

**GAO**

United States General Accounting Office

Report to Congressional Committees

March 2000

**COOPERATIVE  
THREAT REDUCTION**

**DOD's 1997-98 Reports  
on Accounting for  
Assistance Were Late  
and Incomplete**



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Accountability \* Integrity \* Reliability

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## Abbreviation

DOD Department of Defense

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

National Security and  
International Affairs Division

B-284030

March 15, 2000

Congressional Committees

Since 1992, Congress has authorized the Department of Defense (DOD) to obligate almost \$3.2 billion for DOD's Cooperative Threat Reduction program. This program is intended to help former Soviet states (1) destroy their weapons of mass destruction, (2) safely store and transport such weapons in connection with their destruction, and (3) reduce the risk of their proliferation. The program provides most of its assistance in the form of goods and services, including equipment, logistics support, training, and integrated project management.

To help guard against the possibility that recipient states could misuse this assistance, Congress directed the Secretary of Defense to prepare an annual report on U.S. efforts to account for the assistance and ensure its proper use.<sup>1</sup> The Secretary is required to submit an accounting report to Congress by January 31st of each year.<sup>2</sup> The report is to include (1) a list of Cooperative Threat Reduction assistance provided, (2) a description of the current location and condition of the assistance provided, (3) a determination of whether the assistance has been used for its intended purpose, and (4) a description of the activities planned for the next year to ensure that the assistance is fully accounted for and used for its intended purpose. In addition, reports submitted after September 30, 1999, are to include specific information regarding Russia's arsenal of tactical nuclear warheads.<sup>3</sup>

To date, DOD has provided Congress with five reports on Cooperative Threat Reduction assistance. In each case, DOD summarized its auditing and examinations activities and concluded that the former Soviet states were using the assistance as intended. DOD's two most recently submitted reports covered calendar years 1997 and 1998.

<sup>1</sup> Section 1206 of the National Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106).

<sup>2</sup> For example, DOD is required to submit its accounting report for 1999 to Congress by January 31, 2000.

<sup>3</sup> Section 1312 of the National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65).

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Congress has directed the Comptroller General of the United States to assess each of DOD's accounting reports after DOD submits them to Congress.<sup>4</sup> Accordingly, this report assesses DOD's two most recent accounting reports in terms of

- each report's compliance with its respective deadline for submission to Congress; and
- the accuracy and completeness of each report, specifically the extent to which it lists all of the assistance provided; describes the assistance's location and condition; provides a determination regarding whether the assistance was used for its intended purpose; includes DOD's plans to account for the assistance during the following year; and, for the 1998 report, contains specific information on Russia's arsenal of tactical nuclear warheads.<sup>5</sup>

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## Results in Brief

DOD was 16 months late in submitting its Cooperative Threat Reduction accounting report for 1997 to Congress and more than 10 months late in submitting its report for 1998 to Congress. The delays associated with both reports were primarily due to DOD's prolonged review of the draft reports and the relatively low priority that its officials placed on ensuring the reports' timely submission. The 1998 report's submission was also delayed because DOD did not clearly communicate to the Department of State the type of information State needed to provide DOD for the report and the deadline for its submission. These delays denied Congress information concerning the status of previous assistance provided to the former Soviet states while Congress considered the appropriation of fiscal year 1999 and 2000 funds for the Cooperative Threat Reduction program.

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<sup>4</sup> For GAO's assessments of previous reports, please refer to *Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Assistance Can Be Improved* (NSIAD-95-191, Sept. 29, 1995); *Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Assistance Has Improved* (NSIAD-97-84, Feb. 27, 1997); and *Cooperative Threat Reduction: Review of DOD's June 1997 Report on Assistance Provided* (NSIAD-97-218, Sept. 5, 1997).

<sup>5</sup> Section 1206 of Public Law 104-106 requires the Comptroller General to provide this assessment within 30 days of DOD's submission of an accounting report. Not long after DOD submitted the accounting report for 1997 in June 1999, DOD officials informed us that they would submit the 1998 report by the end of August 1999. Accordingly, we notified your Committees in July 1999 that we would provide a combined assessment of both reports once DOD had submitted the 1998 report. However, DOD did not submit the report for 1998 until December 1999.

DOD did not provide complete and fully accurate information in its 1997 and 1998 accounting reports. For example, the reports

- failed to list more than \$27 million of Cooperative Threat Reduction equipment that DOD provided to recipient states during a 3-month period in 1997;
- listed only a single form of Cooperative Threat Reduction assistance—equipment transferred to recipient states (that represented less than 19 percent of the program's 1997-98 expenditures)—rather than all assistance provided;
- described where the equipment was located at the time of its transfer to the recipients' custody (rather than where it was actually located at the time of the reports) and failed to describe the location or condition of other forms of assistance, such as contractor-provided services;
- contained either unsupported or overstated estimates of the percentage of equipment that DOD had audited in determining that assistance was being used as intended; and
- did not include complete information on how the Departments of State and Energy used Cooperative Threat Reduction funds, largely because DOD did not clearly communicate its information needs to those agencies.

In addition, the 1998 report did not include specific information on Russia's arsenal of tactical nuclear warheads.

Our report recommends that the Secretary of Defense establish (1) mechanisms to ensure that future reports are submitted to Congress by January 31 of each year, (2) quality controls and processes to ensure that future reports contain more complete and accurate information, and (3) clear guidance to other executive branch agencies concerning the type of information that DOD needs and the deadline for submitting such information for future accounting reports.

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## Background

The 1991 collapse of the Soviet Union left Russia, Ukraine, Kazakhstan, and Belarus with a legacy of about 30,000 nuclear weapons, 2,500 strategic nuclear delivery systems, and at least 40,000 metric tons of chemical weapons. In response, Congress authorized DOD to initiate a cooperative program to reduce the threat of former Soviet weapons of mass destruction. To date, DOD has obligated about \$2.2 billion of the almost \$3.2 billion that Congress has authorized for Cooperative Threat Reduction projects and expended about \$1.7 billion. Most of these funds have been

allocated for destroying and dismantling weapons and delivery systems and for improving controls over nuclear weapons and materials.

DOD rarely provides Cooperative Threat Reduction funds directly to Russia, Ukraine, Kazakhstan, Belarus, and other recipient states.<sup>6</sup> Instead, it generally hires contractors to perform specified tasks or obtains equipment for transfer to the custody of former Soviet states. DOD also uses Cooperative Threat Reduction funds to support activities managed by other executive branch agencies. For example, it has provided Cooperative Threat Reduction funds to the Department of Energy to help protect, control, and account for former Soviet nuclear materials. DOD has also provided Cooperative Threat Reduction funds to the Departments of State and Energy and to the Civilian Research and Development Foundation<sup>7</sup> to help support former Soviet weapons scientists who are now conducting peaceful research. The Department of State disperses its share of these funds through two international science and technology centers in Russia and Ukraine.<sup>8</sup> DOD officials told us that the Russian center will receive about \$57 million in Cooperative Threat Reduction funds from the year 2000 through 2005 to help reduce the threat of biological weapons proliferation.

DOD relies on multiple methods to account for Cooperative Threat Reduction assistance and to ensure that it is used as intended. In addition to overseeing its contractors, DOD inspectors audit and examine equipment transferred to the custody of recipient states. DOD also sends Cooperative Threat Reduction program and project managers to review the progress of projects on-site. It relies on the Departments of Energy and State to ensure that Cooperative Threat Reduction funds provided to those agencies are being used as intended. For its program to help protect, control, and account for former Soviet nuclear materials, the Department

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<sup>6</sup> We have described Cooperative Threat Reduction efforts in greater detail in past reports, such as *Weapons of Mass Destruction: Effort to Reduce Russian Arsenals May Cost More, Achieve Less Than Planned* (GAO/NSIAD-99-76, Apr. 13, 1999) and *Weapons of Mass Destruction: Status of the Cooperative Threat Reduction Program* (GAO/NSIAD-96-222, Sept. 27, 1996).

<sup>7</sup> The Civilian Research and Development Foundation is a nongovernmental, nonprofit foundation.

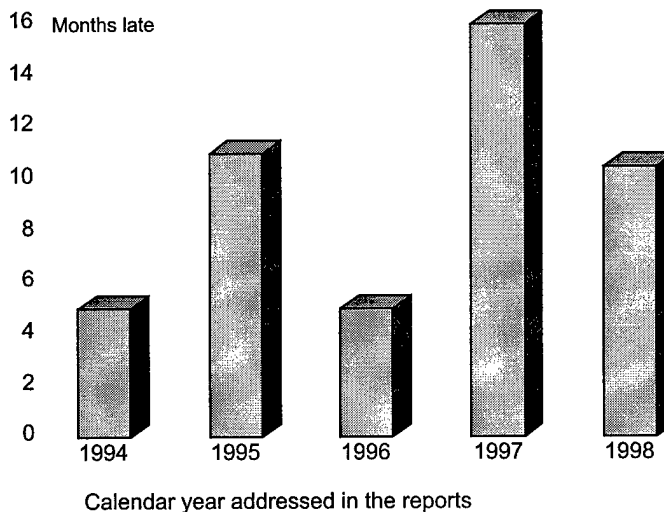
<sup>8</sup> The international science and technology centers are multinational organizations funded by the United States, European Union, and four other countries. The Department of State is responsible for managing U.S. involvement in the science centers.

of Energy has instituted a system that relies primarily on project managers to certify that the assistance it provides is being executed effectively and used for its intended purposes. For its grant program to former Soviet weapon scientists, the Department of Energy ensures that the terms of the grant agreements are being fulfilled through the receipt of specified deliverables, such as progress reports. The Department of State ensures that its science center grants are being used as intended through financial and program audits by the Defense Contract Audit Agency.

## DOD Was Late in Submitting the Reports to Congress

Under the terms of section 1206 of the National Defense Authorization Act for Fiscal Year 1996, DOD was required to submit its accounting report for 1997 by January 31, 1998, and its accounting report for 1998 by January 31, 1999. However, DOD was 16 months late in submitting its report for 1997 and more than 10 months late in submitting its report for 1998 (see fig. 1).

**Figure 1: Lateness of Department of Defense Cooperative Threat Reduction Accounting Reports, 1994-98**



Source: GAO analysis of DOD reports.

The reports for 1997 and 1998 were delayed primarily because they underwent numerous reviews at various levels in multiple offices within DOD. DOD officials noted that the length of the internal review process for both reports was compounded by the relatively low priority that the

reviewers placed on ensuring the reports' timely submission, given other competing demands. In addition, DOD officials cited the number of other reports that they must provide Congress concerning the Cooperative Threat Reduction program as a factor delaying the accounting reports. Our review of routing slips and other documents confirmed that some reviewing offices held the draft reports for months as they identified and addressed concerns.

In addition, DOD officials informed us that DOD was delayed in submitting the 1997 and 1998 reports because it had to wait while other agencies, particularly the Department of State, prepared needed information concerning their use of Cooperative Threat Reduction funds. However, our review of DOD routing slips for the 1997 report indicated that waiting for other agencies delayed DOD's submission of the 1997 report by no more than 2 months. Our review of DOD routing slips for the 1998 report and discussions with DOD officials indicated that DOD waited approximately 6 months for information from other agencies—including over 2 months spent waiting solely for the Department of State's information. Once it decided to proceed without the Department of State's information in July 1999, DOD reviewed the draft for another 5 months before submitting it to Congress on December 13, 1999.

We found no evidence that DOD had provided the Department of State with clear guidance as to when it should give DOD the information needed for the 1998 accounting report. Department of State officials informed us that they had been unclear about DOD's information needs and were unaware DOD had delayed submitting a report to Congress while waiting for information from them.

However, DOD officials have informed us that subsequent accounting reports should be submitted in a more timely fashion. They told us that they would no longer delay a future report's submission to Congress while they awaited information from other agencies. Instead, DOD will submit information from these agencies separately or as an addendum to the accounting report. DOD officials also noted that Congress has changed the reporting period of future accounting reports from a calendar year basis to a fiscal year basis.<sup>9</sup> This change will allow DOD an additional 3 months

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<sup>9</sup> Section 1311 of the National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65, Oct. 5, 1999).

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(October, November, and December) to prepare accounting reports for submission on January 31.

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### **The Reports Contained Incomplete and Inaccurate Information**

According to section 1206 of the Defense Authorization Act for Fiscal Year 1996, the Secretary of Defense's annual accounting reports for Cooperative Threat Reduction must include (1) a list of assistance provided before the date of the report, (2) information on the location and condition of the assistance provided, (3) a determination regarding whether or not the assistance was used for the purposes intended, and (4) information on future activities to account for assistance. In its reports for calendar years 1997 and 1998, DOD addressed each of these required topics. However, we found that both reports contained some incomplete, inaccurate, or vague information.

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### **The Lists of Assistance Provided Were Incomplete**

Section 1206 states that each report must contain "a list of cooperative threat reduction assistance that has been provided before the date of the report." Accordingly, we assessed both reports in terms of whether the lists that they included (1) were cumulative and (2) encompassed all Cooperative Threat Reduction assistance provided.

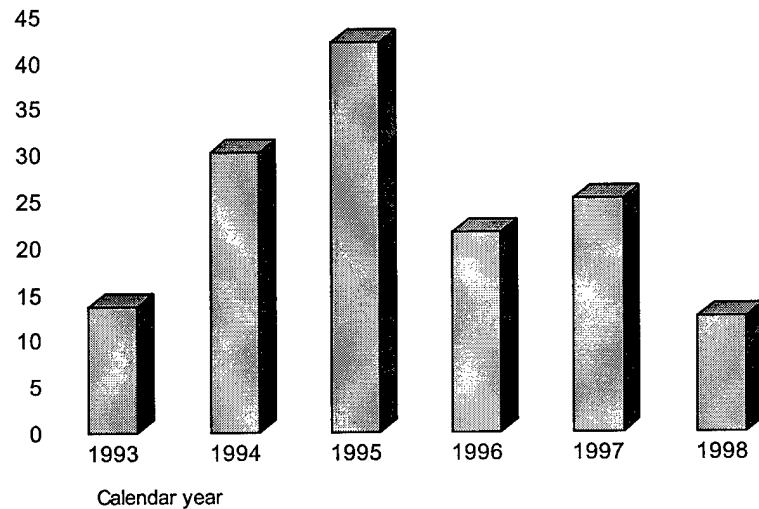
Although DOD had provided cumulative lists in all of its previous reports, we found that it did not do so in its reports for 1997 and 1998. Notwithstanding statements in both reports that the lists that they included were "cumulative," the 1997 report's list covered only fiscal year 1997 and the 1998 report's list covered only calendar year 1998.

Moreover, we also found that neither report included all of the assistance that was provided. Because the 1997 report's list ends on September 31, 1997, and the 1998 report's list begins on January 1, 1998, neither list included assistance provided during the 3-month period that separates them. During that time, DOD sent approximately \$27 million of equipment to former Soviet states (see app. I)—more than a third of all the equipment DOD sent to these states during calendar year 1997.

We also found that the lists included only one type of assistance—equipment that the U.S. government has transferred to the custody of the recipient governments. While such equipment may be more vulnerable to misuse or diversion than other types of assistance, it has constituted a diminishing fraction of Cooperative Threat Reduction expenditures since 1996. As figure 2 shows, transferred equipment represented no more than 25 percent

(\$72.5 million) of the \$288 million that the Cooperative Threat Reduction program expended in 1997 and only 12.5 percent (\$37 million) of the \$296 million expended in 1998.

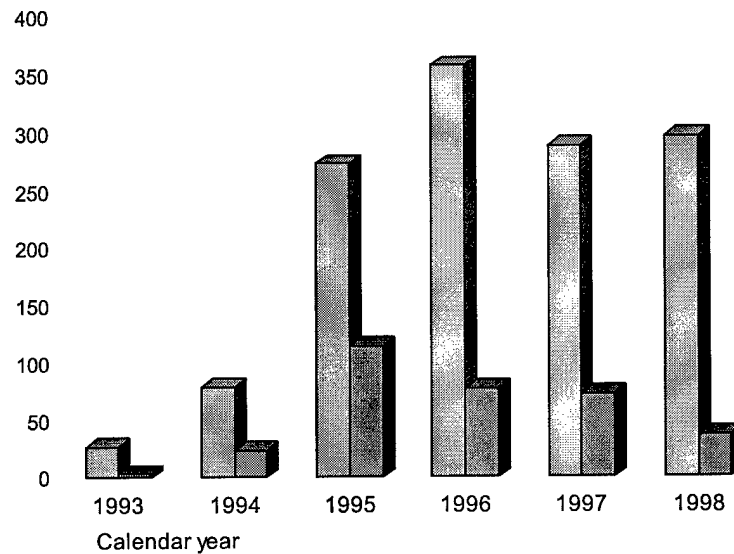
**Figure 2: Percent of Cooperative Threat Reduction Expenditures Spent on Equipment Transferred to Former Soviet States, 1993-98**



Source: GAO analysis of DOD data.

Because DOD focused on equipment transfers, it omitted contractor-provided services—a major type of Cooperative Threat Reduction assistance. Such services include setting up computer systems and providing training on the systems, conducting environmental assessments, and performing heavy construction. DOD has also hired contractors to manage large, highly technical projects and to provide logistical support and maintenance for equipment provided. According to Department officials, the Cooperative Threat Reduction program has increasingly used contractors to provide assistance to former Soviet states. In part because DOD did not attempt to capture contractor-provided services in the lists, there is a notable disparity between the values of the assistance included in the list and total Cooperative Threat Reduction expenditures (see fig. 3).

**Figure 3: Cooperative Threat Reduction Expenditures Compared to the Value of Equipment Transferred, 1993-98**



Source: GAO analysis of DOD data.

In its 1997 and 1998 reports, DOD also did not list all of the Cooperative Threat Reduction assistance provided by other agencies. We found a similar problem during our assessment of DOD's 1996 accounting report. At that time, we recommended that the Secretary of Defense provide more complete information on the other agencies' projects, including the values and types of assistance provided.<sup>10</sup> In response, DOD concurred and stated that it would (1) convey our findings to the Departments of State and Energy and (2) undertake measures with the other departments to improve future reporting on their use of Cooperative Threat Reduction funds.

<sup>10</sup> See *Cooperative Threat Reduction: Review of DOD's June 1997 Report on Assistance Provided*.

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However, our review of DOD's 1997 and 1998 accounting reports indicates that DOD has not effectively implemented such measures. DOD did not present in either report the degree of financial support it had given to the Departments of State and Energy and to the Civilian Research and Development Foundation. Nor did either report explain exactly how these entities used the Cooperative Threat Reduction funds that DOD transferred to them. Furthermore, the reports did not list all of the equipment or other forms of assistance provided by the other agencies using Cooperative Threat Reduction funds.<sup>11</sup>

DOD did not implement procedures for obtaining all needed information from the other agencies and ensuring that it is incorporated into the accounting reports. Department of State officials told us that they did not furnish DOD with such information because DOD had not provided them with clear guidance on its informational needs and that they were unaware that DOD required this information. Department of Energy officials stated that they provided information to DOD in accordance with the guidelines DOD gave them. DOD officials currently responsible for preparing the accounting reports informed us that they were not aware of any established procedures for obtaining needed data from other agencies.

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**Information on the Location of Assistance Provided Was Incomplete and Sometimes Inaccurate**

Section 1206 of the legislation states that the annual accounting reports must include "a description of the current location of the assistance provided." In reviewing the 1997 and 1998 reports, we assessed whether DOD provided complete and accurate location information on all Cooperative Threat Reduction assistance. We found that DOD did not do so in either report.

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<sup>11</sup> DOD's list is derived from a database of equipment shipped by DOD. The database is designed to include all equipment for which there has been a transfer of custody. In 1997, the Departments of State and Energy shipped some, but not all, of the Cooperative Threat Reduction equipment they had purchased through DOD. Therefore, only the equipment that was shipped through DOD appears in DOD's database.

DOD included location information for some of the assistance as part of each report's list of equipment transferred to recipient states. However, it did not include location information for much of the assistance that was not included in the lists, such as assistance provided through other agencies. In addition, the location information included elsewhere in the reports could not be clearly linked to specific pieces of equipment. The reports noted that DOD officials had visited certain sites associated with particular projects. However, the reports did not identify the specific pieces of equipment the officials saw at these sites.<sup>12</sup> DOD officials explained to us that they do not necessarily visit all of the sites where equipment may be located. Moreover, they do not attempt to account for all of the equipment that is located at each visited site.

In addition, DOD's lists did not always accurately reflect the location of the equipment during the periods covered. The locations identified in the lists indicated where DOD delivered and transferred the equipment. However, these locations were not necessarily where the equipment was located after the transfers were completed. DOD officials informed us that some equipment was shipped to its final location by the recipient government or a U.S. contractor after the transfer of custody had taken place. Department officials who maintain the equipment database informed us that such movements of equipment are not reflected in the database. Department officials were not able to quantify what proportion of transferred equipment was moved after the transfer of custody.

In commenting on a draft of this report, DOD stated that it was preparing to make major revisions to the database that would enable DOD to identify the most current location of all assistance. DOD also stated that it would not include a cumulative list of assistance provided in future reports but would instead limit the list to the assistance rendered during the fiscal year covered by the report. Past reports in conjunction with future reports would provide Congress with a complete list of assistance provided. However, if DOD does not include cumulative lists of assistance in future accounting reports, these reports will not reflect changes to the location of assistance provided before the fiscal year covered in the reports.

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<sup>12</sup> DOD's previous accounting reports specified the equipment that had been accounted for during audits and examinations conducted by DOD inspectors.

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**Information on the Condition of the Assistance Provided Was Incomplete**

Section 1206 requires that the annual accounting reports include "a description of the current condition" of Cooperative Threat Reduction assistance provided. In evaluating the 1997 and 1998 reports for this information, we assessed whether the reports clearly stated the condition of all assistance provided through the end of 1997 and 1998, respectively.

We found that DOD provided incomplete and sometimes vague information in both reports on the condition of the assistance. For some Cooperative Threat Reduction projects managed by DOD, the reports included a statement to the effect that all of the equipment provided under the project was in working order, noting any specific exceptions. However, DOD did not provide information on the condition of the equipment it provided for about 33 percent of its projects described in the 1997 report and for more than 40 percent of its projects described in the 1998 report.<sup>13</sup> These projects included the heavy bomber elimination project in Russia in the 1997 report and the SS-24 silo launcher and missile elimination project in Ukraine in the 1998 report (see app. II). Furthermore, in neither report did DOD provide clear assessments of the condition of assistance provided through DOD contractors, the Departments of State and Energy, or the Civilian Research and Development Foundation.

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**DOD Cannot Fully Support Its Determination That Assistance Was Used as Intended**

According to section 1206, the reports shall include "a determination of whether the assistance has been used for its intended purpose." We therefore assessed whether the reports included such a determination and whether DOD presented reasonable evidence to support its conclusions. We found that DOD included an overall determination in its reports that the assistance had been used as intended. However, DOD's presentation of these determinations and its supporting evidence raised questions regarding DOD's ability to support the determinations.

We found that DOD officials were unable to substantiate a statement in the 1997 report's cover letter that DOD had accounted for two-thirds of the equipment transferred through 1997. In the cover letter, DOD stated that it had delivered equipment valued at \$298 million through 1997 and that it had

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<sup>13</sup> In commenting on a draft of this report, DOD stated that it could not physically verify the condition of all Cooperative Threat Reduction assistance. Instead, DOD felt that it could confidently ascertain the condition of all of the assistance by verifying the condition of a sample of assistance. The scope of our review did not include evaluating the adequacy of DOD's sampling approach.

accounted for about \$200 million of this amount during 1997. However, DOD officials informed us that they could not identify the source of these figures or determine the actual value of the equipment that the audits accounted for. They attributed their inability to provide supporting documentation to personnel changes that have occurred in DOD since the 1997 report was initially drafted.

DOD officials subsequently revised their methodology for this calculation. DOD stated in the 1998 report's cover letter that approximately 54 percent (\$177 million) of the equipment transferred (approximately \$327 million) had been subject to audit and examination during 1998. However, DOD officials acknowledged that this calculation included at least some equipment—such as consumables and small value items—for which its auditors did not actually account.

In some cases, DOD also included individual determinations that assistance provided through specific DOD-managed projects had been used as intended. However, DOD did not include such determinations for about 33 percent of its projects in 1997 and for more than 40 percent of its projects in 1998. These projects included Russian intercontinental ballistic missile launcher elimination in the 1997 report and Kazakhstani strategic bomber elimination in the 1998 report (see app. III).

The reports also contained relatively little information regarding other agencies' use of Cooperative Threat Reduction funds to support DOD's blanket assertion that the assistance was being used as intended. We found that in some cases additional information regarding this assistance could have been included in the reports if there had been clearer communication between the agencies involved.

- Neither report included information to support a determination that funds provided to the Department of Energy for former Soviet weapons scientists were being used as intended.<sup>14</sup> Instead, the reports contained erroneous assertions that the Department of Energy audits its support for these scientists. Department of Energy officials informed us that rather than conduct audits of these projects, the Department only remits payment for projects after researchers have sent it the deliverables

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<sup>14</sup> The 1998 report's introduction referred readers to an annex in the report for more information on this program. However, our review found no information on this program in that annex or any other part of the report.

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specified in the grant agreements, such as progress reports. We found that DOD could have included detailed information about this program. Department of Energy officials informed us that they had provided DOD with reports on the program as requested by DOD. Cooperative Threat Reduction officials told us that they had received these reports but had not been instructed to forward them to the officials responsible for preparing the 1998 report. The officials responsible for preparing the 1998 report later told us that they were unaware that the Department of Energy reports existed.

- The 1998 report did not provide information that would support a determination that the Department of State was using Cooperative Threat Reduction funds as intended at the international science and technology centers. Unlike the 1997 report, the 1998 report did not include financial audits of each science center or a summary of Defense Contract Audit Agency audits of individual projects using Cooperative Threat Reduction funds. Instead, it included only an annual report for the science center based in Russia and no information for the science center located in Ukraine. DOD officials stated that differences in the science centers' auditing cycles and DOD's accounting report deadlines precluded them from including such information in DOD's 1998 report. However, we found that by September 1999, the Department of State could have provided DOD with 26 Defense Contract Audit Agency reports<sup>15</sup>—each describing an audit of a science center project using Cooperative Threat Reduction funds—almost 3 months before DOD submitted the report to Congress. DOD officials responsible for drafting the 1998 report informed us that they were unaware that these audit reports existed.
- The reports' discussion of the Civilian Research and Development Foundation was limited to financial audits of the Foundation. These audits made no determination of whether the assistance provided had been used for the purposes intended. Moreover, DOD included the Foundation's 1996 financial audit in its 1997 report and the Foundation's 1998 financial audit in its 1998 report. Neither report included the Foundation's 1997 financial audit.

The 1997 and 1998 reports did provide clear supporting evidence regarding the Department of Energy's program to help protect, control, and account for former Soviet nuclear materials. Each report included Department of

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<sup>15</sup> The Defense Contract Audit Agency prepared these 26 audit reports between November 1998 and September 1999.

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Energy assertions that the assistance provided through this program had been used for the purposes intended and summaries of the Department's supporting evidence.

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### The Reports' Audit Plans Were Outdated

Section 1206 requires DOD to report on future activities that will be undertaken to account for Cooperative Threat Reduction assistance. We therefore assessed whether DOD included such information in the reports.

We found that both reports included audit plans that were outdated at the time that DOD submitted the reports to Congress. In the 1997 report, which DOD submitted 5 months after 1998 ended, DOD stated that during 1998 it planned to carry out 20 audits and examinations. However, we found that during 1998 DOD had actually executed only 17 of the 20 originally planned audits and examinations.<sup>16</sup> In the 1998 report, DOD indicated that it intended to perform 24 audits and examinations during 1999. However, we found that DOD had completed only 22 audits by December 13, 1999, when it submitted the 1998 report to Congress.<sup>17</sup> DOD had canceled two audits scheduled for October 1999 and rescheduled them during the year 2000. DOD did not annotate either report to reflect these discrepancies.

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### The 1998 Report Did Not Include Information on Russia's Tactical Nuclear Warhead Arsenal

Under the terms of section 1312 of the National Defense Authorization Act for Fiscal Year 2000, DOD is required to include information on Russia's arsenal of tactical nuclear warheads in each accounting report submitted to Congress after fiscal year 1999, which ended on September 30, 1999. Since the 1998 report was submitted on December 13, 1999, we assessed whether it included the information required under section 1312.

We found that DOD did not provide the required information concerning Russia's arsenal of tactical nuclear warheads. DOD officials explained to us that they did not include this information in the report because they had expected the 1998 report to be submitted to Congress before the end of fiscal year 1999. In commenting on a draft of this report, DOD also noted

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<sup>16</sup> DOD planned to perform 10 audits and examinations in Russia, 5 in Ukraine, 3 in Kazakhstan, and 2 in Belarus during 1998. In reality, DOD completed eight audits and examinations in Russia, four in Ukraine, three in Kazakhstan, and two in Belarus.

<sup>17</sup> DOD planned to perform 10 audits and examinations in Russia, 6 in Ukraine, 5 in Kazakhstan, and 3 in Belarus. In reality, DOD completed eight audits and examinations in Russia, six in Ukraine, five in Kazakhstan, and three in Belarus.

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that it had interpreted section 1312 to apply to future accounting reports, starting with the fiscal year 2000 report (which is due to Congress on January 31, 2001).

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## Conclusions

DOD failed to submit timely, complete, or accurate reports to Congress on assistance provided through the Cooperative Threat Reduction program for 1997 and 1998. DOD's failure to submit the reports on time denied Congress timely information regarding efforts to ensure that Cooperative Threat Reduction assistance was not being diverted or misused. As a result, Congress lacked the information contained in the 1997 report for 16 months as it considered and enacted the Cooperative Threat Reduction program's fiscal year 1999 budget and began considering the program's fiscal year 2000 budget. Congress also lacked the information in the 1998 report for over 10 months while it considered and enacted the program's fiscal 2000 budget. While congressional action has provided DOD with an additional 3 months to prepare and review future reports, the extent of DOD's recent delays indicates that DOD should take additional actions to address the timeliness of its Cooperative Threat Reduction accounting reports.

DOD also provided incomplete, and in some instances, inaccurate information on assistance provided through the Cooperative Threat Reduction program in its 1997 and 1998 accounting reports. These deficiencies erode the reports' credibility and undermine their usefulness to Congress. The lack of sufficient information on assistance provided through other agencies, particularly through the Department of State, indicates that DOD has not taken the steps necessary to ensure that it obtains key information when needed from these agencies. Continued miscommunication between DOD and the Department of State could erode the value of future accounting reports, given DOD's plans to obligate about \$57 million through 2005 to projects at the science centers overseen by the Department of State.

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## Recommendations

In order to ensure that Congress receives timely and accurate information on assistance provided to former Soviet states through the Cooperative Threat Reduction program, we recommend that the Secretary of Defense

- establish procedures to facilitate the collection of information required in section 1206 of the National Defense Authorization Act for Fiscal Year

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1996 so that this information is submitted to Congress by January 31 of each year, as specified in the legislation;

- establish quality controls and processes to improve the report's information on the location, condition, and value of all assistance provided; and
- provide clear guidance to the Departments of State and Energy on the nature and timing of information that DOD requires of them for future accounting reports.

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## Agency Comments

We requested comments on a draft of this report from the Departments of Defense, State, and Energy. DOD's written comments and our evaluation of them are in appendix IV. The Department of State provided oral comments through the Political-Military Officer in the Office of Proliferation Threat Reduction. The Department of Energy did not provide comments.

DOD and the Department of State generally concurred with our report and its recommendations. For example, DOD agreed with our assessment of the reasons it was late in submitting its 1997 and 1998 Cooperative Threat Reduction accounting reports and noted that better procedures and controls must be developed to assure the timeliness of future reports. Moreover, with regard to tasking other agencies for input to the reports, DOD noted that it would formally notify these agencies of the information it required by letter.

DOD also stated it believes that our report implies DOD does not have high confidence that Cooperative Threat Reduction assistance is being properly used and that this implication is unwarranted. DOD further noted that it uses a wide variety of other methods and sources to account for assistance provided. For example, DOD commented that it had recently provided information to Congress on the procedures it uses to account for contractor-provided services. Regarding DOD's comment, our review did not assess the adequacy of DOD's overall efforts to assure that the assistance was being used as intended. Rather, as we stated in our report, our objective was to determine the extent to which the 1997 and 1998 accounting reports contained complete and timely information as specified in section 1206 of the National Defense Authorization Act for Fiscal Year 1996 and included sufficient evidence to support the reports' conclusions. In this regard, we found that DOD's reports omitted information in several key areas, such as services provided to former Soviet states. We continue to believe that the reports should have included information on all forms of Cooperative Threat Reduction assistance—including services—

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irrespective of whether this information was provided to Congress in other, unrelated reports.

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## Scope and Methodology

In assessing whether DOD complied with the two most recent reports' (1997 and 1998) mandated submission date to Congress, we reviewed routing sheets and various draft versions of the reports. We also interviewed some DOD officials who were involved in the process of reviewing the reports. We were not able to interview certain key officials involved early in the process for developing the 1997 report because they have since left DOD.

In assessing the extent to which the reports provided the information called for by Congress, we reviewed the reports and the information sources used to compile them. In order to assess information originating from DOD, we interviewed Department officials who are currently responsible for accounting for Cooperative Threat Reduction assistance, those who maintain the equipment deliveries database, and project managers. We also interviewed Department of Defense inspectors who conduct audits and examinations. We did not travel to former Soviet states to observe inspectors conducting an audit and examination.

In order to assess information originating from the Department of Energy, we spoke to officials responsible for managing the Department's system that ensures that its program to protect, control, and account for former Soviet nuclear materials is being executed effectively and that the assistance is being used for its intended purposes. We also spoke to officials responsible for managing the Department's program to support peaceful research by former Soviet weapons scientists. In order to assess information originating from the Department of State, we spoke to officials responsible for managing U.S. involvement in the two international science and technology centers. We also interviewed auditors from the Defense Contract Audit Agency who are involved with program audits of the international science centers.

To determine the percentage of Cooperative Threat Reduction funds spent on equipment transferred to the custody of former Soviet states, we used figures on the value of equipment transferred and total Cooperative Threat Reduction disbursements provided by DOD. We did not attempt to verify the accuracy of this data.

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We conducted our review from July 1999 through January 2000 in accordance with generally accepted government auditing standards.

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We are providing copies of this report to other interested committees; the Honorable William Cohen, Secretary of Defense; the Honorable Madeleine K. Albright, Secretary of State; the Honorable William Richardson, Secretary of Energy; and the Honorable Jacob Lew, Director, Office of Management and Budget. We will also make copies available to others upon request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Key contributors to this assignment were Boris Kachura, Pierre Toureille, and Valérie Leman Nowak.



Harold J. Johnson  
Associate Director  
International Relations and Trade Issues

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List of Congressional Committees

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

The Honorable Ted Stevens  
Chairman  
The Honorable Robert Byrd  
Ranking Minority Member  
Committee on Appropriations  
United States Senate

The Honorable Floyd D. Spence  
Chairman  
The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

The Honorable C.W. Bill Young  
Chairman  
The Honorable David R. Obey  
Ranking Minority Member  
Committee on Appropriations  
House of Representatives

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# Equipment Transferred by the Department of Defense to Recipient States From October 1, 1997, Through December 31, 1997

Country	Project	Delivery location	Items	Value (in dollars)	Delivery date (1997)	
Kazakhstan	SS-18 missile silo elimination	Aqtua	Parts	\$16,546	December 1	
		Dolon	Baler and parts	706,374	October 1	
	Crane and parts		239,549	October 1		
	Tool carrier and miscellaneous items		116,321	October 1		
	Excavator and parts		344,944	October 1		
	Tractor and trailer		92,846	October 1		
	Work benches		733	October 10		
	Ladder platforms		6,384	October 10		
	Cutting tools and parts		16,902	November 19		
	Nuclear testing infrastructure elimination	Semipalatinsk	Miscellaneous items	7,402	October 1	
			Vehicle lubricants	6,194	October 24	
Bioweapons production facility dismantlement	Stepnogorsk	Safety equipment and spare parts	978,008	November 27		
Russia	Intercontinental ballistic missile launcher and intercontinental ballistic missile/submarine launched ballistic missile elimination equipment	Logistics support base, Moscow	Computers and miscellaneous parts	13,811	October 15	
			Parts	36,250	October 28	
		Parts	300	December 30		
	Heavy bomber elimination equipment	Logistics support base, Moscow	Surovatikha	Loaders and parts	60,996	December 8
			Parts	5,716	October 7	
	Liquid propellant fuel disposition system	Krasnoyarsk	Epoxy material	6,972	October 4	
			Rocket fuel disposition system start-up kit	102,943	October 4	
			Spare parts	365,478	October 4	
Rocket fuel disposition system			8,573,506	October 13		
		Steam generator plant	1,040,667	October 13		

Continued

**Appendix I  
Equipment Transferred by the Department of  
Defense to Recipient States From October 1,  
1997, Through December 31, 1997**

Country	Project	Delivery location	Items	Value (in dollars)	Delivery date (1997)
			Rocket fuel disposition system shelter	410,000	October 21
			Rocket fuel disposition system shelter	410,000	October 21
	Chemical weapons destruction	Logistics support base, Moscow	Spare parts	62,073	October 15
	Fissile material storage facility design	Sarov	Gamma-neutron passportization system	56,847	December 12
	Fissile material storage facility	Mayak	Doors and parts	734,796	December 31
	Fissile material containers	Mayak	Fissile material containers	1,160,880	October 2
			Fissile material containers	1,658,400	November 2
			Fissile material containers	2,487,600	November 29
	Nuclear weapons storage security-storage site enhancements	Sergiev Posad	Breathalyzer equipment	463,326	November 14
			Training supplies	500	November 14
		St. Petersburg	Polygraph and miscellaneous	58,950	November 14
	Nuclear weapons transportation security-supercontainers	Sergiev Posad	Supercontainers	1,962,590	October 7
			Restraint chains	310,260	October 7
			Supercontainer improvement kit	108,000	October 7
			Restraint chains	310,260	October 8
			Miscellaneous items	29,326	December 17
	Nuclear weapons transportation security-emergency support equipment	St. Petersburg	Video cassette recorders	19,650	October 1
	Material control and accounting	Beloyarsk	Nonhazardous fission counter system	22,000	November 28
			Hazardous fission counter system	14,600	November 28
		Moscow	Portable gamma-ray spectroscopy system	1,510,099	October 7
		Podolsk	Uranium plutonium inspector system	125,065	November 17

Continued from Previous Page

**Appendix I  
Equipment Transferred by the Department of  
Defense to Recipient States From October 1,  
1997, Through December 31, 1997**

<b>Country</b>	<b>Project</b>	<b>Delivery location</b>	<b>Items</b>	<b>Value (in dollars)</b>	<b>Delivery date (1997)</b>	
Ukraine	SS-19 missile integrating contract	Kiev	Computer equipment	24,783	October 31	
		Uman	Commercial tires	199,567	October 12	
			Vehicles	79,660	October 22	
			Parts	752,505	November 12	
			Spare parts	Unknown	November 16	
		Logistics support base, Uman	Office supplies and spare parts	521,570	October 16	
			Fire truck winterization	39,278	November 27	
			Batteries	300	December 10	
			Miscellaneous vehicle lubricants and parts	172,765	December 25	
		Material control and accounting	Kharkiv	Miscellaneous items	18,375	October 6
				Electronic security equipment	229,807 <sup>a</sup>	December 5
				Yuzhnoukrainsk	Low resolution gamma-ray spectrometry system	53,365
		<b>Total</b>				<b>\$26,742,074</b>

Continued from Previous Page

<sup>a</sup>DOD's data indicates the unit cost of this equipment but does not indicate the quantity delivered. Therefore, this figure is the minimum value of the shipment based on the assumption that DOD sent one unit of each item listed.

Source: GAO analysis of DOD Cooperative Threat Reduction equipment deliveries database.

# Department of Defense Projects for Which No Information Was Given on the Condition of Assistance Provided

Accounting report	Country	Project
1997 Report	Belarus	Conversion of military technologies and capabilities into civilian activities
		Continuous communications links
		Defense conversion
	Kazakhstan	Government-to-government communications link
		Emergency response
		Defense conversion
	Russia	Intercontinental ballistic missile launcher elimination
		Heavy bomber elimination
		Liquid propellant transportation and storage
		SS-18 missile elimination
		Fissile material storage facility design
		Fissile material containers
		Emergency response
		Security enhancements for railcar
		Armored blankets
	Ukraine	SS-19 missile neutralization and dismantlement facility
		SS-24 missile early deactivation
		Emergency response support equipment
		Emergency response
Housing conversion		
1998 Report	Belarus	Liquid rocket propellant disposition
		Continuous communications link
		Emergency response
		Defense conversion
		Conversion of military technologies and capabilities into civilian activities
	Kazakhstan	Strategic bomber elimination
		Export control
		Defense conversion
	Russia	Intercontinental ballistic missile launcher elimination
		Solid rocket motor elimination
		SS-18 missile elimination
		Intercontinental ballistic missile launcher elimination and intercontinental ballistic missile/submarine-launched ballistic missile elimination equipment
		Liquid propellant oxidizer disposition systems
	Fissile material storage facility	

Continued

**Appendix II  
Department of Defense Projects for Which No  
Information Was Given on the Condition of  
Assistance Provided**

Accounting report	Country	Project
		Supercontainers
		Export control
		Armored blankets
		Housing conversion
		Industry conversion
	Ukraine	SS-19 missile liquid propellant disposition
		SS-19 missile neutralization and dismantlement facility
		SS-19 missile forces demobilization
		SS-24 missile early deactivation
		SS-24 missile silo launcher and missile elimination
		Government-to-government communications link
		Export control
		Housing conversion
		Industry conversion

Continued from Previous Page

Source: GAO analysis of DOD's 1997 and 1998 accounting reports.

# Department of Defense Projects for Which No Determination Was Made About the Usage of Assistance Provided for the Intended Purposes

Accounting report	Country	Project
1997 Report	Belarus	Conversion of military technologies and capabilities into civilian activities
		Continuous communications links
		Defense conversion
	Kazakhstan	Strategic bomber elimination
		Government-to-government communications link
		Defense conversion
	Russia	Intercontinental ballistic missile launcher elimination
		Heavy bomber elimination
		Liquid propellant disposition
		Liquid propellant transportation and storage
		Fissile material storage facility design
		Fissile material containers
		Emergency response
		Armored blankets
		Chemical weapons destruction facility
		Chemical agent analytical monitoring
		Ukraine
	SS-19 neutralization and dismantlement facility	
	SS-19 forces demobilization	
	SS-24 early deactivation	
	Emergency response support equipment	
Emergency response		
Housing conversion		
1998 Report	Belarus	Liquid rocket propellant disposition
		Continuous communications link
		Emergency response
		Defense conversion
	Conversion of military technologies and capabilities into civilian activities	
	Kazakhstan	Strategic bomber elimination
	Russia	Intercontinental ballistic missile launcher elimination
		Solid rocket motor elimination
		Intercontinental ballistic missile launcher elimination and intercontinental ballistic missile/submarine-launched ballistic missile elimination equipment
		Liquid propellant oxidizer disposition systems
Fissile material storage facility		

Continued

**Appendix III  
 Department of Defense Projects for Which No  
 Determination Was Made About the Usage of  
 Assistance Provided for the Intended  
 Purposes**

<b>Accounting report</b>	<b>Country</b>	<b>Project</b>
		Supercontainers
		Export control
		Armored blankets
		Chemical weapons destruction facility
		Chemical agent analytical monitoring
		Housing conversion
		Industry conversion
	Ukraine	SS-19 missile liquid propellant disposition
		SS-19 missile neutralization and dismantlement facility
		SS-19 missile forces demobilization
		SS-24 missile early deactivation
		SS-24 missile silo launcher and missile elimination
		Government-to-government communications link
		Export control
		Housing conversion
		Industry conversion

Continued from Previous Page

Source: GAO analysis of DOD's 1997 and 1998 accounting reports.

# Comments From the Department of Defense

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



ASSISTANT SECRETARY OF DEFENSE  
2900 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-2900



February 28, 2000

Mr. Harold J. Johnson  
Associate Director, International Relations  
And Trade Issues  
National Security and International  
Affairs Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Johnson:

This is the Department of Defense (DOD) response to the General Accounting Office (GAO) draft report, "Cooperative Threat Reduction: DOD's 1997-1998 Reports on Accounting for Assistance Were Late and Incomplete," dated January 31, 2000. (GAO Code 711438/OSD Case 1942).

The DOD's review of the draft GAO report finds it technically accurate in most areas evaluated. We concur with its key recommendations. However, the GAO report implies with its criticism of the Audit and Examination Report that DOD does not have high confidence and assurance that the Cooperative Threat Reduction (CTR) resources are being properly used. This implication is unwarranted. It indicates that GAO did not acknowledge and credit other available information in its analysis. In addition to the CTR audit and examination report, the CTR program uses a wide variety of other methods and sources of information to account for assistance provided. The DOD remains fully confident that this assistance is properly accounted for and is being used for its intended purpose, as explained in the comments below.

See comment 1.

a. Page 1, line 6. "Most program assistance is in the form of goods and services, including..." This sentence, while technically accurate, does not fully clarify that "services" provided under CTR includes our two largest forms of assistance, integrated project management and direct services contracts with in-country entities.

See comment 2.

b. Page 2, "Results in Brief" paragraph. The GAO did not acknowledge that DOD duly notified the Department of State (DOS) and informed DOS of its annual requirement to provide DOD with timely information for inclusion in the Report and the congressionally-mandated deadline for submission of the Report. The GAO was provided documentation detailing correspondence from CTR to DOS informing them of the tasking. Furthermore, it is important to note that the audit reporting cycle for DOS is far outside the 1 Feb mandate for submitting the Report to Congress.

See comment 3.

Appendix IV  
Comments From the Department of Defense

c. Page 4, paragraph 2, line 4. The CTR program and project managers do much more than "review" the progress of projects. They manage the projects in full compliance with the Federal Acquisition Regulations. This process was clearly described in a report to Congress on 10 January 2000 in compliance with section 1308 of the Defense Authorization Act for FY 2000, Public Law 106-65. Highlights of the report are attached. Moreover, in this case, contract deliverables resulting from services performed are formally inspected and documented prior to payment.

d. Pages 5-6, "DoD was late in submitting the Reports to Congress".

1) The draft GAO report is substantially correct in the reasons stated for the tardiness of subject reports. This Department accepts the recommendation that better procedures and controls must be developed to assure timeliness. As noted in the GAO report, DOD will submit future reports for the fiscal year vice the calendar year. Other agencies' annexes that are unavailable in time for the Accounting Report's timely submission will be provided as they are produced. That will enable DOD to submit the basic Report in a timely manner. Additionally, the information in the Report will be as accurate as possible on the last day of the fiscal year covered by the Report. If the Report attempts to include the latest information available before actual submittal to Congress it generates yet another review/coordination cycle resulting in further delays. The GAO report comments on page 14 under the heading "The Audit Plan in the 1997 Report was Outdated" seem to suggest the report should be updated at the last second before transmittal. The new, streamlined process precludes adding material once the formal coordination process is underway. The answer lies in timely submittal, which is DOD's objective.

2) With regard to tasking other Agencies for input, all future taskings related to the Report will be sent by letter. All Congressional committee chairpersons will be informed. Other Agencies will provide their reports through DOD to Congress when they are available since their routine audit cycles do not coincide with the congressionally mandated deadline of 31 January.

e. Page 7, paragraph 3, "The Report Contained Incomplete and Inaccurate Information." As stated in the GAO report, the list of CTR assistance provided before the date of the Report is not cumulative. Future Reports will continue to indicate the CTR assistance being reported was rendered in that fiscal year. Past Reports in combination with the current Report will provide a cumulative list.

f. Page 7, paragraph 4. With regard to the approximately \$27 million of assistance delivered 1 October through 31 December 1997, the data was omitted due to transition from fiscal year reporting to calendar year reporting. Although DOD did not include the delivery information, audits and examinations have been conducted on several of these projects. For example, the Biological Weapons Production Facility in Kazakhstan was audited 31 Jul - 8 Aug 98. Additionally, the Liquid Propellant Fuel Disposition System in Russia was audited 13 - 21 Feb 98. In these subsequent audits and examinations, we

See comment 4.

See comment 5.

See comment 4.

Now on p. 13.

See comment 6.

Appendix IV  
Comments From the Department of Defense

gained full confidence that the equipment was used for its intended purpose. We will send an addendum to the 1997 Report with the data. The current accounting and data processing capabilities of the CTR Logistics division has obviated any repeats of this omission. Additionally, the reporting cycle has been readjusted to a fiscal year basis, which also prevents repeats of this omission.

g. Pages 7-8. Our audits and examinations (A&Es) have focused on the equipment and various services which result in the most tangible or concrete result or outcomes. With regard to contractor-provided services, there is no need to conduct formal "A&E"s of such assistance. This is because of the effectiveness of CTR's contract and program management techniques, using the Federal Acquisition Regulations (FARs), whereby assistance is administered. The FAR process has its own built-in set of accounting mechanisms and checks and balances, which serve the same functions as audits. Future annual CTR A&E Reports will include detailed discussions of the procedures used to account for these contractor-provided services. When that is coupled with the information provided under the formal A&E program, a more detailed accounting of CTR expenditures is portrayed.

h. Page 9, paragraph 2. There is always room for communications improvement. Please refer to item n, for further information on coordination between the Departments.

i. Page 10, paragraph 2. Refer to previous item f, for elaboration on this entry.

j. Page 10, paragraph 3. With regard to the discussion that the report focused on a single form of CTR assistance-equipment transfers, CTR assistance previously reported to Congress was determined to accurately comply and respond to the Congressional mandates. In the interest of more complete and accurate reporting, beginning in FY 2000 these Reports will expound on details in CTR annual reports. Site visits conducted by program and project managers (e.g., for verification of deliverables, conducting training, verifying the elimination of weapons and infrastructure), contracting officers, distinguished personnel, and Congressional delegations, coupled with existing audit and examination methods, will cover the entire realm of CTR audit functions. As stated previously, services are verified and paid for under strict compliance with the FAR. If the service delivers a physical product (e.g., the Security Assessment and Training Center) the product continues to be audited just as equipment provided assistance is audited. The A&E functions are supported by the Arms Control Intelligence Staff (ACIS) which provides a classified annex to the annual CTR Report and proves to be a valuable complement to the annual Report. The classified ACIS annex provides an important verification of CTR's confidence that assistance is being used as intended.

k. Page 11, paragraphs 1 & 3. On the issue of equipment locations at the time of transfer to the recipient's custody, CTR and its support organizations have developed an improved automated data base to track equipment-assistance deliverables. The data base contains an historical record of all Transfers of Custody (TOC) and the associated recipients. Does the equipment location change after the TOC takes place? Yes. Program managers and project managers routinely authorize equipment movement from

See comment 2.

Now on p. 13.

Now on p. 14.

assistance provided to the recipients of CTR assistance. As program requirements change, DOD staff authorizes the movement of assistance to new program areas where CTR assistance is required. To date an all encompassing assistance locator was not required. DOD is preparing a major revision to this data base to enable the CTR staff to properly identify the most current location of all assistance. The CTR staff will maintain and update this data base. The A&Es rely on the CTR program and project managers to update assistance location information in preparation for the missions. Prior to each mission, the A&E team will have an accurate account of equipment locations. Coupled with information provided by the recipient states, the CTR Program has full confidence in being able to accurately account for the locations of assistance provided. As for other forms of assistance, such as contractor-provided services, new methods are being developed where possible to account for the assistance, particularly assistance funded by CTR. Due to the large number of assistance items and limits set forth in the Implementing Agreements, it is a physical impossibility to verify the condition of all CTR assistance. DOD is fully confident in our methodology of random sampling in our verification of the condition of assistance provided. In all of our A&Es we verify the condition of equipment as we verify its use.

Now on p. 14.

l. Page 12, paragraphs 1-4. With regard to GAO's observation that CTR's Reports contained unsupported or overstated estimates of percentages, CTR has corrected the accounting data base to more accurately reflect the value of the assistance that has been audited. Corrections were made in the FY 98 annual Report and will be incorporated in future Reports. Unless all equipment for a selected project is subject to an A&E, the reported values will always reflect a random sampling (percentage) of the entire project. The Umbrella and Implementing Agreements limit the number A&Es that can be conducted each year for a particular program. The A&E Program is confident that by employing a random sampling technique, although all equipment is not visually sighted during the reporting period, combined with other measures, DOD is afforded full confidence that its assistance is used as intended.

See comment 4.

m. Page 13, paragraphs 1-3. The issue of the incomplete reporting by the DOS and DOE will be resolved by CTR in two parts. First, the annual CTR A&E Report to Congress will no longer be delayed to contain the DOS and DOE reports or annexes submitted by independent organizations. Those reports will be submitted directly to the Office of the Secretary of Defense and then to Congress, when available. Organizations outside DOD do not conduct audits and report on their activities until May or June, months after the CTR annual report is due to Congress. The DOD exercises no oversight of these Agencies to alter their audit and/or reporting cycles. Second, the Department will develop approved language to ensure DOS and DOE will be fully advised of the requirement and timeline to provide the required information.

See comment 4.

n. Page 14, paragraph 1-2. To ensure future reports are submitted to Congress by January 31 of each year, the CTR Report will now contain only four annexes. Three are produced by CTR. The remaining annex is the classified annex produced by ACIS. This streamlining of the Report will ensure that CTR complies with the Congressional mandate for Report submission by 31 January each year. Quality control mechanisms

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Appendix IV  
Comments From the Department of Defense

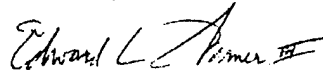
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have been instituted to ensure future Reports contain the most complete and accurate information possible. The OSD guidance to other executive branch Agencies clearly delineates what information is required, the deadline for submitting such information (where practical), and the addressee in the Office of the Secretary of Defense. Future reports will not be "cumulative." Each Report will reflect information for the reporting period (FY). Any statements referring to a cumulative report will be removed. While many projects have contracting officer representatives in-country to verify assistance and services provided to the recipient states and report their findings to CTR, the CTR program continues to address this issue to find ways to improve the CTR audit procedures.

Following receipt of this Draft Report, we received a call from the GAO informing us that statements regarding Tactical Nuclear Weapons were going to be included in their Final Report. The source for this is Section 1312 of the National Defense Authorization Act for Fiscal Year 2000, that each CTR Annual Report after fiscal year 1999 shall include information regarding Russia's arsenal of tactical nuclear warheads. Our interpretation is that Section 1312 means annual report coverage period, not the publishing date as GAO states. DoD will publish information as requested by Section 1312 in the FY 2000 CTR Annual Report

The Department appreciates the opportunity to comment on the draft report.

Sincerely,



Edward L. Warner III

Now on p. 17.

ATTACHMENT

Every CTR Umbrella Agreement with recipient states dictates that U.S. laws and regulations, including Federal Acquisition Regulations (FAR), will govern all contracts (using US funds) for acquisition of articles and services. Implementation of FAR requirements is non-negotiable. In compliance with the Umbrella Agreements between the U.S. and each recipient state, the strict limitations of the FARs are always imposed on all of these projects to ensure that the U.S. is paying the minimum amount necessary to accomplish the objectives of every project. The FARs, along with the standard acquisition practices of the Department of Defense, lead to additional U.S.-imposed limitations on CTR funding, to include:

- A rigorous and detailed discussion of the requirements before work is contracted, to include site access to ascertain the scope of the problem and possible solutions.
- An independent U.S. Government cost estimate before beginning procurement.
- A prohibition against transferring any assistance to other entities without written U.S. government approval.
- A preference for U.S. contractors acquired under free and open competition.
- Former Soviet Union private companies may be contracted for work, but only for work performed under a firm fixed price based on cost realism.
- U.S. project managers must be allowed to closely and regularly monitor the cost, schedule and performance of the contractor and the project to ensure that it finishes on time and at cost.
- U.S. project managers must be able to monitor any work promised by the recipient that is integral to the project success (e.g. infrastructure needed to support a CTR-constructed demilitarization site).
- No work is paid for unless it is inspected and accepted by a U.S. Government representative.
- Payment is made only after work is completed.
- Only accepted western financial accounting methods may be used.
- U.S. project managers must be able to monitor the payments from the U.S. Government to the bank selected by the contractor.
- U.S. project managers must be able to regularly meet with CTR contractors (both U.S. and foreign) to review their work, discuss their banking arrangements, tax, customs, and financial situation.
- Unless otherwise agreed, any assistance provided or transferred to a foreign entity is subject to audit and examination rules.

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The following are GAO's comments on the Department of Defense's (DOD) letter dated February 28, 2000.

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## GAO Comments

1. We have clarified this sentence in response to DOD's suggestion.
2. We do not believe that DOD duly notified the Department of State of its informational needs. We reviewed the correspondence between the two Departments concerning the 1998 accounting report, which was comprised primarily of emails, and found that DOD had not provided the Department of State with clear guidance on its complete informational needs. For example, DOD did not request information from the Department of State on audits by the Defense Contract Audit Agency of individual science center projects that used Cooperative Threat Reduction funds. During the course of our review, we were able to obtain the information 2 months before DOD submitted the 1998 accounting report.
3. Although the Department of State's audit cycle is different from DOD's, our review nonetheless found that the Department of State had relevant information on its auditing activities to date that it could have provided DOD before the 1998 report was due to Congress on January 31, 1999.
4. Future accounting reports will likely continue to be incomplete should DOD proceed with submitting the reports without relevant information from other agencies. Moreover, this approach will not guarantee the timeliness of future reports because it does not address the delays caused by DOD's report review process. For example, DOD is currently taking this approach with the draft 1999 accounting report. However, DOD has not yet submitted the 1999 report, which was due to Congress on January 31, 2000.
5. Concerning this section, we believe that DOD could have annotated the audit plans to reflect DOD's most current knowledge. DOD knew that it would not complete the number of projected audits 5 months in advance of the 1997 report's submission and at least 6 weeks in advance of the 1998 report's submission to Congress. Our analysis of DOD's report review process shows that DOD made several other changes to the reports during these time periods preceding the reports' submissions.

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**Appendix IV**  
**Comments From the Department of Defense**

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6. In appendix I of this report, we have included a list of the assistance that was omitted.