steps be taken to ensure all weaknesses were corrected within 90 days and to provide written confirmation that it had addressed the agency's recommendations.

In April 2008, ODRP responded to DSCA that it had made significant progress in addressing DSCA's findings and recommendations, including ensuring the database used to track sensitive defense articles was up-to-date and drafting a new bilateral memorandum of agreement. However, ODRP's response did not specifically address DSCA's third recommendation that it establish procedures to ensure that Pakistan inventoried and recorded serial numbers for all night-vision devices, nor did it provide any evidence of the corrective actions it reported taking in response to DSCA's other recommendations. As of September 2010, ODRP had not addressed two of DSCA's recommendations¹⁴ and only partially addressed a third recommendation.¹⁵

As of September 2010, DSCA had not conducted, and had no plans to conduct, another compliance assessment of ODRP's and Pakistan's accountability procedures for night-vision devices. In response to our work, DSCA stated that it had initiated actions to include a risk-based approach in prioritizing future compliance assessments and follow-up actions. In addition to risk, DSCA would consider factors such as the inventory of defense articles that require enhanced end-use monitoring, the history of compliance with the Golden Sentry Program within the host nation, the stability of the region, and current or previous reports of concerns relative to the country's protection of U.S.-provided defense articles. Without follow-up actions to verify that DSCA's recommendations were fully addressed, there continues to be a risk that sensitive night-vision devices are not being adequately safeguarded.

DSCA's Plans for Assessing Compliance with New Accountability Requirements for Defense Equipment Transferred to Pakistan Have Been Postponed

Section 1225 of the 2010 NDAA required the Secretary of Defense to establish and carry out a program to provide accountability for defense articles transferred to Afghanistan and Pakistan pursuant to authorities other than the Arms Export Control Act, including maintaining detailed records of origin, shipping, distribution, and registration of serial

¹³The revised memorandum of agreement would outline ODRP's and Pakistan's responsibilities for maintaining security and accountability of night-vision devices in Pakistan's custody.

¹⁴The bilateral agreement had not been updated to reflect a revised inventory schedule for night-vision devices and new procedures to ensure that Pakistan inventoried and recorded serial numbers for all night-vision devices had not been established.

¹⁵ODRP and Pakistan had taken some steps to ensure that the status of all night-vision devices was accurately reflected in a database used to track sensitive defense articles. However, some equipment losses were not recorded until 9 months after the date of loss or were recorded without noting the date of loss.

numbers of all small arms.¹⁶ In April 2010, the Secretary certified that DOD had established a program to provide additional accountability for defense articles transferred to these countries. In September 2010, DOD issued additional guidance¹⁷ on the registering and end-use monitoring of defense articles, including small arms, to ensure compliance with section 1225 requirements of the 2010 NDAA. The guidance requires DSCA to conduct a review of DOD components to ensure consistent and proper implementation of the guidance. In accordance with DSCA's oversight responsibilities, DSCA planned to conduct compliance assessments in Afghanistan and Pakistan to verify the implementation of new accountability requirements established in section 1225 of the 2010 NDAA for defense equipment transferred to those countries. However, several factors have led DSCA to postpone its planned assessment. DSCA officials told us that they initially planned to conduct compliance assessments in July 2010 to verify that U.S., Afghan, and Pakistani officials had implemented procedures to assure compliance with the law's requirements.¹⁸ However, the planned assessments were delayed due to security concerns in Afghanistan and because the Pakistani Army had not issued a Letter of Invitation for the assessment team. According to a DSCA official, as of November 2010, DSCA had not conducted a compliance assessment but planned to conduct it in early 2011. Until DSCA takes steps to verify that the new accountability requirements have been fully implemented, there is a risk that defense articles like small arms may not be controlled or used as intended.

Conclusions

The increasing level of U.S. security assistance to Pakistan, coupled with the potential that U.S.-provided equipment to Pakistan could fall into the wrong hands if not fully secured, make it essential that DOD implement robust accountability procedures for U.S.-provided equipment. DOD needs to ensure that ODRP's written procedures include key requirements established by the department's own guidance, such as data requirements for the property system and periodic internal reviews and audits of the property system, to provide reasonable assurance that equipment received and stored at the Islamabad warehouse is properly safeguarded. DOD also needs to ensure DSCA takes timely action to follow up on audit findings in order to provide reasonable assurance that U.S. and Pakistani officials have implemented internal control procedures to prevent the loss or misuse of sensitive night-vision devices. Further, DOD needs to ensure that DSCA takes timely action to verify that the accountability program required by the 2010 NDAA—and certified by the Secretary of Defense—has been fully implemented.

Recommendations for Executive Action

To improve accountability for U.S.-provided defense equipment, the Secretary of Defense should take the following three actions. The Secretary should direct:

- the Commander of U.S. Central Command to ensure ODRP's written procedures for equipment received and stored at its Islamabad warehouse incorporate key asset accountability controls including (1) identifying required data elements to be recorded in the property system to facilitate the tracking of equipment and (2) performing periodic

¹⁶Pub. L. 111-84, sec. 1225.

¹⁷DOD, *Registration and End-Use Monitoring of Defense Articles and/or Defense Services*, DOD Instruction 4140.66 (Washington D.C., Sept. 7, 2010).

¹⁸DSCA is responsible for reviewing the implementation of procedures intended to maintain accountability over defense articles transferred to foreign countries.

reviews and audits of the property accountability and management system to ensure that it is operating as intended.

- the Director of the Defense Security Cooperation Agency to take follow-up action, in accordance with internal control standards, to ensure that ODRP fully addresses all of DSCA's 2008 recommendations.
- the Director of the Defense Security Cooperation Agency to conduct a compliance assessment to verify that U.S. and Pakistani officials have fully implemented the new accountability program required by the 2010 NDAA.

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. DOD provided written comments, which are reprinted in enclosure II. DOD also provided technical comments, which we have incorporated as appropriate. The department disagreed with our first recommendation, partially agreed with the second, and agreed with the third.

In written comments, the Assistant Secretary of Defense for Asian and Pacific Security Affairs disagreed with our recommendation to improve accountability for U.S.-provided equipment by ensuring ODRP's written procedures for equipment received and stored at the Islamabad warehouse incorporate key accountability requirements in DOD Instruction 5000.64. The Assistant Secretary stated that this instruction is more applicable to U.S. property accountability and not property that is "in transit" to Pakistani forces. The Assistant Secretary stated that it would have been more appropriate to apply standards relevant to supply chain management because the property, once transferred to the Pakistanis, is no longer a U.S. possession. The Assistant Secretary also noted that we did not find any significant deviations from its implementation of the procedures, thus confirming that there have been no negative consequences in terms of equipment accountability. We modified this recommendation by deleting reference to DOD Instruction 5000.64 and by specifying the requirements still not addressed by ODRP's written procedures. Our review of DOD's supply chain management standards found similar internal control requirements as in DOD Instruction 5000.64 that we have recommended they incorporate in ODRP's written procedures. Accordingly, in the following paragraphs we rebut DOD's position and summarize the basis for our conclusions and recommendations to improve the accountability of equipment stored at the Islamabad warehouse.

As discussed in the draft report, at the time of our visit to Pakistan in February 2010, DOD did not have written standard operating procedures to provide safeguards to help prevent and detect the loss or misuse of equipment in the warehouse. Because the equipment stored in the warehouse is still U.S.-owned until the government of Pakistan officially receives delivery of it, DOD is responsible for maintaining controls over the safeguarding of assets. During our February 2010 visit, our review of inventory records showed equipment generally had been stored at this warehouse for 3 to 6 months. As such, DOD retains ownership of the property; therefore, the department is responsible for safeguarding such equipment. We determined that DOD Instruction 5000.64 would be the appropriate criteria to use to assess any procedures DOD developed because the United States retains possession until the equipment is transferred to the government of Pakistan.

During an August 18, 2010, meeting, the Director-Pakistan, Office of the Secretary of Defense Policy, agreed that our use of this instruction was appropriate. After the meeting, DOD provided procedures that referenced DOD Instruction 5000.64 as well as supply chain management procedures. In addition, our review of DOD 4140.1-R, "DOD Supply Chain Material Management Regulation," which is the department's overarching policy and

procedure for supply chain management, found that it had requirements for safeguarding U.S.-owned equipment similar to those in DOD Instruction 5000.64.¹⁹ For example, DOD 4140.1-R explicitly states that the heads of DOD components (e.g., combatant commands) shall

- Establish and maintain a physical inventory control program to provide for the economical and efficient stewardship of DOD supplies and ensure that sufficient emphasis is placed on material accountability and inventory accuracy to promote improved performance of individuals directly responsible for making reports on the status of that inventory;
- Establish and execute a physical security program to prevent or reduce the potential for theft, fraud, sabotage, and abuse of DOD material;²⁰ and
- Provide for visibility of the quantity, condition, and location of in-storage, in-process, and in-transit assets through the DOD supply chain.

Consequently, regardless of the standard that is applied (DOD Instruction 5000.64 or DOD 4140.1-R), the fundamental principle is the same—all property of the department must be accounted for until it is transferred to the Pakistani security forces.

This report does not assess whether equipment has been lost or stolen since DOD began leasing the Islamabad warehouse in December 2008. Although we assessed the adequacy of the design of DOD's procedures for safeguarding equipment at the Islamabad warehouse, we did not assess the extent to which DOD had implemented these procedures, primarily due to the absence of such procedures during our February 2010 visit. As stated in the draft report, DOD had not developed procedures to safeguard this equipment at the time of our visit, although the warehouse had been leased for approximately 14 months. On August 26, 2010, DOD provided for our review three standard operating procedures that were developed after we informed them that written procedures to safeguard the equipment stored in the warehouse did not exist.²¹ These procedures were used to assess the extent that ODRP addressed DOD Instruction 5000.64 requirements. The initial draft report provided to DOD on November 4, 2010, summarized the results of our analysis. In response to the draft report, DOD provided four additional standard operating procedures on December 15, 2010, one of which was dated on November 14, 2010.²² Upon receipt of these additional procedures, we included them in our assessment and updated the draft report, which was provided to DOD for review on December 21, 2010. As this chronology shows, subsequent to informing ODRP during our February 2010 site visit that it lacked written procedures, ODRP developed written procedures. Our conclusion and recommendations are based on the updated analyses and we continue to find that some accountability elements that are included in both DOD Instruction 5000.64 and DOD 4140.1-R, such as performing periodic reviews and audits of the property accountability and management system, have not been incorporated into the procedures.

DOD partially agreed with our recommendation to improve accountability for U.S.- provided equipment by following up to ensure that ODRP fully addresses all of DSCA's 2008

¹⁹DOD, Office of the Deputy Under Secretary of Defense for Logistics and Materiel Readiness, *DOD Supply Chain Material Management Regulation*, DOD 4140.1-R (Washington D.C., May 23, 2003).

²⁰DOD 4140.1-R, paragraph C5.7.8 "Security of Material."

²¹DOD SOP-1, SOP-7, and SOP-9.

²²DOD SOP-2, SOP-3, SOP-8, and SOP-11.

recommendations. In written comments, the Assistant Secretary felt (1) the report incorrectly implies that DSCA did not follow up in a timely manner to ensure that ODRP took corrective action regarding a recommendation noted in DSCA's March 2008 compliance assessment visit report, and (2) DSCA has ensured the necessary corrective actions have been taken to address its 2008 recommendations. However, DSCA has only provided evidence to show that one recommendation has been partially addressed. The other two recommendations have not been addressed. The Assistant Secretary noted that DOD plans to conduct a compliance assessment visit to Pakistan in the second quarter of FY 2011. We believe this visit should include a review whether the 2008 recommendations have all been fully addressed.

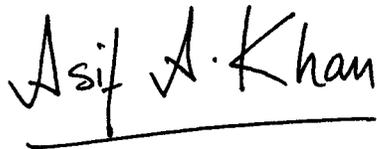
DOD concurred with our recommendation that DSCA should conduct a compliance visit to verify that U.S. and Pakistani officials have fully implemented the new accountability program required by the 2010 NDAA. In written comments, the Assistant Secretary stated the assessment is planned for the second quarter of FY 2011.

We are sending copies of this report to interested congressional committees and the Secretaries of Defense and State. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact Charles Michael Johnson Jr. at (202) 512-7331 or johnsoncm@gao.gov or Asif A. Khan at (202) 512-9095 or khana@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO contacts and staff acknowledgements are listed in enclosure III.



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Enclosures (3)

List of Congressional Addressees

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

The Honorable John F. Kerry
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The Honorable Richard G. Lugar
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The Honorable Joseph I. Lieberman
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The Honorable Howard P. McKeon
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The Honorable Ileana Ros-Lehtinen
Chairman
The Honorable Howard L. Berman
Ranking Member
Committee on Foreign Affairs
House of Representatives

The Honorable John Tierney
Ranking Member
Subcommittee on National Security, Homeland Defense,
and Foreign Operations
Committee on Oversight and Government Reform
House of Representatives

Enclosure I: Summary of GAO Analysis of Key Requirements in DOD Instruction 5000.64

We assessed Department of Defense (DOD) Instruction 5000.64 using federal internal control standards to identify those requirements that would be needed, at a minimum, to ensure adequate accountability of the equipment received and stored at the Islamabad warehouse. Our analysis resulted in the identification of 17 requirements. We assessed the standard operating procedures issued in May, June, and November 2010 by the Office of the Defense Representative in Pakistan (ODRP) against these 17 requirements to determine the adequacy of DOD’s efforts to maintain accountability for equipment. These standard operating procedures were:

- Standard Operating Procedure-1: *Security Assistance Office J4 Responsibilities* (Islamabad, Pakistan, May 1, 2010);
- Standard Operating Procedure-2: *Material Accountability Program (MAP)* (Islamabad, Pakistan, May 1, 2010);
- Standard Operating Procedure-3: *Material Flow into Pakistan* (Islamabad, Pakistan, May 1, 2010);
- Standard Operating Procedure-7: *Material Accountability Program Access Database* (Islamabad, Pakistan, May 1, 2010);
- Standard Operating Procedure-8: *Information Management* (Islamabad, Pakistan, May 1, 2010);
- Standard Operating Procedure-9: *Accountability and End-use Monitoring* (Islamabad, Pakistan, May 1, 2010); and
- Standard Operating Procedure-11: *Warehouse Procedures* (Islamabad, Pakistan, November 14, 2010).

We assessed these procedures to determine the extent to which they incorporated the 17 key requirements identified in DOD Instruction 5000.64. Table 1 presents the results of our assessment.

Table 1: Analysis of Selected ODRP Standard Operating Procedures

Key internal control elements from DOD Instruction 5000.64	Extent to which ODRP’s procedures address the key element
Physical controls over vulnerable assets	
1. Section 5.2.7.5 requires that property received and issued is properly and uniquely identified.	●
2. Section 5.2.7.7 requires evaluating culpability when property has been reported lost, damaged, misused, or stolen.	●
3. Section 6.1.2 requires accountability of property be established and maintained using information technology. ^a	○

Key internal control elements from DOD Instruction 5000.64	Extent to which ODRP's procedures address the key element
4. Section 5.2.7.9 requires scheduling physical inventories.	●
5. Section 6.11.1.2 requires a physical inventory plan. At a minimum, property shall be inventoried at least every 3 years; classified or sensitive property shall be inventoried at least annually.	●
6. Section 6.11.1.3 requires a minimum 98 percent physical inventory accuracy rate for completion.	●
7. Section 6.6 requires at least the following data elements in the property systems of record: name, part number, and description; owner; status; quantity; general ledger classification; value at full cost; estimated useful life (for property to be capitalized); unique item identifier; date placed in service; location; current condition; posting reference; transaction type, and transaction date. ^a	○
8. Section 6.13 requires internal controls shall be established and maintained according to DOD Instruction 5010.40 including that an agency will establish physical control to secure and safeguard vulnerable assets.	●
Proper Execution of Transactions and Events	
9. Section 6.5 requires including reference to establishing records required by law, policy, regulation, or agency direction (e.g., small arms registration). ^b	◐
10. Section 6.2.1 requires records be established for property having a unit acquisition value of \$5,000 or more.	●
11. Section 5.2.7.1 requires a complete trail of all transactions, suitable for audit, and the ability to implement and adhere to associated internal controls.	●
12. Section 6.2.3 requires original document and/or hard copies of original documentation be maintained in a readily available location.	●
Management of Human Capital and Reviews by Management at the Functional or Activity Level	
13. Section 5.2.7.1 requires appointment of an Accountable Property Officer in writing. ^a	○
14. Section 5.2 requires the Accountable Property Officer to among other things establish and maintain an organization's accountable property records, systems, and/or financial records, in connection with government property; evaluate culpability when property has been reported lost, damaged, misused, or stolen; report and recommend appropriate action and assist in investigations, as required; process reports of survey and liability investigations according to established procedures; and schedule physical inventories and assist in their completion. ^c	◐

Key internal control elements from DOD Instruction 5000.64	Extent to which ODRP's procedures address the key element
15. Section 5.2.3 requires establishing implementing regulations and procedures, including the assessment and reporting of its overall property management maturity level. ^a	○
16. Section 5.2.5 requires that periodic internal review and audits necessary to assess property accountability and management system effectiveness to be performed. ^a	○
Controls Over Information Processing	
17. Section 6.13 requires that internal controls shall be established and maintained according to DOD Instruction 5010 including that access to resources and records be limited to authorized individuals, and accountability for their custody and use be assigned and maintained.	●

Source: GAO analysis of Selected ODRP Standard Operating Procedures.

●-Incorporates the key element to a large extent.

◐-Incorporates the key element to some extent.

○-Incorporates the key element to little or no extent.

^aThese key elements are applicable to DOD 4140.1-R, *DOD Supply Chain Materiel Management Regulation*.

^bStandard Operating Procedure-9, *Accountability and End-use Monitoring*, includes references to the U.S. Arms Export Control Act of 1961, DOD 5105.38-M, *Security Assistance Management Manual*, among others, but does not include reference to the 2010 National Defense Authorization Act (Pub. L. 111-84, Sec. 1225).

^cStandard Operating Procedure-1, *Security Assistance Office J4 Responsibilities*, does not reference DOD Instruction 5000.64 Section 5.2, which requires the Accountable Property Officer to evaluate lost, damaged, or stolen property; to ensure property received and issued is properly and uniquely identified; and schedule physical inventories.

Enclosure II: Comments from the Department of Defense



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U.S. Government Accountability Office
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Mr. Johnson:

This is the Department of Defense (DoD) response to the draft GAO Report, GAO-11-156R, "Accountability for U.S. Equipment Provided to Pakistani Security Forces in the Western Frontier Needs to be Improved," dated December 21, 2010 (GAO Code 320796).

We have attached comments addressing the report. My point of contact is Mr. Dan Folliard, (703) 695-8272 or daniel.folliard@osd.mil.

Sincerely,

A handwritten signature in black ink, appearing to read "Wallace C. Gregson".

Wallace C. Gregson



GAO DRAFT REPORT DATED DECEMBER 21, 2010
GAO-11-156R (GAO Code 320796)

“Accountability for U.S. Equipment Provided to Pakistani Security Forces in the Western Frontier Needs to be Improved”

DEPARTMENT OF DEFENSE COMMENTS ON
GAO DRAFT REPORT ON EQUIPMENT ACCOUNTABILITY IN PAKISTAN

The Department of Defense (DoD) appreciates the opportunity to comment on this draft report. DoD welcomes periodic reviews of critical national security efforts, such as the provision of equipment to Pakistan’s security forces, and looks forward to receiving recommendations meant to enhance the oversight and effectiveness of these efforts. DoD sees some value in certain recommendations made in this draft report, but is concerned that other recommendations appear to be based on incorrect analytical judgments and thus are not seen as useful recommendations.

Pakistan is an essential partner in the U.S. Government’s efforts to combat violent extremist organizations. Pakistan has committed 140,000 security forces personnel to the fight along its western border, and the people of Pakistan continue to be the victims of terrorist attacks. The United States has increased its civilian and military assistance to Pakistan since 2008, and we continue to work collaboratively with the Pakistan Government and its military to counter groups that threaten Pakistan, Afghanistan, other regional partners, and the U.S. homeland. The majority of U.S. security assistance to the Pakistan military is designed to enhance its counterinsurgency and counterterrorism capabilities, which are critical to the Government of Pakistan’s efforts to deny safe haven to violent extremists within its borders.

Material assistance to the Pakistan military has increased significantly in recent years, and the demand on the Office of the Defense Representative-Pakistan (ODRP) to maintain appropriate, statutorily required accountability standards has remained steady and, pursuant to the requirements of Section 1225 of the National Defense Authorization Act for FY2010, has even increased. The report does not adequately highlight the complex and challenging security environment that DoD operates within while working and operating in Pakistan. In addition, Pakistan is a sovereign state that has a history of mistrust over U.S. intentions, which DoD is working hard to overcome by building a long-term strategic partnership.

Despite these challenges, it is a testament to the professionalism of DoD personnel involved in the provision of security assistance to Pakistan that the draft report found no significant deviations from the accountability standards required by current policy or by statute – only areas where GAO believes that DoD could do a more thorough job in mitigating potential risks to equipment accountability. Unlike other programs designed to equip partners during wartime, which have resulted in the identification of several problematic practices, the draft report confirms that DoD’s efforts in Pakistan have not produced the negative consequences in terms of equipment accountability that some may have feared.

See comment 1.

The thrust of the draft report is a recommendation to apply the Federal internal control standards—those contained in DoD Instruction 5000.64 that are used by DoD for equipment owned by DoD, stored in U.S.-controlled facilities, and operated by U.S. forces—to a DoD-leased warehouse in Islamabad where material is received and stored prior to transfer to the Pakistani security forces. In essence, we believe it is infeasible in practice to apply the requirements of DoD Instruction 5000.64 to the situation in Pakistan because the equipment essentially remains “in transit” to Pakistani forces while it is in the leased warehouse, and, therefore, supply chain management standards, not equipment accountability standards, should apply. Following transfer, U.S. responsibility shifts to end-use monitoring as the equipment is no longer U.S.-owned.

Significant processes that are prescribed for U.S. property, such as listing items in unit property books and appointment of property book officers, etc., are **not** applicable to equipment being provided to Pakistani forces under the Pakistan Counterinsurgency Fund (PCF) and Pakistan Counterinsurgency Capability Fund (PCCF) authority and is still in transit, as explained above. While such equipment is in a warehouse awaiting transfer, supply chain management processes apply.

The applicable accountability requirements upon which to evaluate the ODRP procedures for the storage of such equipment should be based on supply chain management instructions, not property accountability instructions. Maintaining current accountability requires possession of an item and periodic inventories. Once equipment is transferred to the Pakistanis, the United States does not possess the equipment and can no longer be accountable for the equipment; instead, *U.S. responsibility shifts to monitoring*. Some equipment will be subject to Enhanced End Use Monitoring (EEUM), requiring periodic inventories. The United States is responsible to monitor equipment transferred to Pakistan, but the United States is not accountable for that equipment once transferred (although, the United States is responsible for reporting any losses of EEUM items to DSCA).

PCF and PCCF-acquired equipment is **not** DOD property once it is transferred to the Pakistani military. Similarly, FMF-procured equipment is **not** USG property once it is transferred to the host nation. Therefore, the term “accountability” for equipment after it has been turned over to Pakistan requires clarification. The materiel provided to Pakistan via PCF and PCCF falls under Pakistani control, once transferred. We believe that the distinction between “control” and “monitoring” is necessary if an evaluation of DoD’s accountability for PCF/PCCF equipment, once transferred to Pakistan, is to be meaningful. The United States retains the authority to conduct End Use Monitoring on materiel provided via the Foreign Military Sales (FMS) process. This is standard in FMS Letters of Offer and Acceptance (LOAs) between the Pakistan government and the U.S. End Use Monitoring requirements are included in LOAs for pseudo-FMS cases, such as for PCF equipment, even though those LOAs do not constitute an agreement between the government of Pakistan and the United States but are instead agreements between the U.S. implementing agencies and the U.S. security cooperation office. The United States generally retains possession of material acquired under PCF/PCCF and similar programs for only short periods of time. The materiel is, in effect, still in transit while temporarily awaiting final delivery to the Pakistani users.

It is also important to recognize that the Host Nation imposes limitations on certain ODRP operations. We believe that had the GAO auditors applied risk-based modeling using inherent risks, control risks and detection risks, of loss in conjunction with their key stated requirements, it is likely that existing SOP's, contracts, and real world experience would have proved sufficient in light of the requirements identified and the host nation imposed limitations.

As the final draft report shows, DoD has used elements of its own equipment storage practices, such as those set out in DoD Instruction 5000.64, to shape the way it handles equipment destined to be provided to our Pakistani partners. However, the use of DoD Instruction 5000.64 as a reference to guide DoD procedures is not appropriate to cover equipment that is only temporarily in U.S. possession while awaiting transfer to the Pakistan military.

On August 26 and again on December 15, 2010, DoD provided GAO copies of its standard operating procedures for maintaining equipment accountability while at the warehouse in Islamabad. Such procedures have been informed by existing DoD practice for handling its own equipment as well as the unique operating environment in Pakistan. DoD notes that GAO did update an earlier draft of its analysis based on input provided on December 15 to reflect more accurately the controls in place in Islamabad and the degree to which DoD Instruction 5000.64 has informed ODRP's standard operating procedures (SOPs). Still, we are concerned that the draft report identifies the Pakistan case as an example to justify the imposition of an accountability framework—designed for U.S. equipment for U.S. forces—on equipment being provided as foreign assistance for foreign forces, with little regard to particular circumstances.

ODRP is in compliance with existing statutes and policy guidance, and its practices have not resulted in a loss of accountability for U.S.-supplied equipment.

Additional technical details and factual corrections have been provided to GAO through separate correspondence. This information caused GAO to revise parts of its analysis in its final report, which DoD received from GAO on December 21 with a request for comment by January 4, 2011.

DoD Responses to GAO Recommendations:

RECOMMENDATION 1: To improve accountability for U.S.-provided defense equipment, the GAO recommends that the Secretary of Defense should direct the Commander of the U.S. Central Command to ensure that the Office of Defense Representative Pakistan's (ODRP) written procedures for equipment received and stored at its Islamabad warehouse incorporate all of the key requirements contained in DoD Instruction 5000.64, such as requirements focused on security issues involving the receipt, storage, and handling of sensitive items. (See page 9/GAO Draft Report.)

DOD RESPONSE: Non-concur. As noted above, DoD Instruction 5000.64 is not an appropriate guide for the case of equipment being transferred to Pakistan. The equipment essentially remains in transit to Pakistani forces while it is in the leased warehouses, and

See comment 2.

therefore, supply chain management standards, not equipment accountability standards, should apply.

GAO RECOMMENDATION 2: To improve accountability for U.S.-provided defense equipment, the GAO recommends that the Secretary of Defense should direct the Director of the Defense Security Cooperation Agency (DSCA) to follow up, in accordance with U.S internal control standards, to ensure that ODR-P fully addresses all of DSCA's 2008 recommendations.

DOD RESPONSE: Partially Concur. The report incorrectly implies that DSCA did not follow up in a timely manner to ensure that the Office of the Defense Representative-Pakistan (ODRP) took corrective action regarding a recommendation noted in a 2008 Compliance Assessment Visit (CAV) report. Although a follow-on CAV has not been conducted in Pakistan as recommended in the report due to other CAV commitments world-wide, DSCA ensured that the ODRP took the necessary corrective actions to comply with the report's recommendations regarding the security of night vision devices (NVDs) transferred to Pakistan. ODRP has signed a Memorandum of Agreement (MOA) with Pakistan that delineates procedures for safeguarding NVDs. ODRP also conducts annual 100 percent inventories to ensure accountability and enters all inventories into a DSCA-maintained database. DSCA personnel continually monitor the database to verify compliance with the inventory requirements. Additionally, commitments to conduct CAVs in other USCENTCOM countries such as Saudi Arabia, Oman, Egypt, and the UAE prevented a follow-on assessment of Pakistan earlier than the currently planned visit during the second quarter of FY 2011.

GAO RECOMMENDATION 3: To improve accountability for U.S.-provided defense equipment, the GAO recommends that the Secretary of Defense should direct the Director of DSCA to conduct a compliance assessment to verify that U.S. and Pakistani officials have fully implemented the new accountability program required by the National Defense Authorization Act (NDAA) for FY 2010. (See page 9/GAO Draft Report.)

DOD RESPONSE: Concur. DSCA drafted and coordinated DoD Instruction (DoDI) 4140.66, which established policy and procedures within DoD to ensure compliance with the Registration and Monitoring Program required by Section 1225 of the NDAA for FY 2010 for the transfer or export of defense articles and services to Pakistan. As the DoD organization responsible to review whether DoD Components have implemented the necessary procedures to comply with the guidance prescribed in DoD Instruction 4140.66, DSCA will conduct periodic assessments of the ODRP in Pakistan. An assessment is planned during the second quarter of FY 2011.

The following are GAO's comments on the Department of Defense letter, dated December 21, 2010.

GAO Comments

1. This report does not assess whether equipment has been lost or stolen since DOD began leasing the Islamabad warehouse in December 2008. Although we assessed the adequacy of the design of DOD's procedures for safeguarding equipment at the Islamabad warehouse, we did not assess the extent to which DOD had implemented these procedures, primarily due to the absence of such procedures during our February 2010 visit. As stated in the draft report, DOD had not developed procedures to safeguard this equipment at the time of our visit, although the warehouse had been leased for approximately 14 months.
2. On August 26, 2010, DOD provided for our review three standard operating procedures (SOP-01, SOP-7, SOP-9) that were developed after we informed them that written procedures to safeguard the equipment stored in the warehouse did not exist. These procedures were used to assess the extent that ODRP addressed DOD Instruction 5000.64 requirements. The initial draft report provided to DOD on November 4, 2010, summarized the results of our analysis. In response to the draft report, DOD provided four additional standard operating procedures on December 15, 2010 (SOP-2, SOP-3, SOP-8, SOP-11), one of which was dated on November 14, 2010. Upon receipt of these additional procedures, we included them in our assessment and updated the draft report, which was provided to DOD for review on December 21, 2010. As this chronology shows, DOD developed applicable procedures as a result of our work throughout the course of our audit. Our conclusion and recommendations are based on the updated analyses and we continue to find that some accountability elements that are included in both DOD Instruction 5000.64 and DOD 4140.1-R, such as performing periodic reviews and audits of the property accountability and management system, have not been incorporated into the procedures.

Enclosure III: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

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Related GAO Products

Combating Terrorism: Planning and Documentation of U.S. Development Assistance in Pakistan's Federally Administered Tribal Areas Need to Be Improved. [GAO-10-289](#). Washington, D.C.: April 15, 2010.

Securing, Stabilizing, and Developing Pakistan's Border Area with Afghanistan: Key Issues for Congressional Oversight. [GAO-09-263SP](#). Washington, D.C.: February 23, 2009.

Combating Terrorism: Increased Oversight and Accountability Needed over Pakistan Reimbursement Claims for Coalition Support Funds. [GAO-08-806](#). Washington, D.C.: June 24, 2008.

Combating Terrorism: U.S. Oversight of Pakistan Reimbursement Claims for Coalition Support Funds. [GAO-08-932T](#). Washington, D.C.: June 24, 2008.

Combating Terrorism: U.S. Efforts to Address the Terrorist Threat in Pakistan's Federally Administered Tribal Areas Require a Comprehensive Plan and Continued Oversight. [GAO-08-820T](#). Washington, D.C.: May 20, 2008.

Preliminary Observations on the Use and Oversight of U.S. Coalition Support Funds Provided to Pakistan. [GAO-08-735R](#). Washington, D.C.: May 6, 2008.

Combating Terrorism: The United States Lacks Comprehensive Plan to Destroy the Terrorist Threat and Close the Safe Haven in Pakistan's Federally Administered Tribal Areas. [GAO-08-622](#). Washington, D.C.: April 17, 2008.

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