

September 1997

COOPERATIVE THREAT REDUCTION

Review of DOD's June 1997 Report on Assistance Provided





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

National Security and
International Affairs Division

B-277556

September 5, 1997

The Honorable Strom Thurmond
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Floyd Spence
Chairman
The Honorable Ronald Dellums
Ranking Minority Member
Committee on National Security
House of Representatives

Section 1206 of the National Defense Authorization Act for Fiscal Year 1996 requires the Department of Defense (DOD) to report annually on Cooperative Threat Reduction (CTR) assistance provided to Belarus, Kazakstan, Russia, and Ukraine. The legislation requires that DOD's report (1) list CTR assistance provided before the date of the report, (2) describe the current location and condition of the assistance provided, (3) make a determination about whether CTR assistance has been used for the purposes intended, and (4) list CTR audit and examination activities to be carried out during the next fiscal year. While the legislation specifies that DOD submit its annual report on CTR assistance deliveries no later than January 31 of each year until the program ends, DOD did not issue its January 1997 report, covering calendar year 1996, until June 25, 1997.

The legislation also requires our office to assess DOD's annual report and provide our results to Congress within 30 days. Accordingly, we have reviewed DOD's latest report to determine whether it (1) contained current and complete data on CTR assistance deliveries, including the current location and condition of the assistance provided; (2) described how CTR-provided assistance was accounted for and used; (3) included an overall determination of whether the assistance was used for its intended purposes; and (4) provided a listing of future audit and examination activities. We have previously reported on DOD's first two annual CTR reports.¹

¹See Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Assistance Can Be Improved (GAO/NSIAD-95-191, Sept. 29, 1995) and Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Assistance Has Improved (GAO/NSIAD-97-84, Feb. 27, 1997).

Background

Under a 1991 congressional authorization, DOD provides assistance to the newly independent states of Belarus, Kazakstan, Russia, and Ukraine to help them (1) destroy their weapons of mass destruction, (2) safely store and transport the weapons in connection with their destruction, and (3) reduce the risk of such weapons proliferation. Most CTR assistance is provided in the form of goods and services, including equipment, logistics support, materials, and training. Between fiscal years 1992 and 1997, Congress has authorized over \$1.8 billion to help DOD achieve CTR objectives. As of July 1997, DOD had obligated over \$1.4 billion of these funds. Because DOD is responsible for reporting on the efforts made by the United States to ensure that CTR assistance is appropriately used, its report also includes some information on the science and technology centers² and the nuclear material control, accounting, and physical protection (MCA&PP) projects³ being implemented by the Departments of State and Energy, respectively.

Results in Brief

DOD's June 1997 report (1) listed CTR equipment delivered by DOD and provided information on the location and condition of the equipment, (2) described how such assistance was accounted for and used, (3) made an overall determination that the assistance provided by DOD was appropriately used, and (4) listed DOD's future audit and examination activities. However, we found that DOD's report lacked detailed information in the following areas:

- The report did not contain specific data on some CTR-funded projects; for example, information on the CTR-funded cash grant that DOD provided directly to the Ukrainian Ministry of Defense was excluded. Also, the report did not describe the types and values of CTR-funded assistance managed by the Departments of State and Energy. Through 1996, such assistance amounted to nearly \$50 million for over 200 projects at the international science centers, and over \$43 million for a variety of MCA&PP projects at 19 sites.
- The report did not thoroughly describe how DOD accounted for CTR assistance provided through the Departments of State and Energy. For example, audits by the Defense Contract Audit Agency (DCAA) help

²The International Science and Technology Center (ISTC) in Moscow, with branches in Belarus and Kazakstan, and the Science and Technology Center of Ukraine (STCU) were established to provide peaceful employment opportunities to weapons scientists and engineers involved with producing weapons of mass destruction.

³Until merged in fiscal year 1996, both the CTR-funded government-to-government program and the Department of Energy's lab-to-lab initiative provided assistance for protecting, controlling, and accounting for nuclear materials in the former Soviet Union.

account for CTR-provided assistance to the science centers, yet DOD did not report the results of 17 International Science and Technology Center project audits conducted by DCAA in 1996. Approximately half of the 17 audits found weaknesses in reporting labor charges of center grantees, although to date, such weaknesses have posed no risk to CTR funding. Also, DOD's report did not describe the nature of the Department of Energy's assurance program used to monitor the assistance provided.

- While DOD's report lists planned DOD audit and examination activities, it omitted those activities planned to account for CTR-funded assistance provided through the Departments of State and Energy.

Not All Data on Assistance Provided

DOD's June 1997 report generally included detailed and comprehensive data on CTR equipment deliveries; however, information on a CTR-funded cash grant to Ukraine was omitted. Although DOD obtained input from the Departments of State and Energy because they had assumed responsibility for implementing the international science centers and the MCA&PP projects in fiscal year 1996, its report did not include the value or types of CTR assistance provided through them.

Department of Defense

DOD reported that as of December 1996, it had delivered approximately \$228 million worth of CTR-funded equipment to the recipient countries. Specifically, the report contains listings of equipment deliveries by country, including the dollar value, delivery dates of the items provided, and their location. The report also includes information on the serviceability⁴ of equipment. CTR-provided equipment is used to implement projects ranging from safely storing and transporting nuclear materials to eliminating strategic offensive arms.

DOD omitted from its report a cash grant made directly to the Ukrainian Ministry of Defense. According to financial statements provided by Ukraine, over \$5 million has been spent of the \$10.3 million grant. This grant was to support the final removal of nuclear warheads and nuclear support equipment from Ukraine and the elimination of deployed SS-19 missiles. According to DOD, Ukraine's agreement with Russia does not allow foreigners to observe such dismantlement activities. Thus, DOD awarded the cash grant to Ukraine instead of following its normal practice of providing CTR-funded equipment and services.

⁴"Serviceability" refers to the condition of the CTR-provided assistance. In those instances where equipment is found to be inoperable or not used, DOD contractor personnel who provide logistics support are notified to correct the problems.

Department of State

According to the State Department, through 1996 nearly \$50 million⁵ of CTR funding was provided to help support the ISTC in Russia, including the branch offices recently opened in Belarus and Kazakstan, and the STCU. Although not described in DOD's report, 130 of the 320 ISTC projects underway received \$41.5 million in CTR funding. The types of projects involved include safely disposing of weapons-grade plutonium, improving nuclear power safety, destroying chemical weapons, and protecting the environment. Through 1996, the United States provided \$8 million of CTR funding to support 72 of the 87 ongoing STCU projects. These projects cover such subjects as the application of physics to medical technology, energy conversion, plasma sterilization, and information infrastructure.

Department of Energy

Although DOD's June 1997 report listed the equipment delivered⁶ in support of the MCA&PP projects administered by the Department of Energy, it did not include the total value or describe the types of assistance provided. For example, DOD did not report that through 1996, the Department of Energy provided over \$43 million⁷ worth of assistance to Russia, Ukraine, Belarus, and Kazakstan. Of this amount, \$14 million⁸ was used for purchasing equipment, such as metal detectors, computers, and security systems, and contracting directly with scientific institutes and labs in the recipient countries to improve controls over nuclear materials. For instance, a CTR-funded contract is helping the Luch Scientific Production Association in Russia develop an integrated network to exchange data between all computers on the network, thus enhancing material controls for the entire site. At the Sosny Research Center in Belarus, CTR funding is being used in the construction of a physical protection system for the nuclear materials stored there.

Accounting for CTR Assistance

As in prior years, DOD used information collected from audit and examination teams, logistics support teams and project managers, and the intelligence community to account for CTR assistance. For its latest report,

⁵As of July 1997, DOD had obligated nearly \$64 million of CTR funds for the science centers.

⁶The value of the equipment delivered was over \$4.3 million.

⁷As of December 1996, DOD had provided the Department of Energy with over \$81 million in CTR funds to implement MCA&PP projects. In addition, for fiscal year 1997, the Department of Energy planned to spend over \$112 million of its own funding to improve the security of nuclear materials at between 45 and 50 sites in the former Soviet Union and has requested \$137 million for this effort in fiscal year 1998.

⁸The remaining \$29 million was spent directly by the Department of Energy laboratories for their own labor, travel, and equipment expenses associated with supporting the MCA&PP projects.

DOD also obtained input from the Departments of State and Energy because they assumed responsibility for implementing the international science centers and the MCA&PP projects in fiscal year 1996. The report, however, did not explain how DOD accounted for a cash grant to Ukraine or thoroughly describe how assistance to the science centers is monitored. Also, the report did not provide details of the Department of Energy's assurance program.

Department of Defense

Through the end of 1996, DOD had completed a total of 28 audits and examinations of CTR-provided equipment to the four recipient countries. During 1996, audit and examination teams conducted 16 audits and observed equipment such as cranes and cutting blades used to eliminate silo launchers, and air samplers and protective clothing that would be used in response to emergencies involving nuclear weapons and materials.

DOD used technical teams located at the logistics support bases to observe how CTR assistance was being used. These contractor personnel conducted approximately 115 visits to 51 different locations throughout Russia, Kazakstan, and Belarus, including 24 separate locations in Russia. In Ukraine, these teams visited 5 different sites on an average of 10 scheduled and 25 unscheduled maintenance repair calls per week.

CTR project managers also traveled to the recipient countries to monitor the status of their projects and observe how CTR assistance was being used. During 1996, project managers and government contractors took 19 trips to several sites throughout the 4 recipient countries. During these visits a variety of projects were observed, including those designed to eliminate strategic offensive arms, safely transport and store nuclear materials, and restore the environment. In addition, personnel visited 14 of the 24 defense conversion projects,⁹ including 3 housing projects in Belarus and Ukraine.

DOD also obtained information from the intelligence community. According to the 1996 report, national technical means did not detect any diversions of CTR assistance. Because more detailed information is classified, we do not comment on it in this report.

⁹As we reported in April 1997, we were unable to confirm that the defense conversion projects we reviewed had any direct impact on eliminating or reducing weapons of mass destruction or other military capability in the former Soviet Union. See Cooperative Threat Reduction: Status of Defense Conversion Efforts in the Former Soviet Union (GAO/NSIAD-97-101, Apr. 11, 1997).

DOD's report does not explain how DOD monitored \$5.25 million of the CTR-funded grant to Ukraine. According to DOD, however, the DCAA audited the financial statements for the \$1.75 million spent during 1996 and plans to audit the remaining funds this year. Furthermore, the Ukrainian government has agreed to apply the remainder of the grant—about \$5 million—to the integrating contract for nuclear arms elimination. As a result, these funds will be subject to DOD's audit and examination process.

Department of State

According to the State Department, CTR-provided assistance to the international science centers is monitored through annual financial and project audits conducted by independent auditors as well as periodic internal project reviews conducted by the science centers. DOD's report explained how the centers are monitored and provided some information on the audits conducted. For example, the DCAA conducted the first annual financial audit for the STCU¹⁰ and concluded that the financial statements fairly presented the center's financial position, operations, and cash flows. Although DOD's report mentions that the European Union would perform the third annual ISTC financial audit, it does not mention that the European Union auditors issued their report in April 1997 and found that the financial statements fairly reflected the ISTC's financial activities.¹¹

While DOD's report to Congress states that during 1996 DCAA assessed 17 ISTC projects at 7 locations,¹² it did not provide a description of the audits or the audits' findings. These audits evaluated time recording procedures, equipment accountability, and verifications of project labor and equipment costs billed to the ISTC. In approximately half of the 17 audits conducted, DCAA auditors found weaknesses in recording the labor charges of ISTC grantees—they were working more hours than those billed. To date, however, such weaknesses have posed no risk to CTR funding. In reviewing these DCAA audits, the DOD Comptroller's office also highlighted two other issues—namely that (1) the ISTC should provide the DCAA auditors with lists of equipment purchased for the projects and (2) Russian-speaking technical experts should accompany the auditors in reviewing the projects. According to an ISTC director, the center is taking measures to

¹⁰DCAA conducted the first two annual ISTC financial audits.

¹¹However, in their report, the European Union auditors qualified the scope of their work because the restricted access to the recipient institutes' records did not permit them to verify whether the claims made by the recipients' institutes included reimbursements received from other sources during the same period of time.

¹²DCAA did not conduct any audits of STCU projects during 1996 as the center did not begin funding projects until late in 1995.

correct these problems. For example, the center has implemented an internal control procedure designed to track the total number of hours worked by grantees on ISTC projects.

As stated in DOD's report, each of the centers also monitors its respective projects to measure technical accomplishments and status and to resolve difficulties. During 1996, ISTC staff conducted 40 annual and 12 closeout audits and reported no significant findings. The STCU has just begun monitoring its projects.

Department of Energy

Although the Department of Energy has drafted an assurance plan¹³ for monitoring the CTR assistance provided to improve controls over nuclear materials in the four recipient countries, this effort was not fully discussed in DOD's report. According to the report, Energy conducted a joint MCA&PP audit with DOD during 1996 and planned to conduct additional joint audits; however, the report did not explain that Energy expects to assume sole responsibility for implementing audits of MCA&PP projects. Energy's assurance plan is intended to certify that the equipment, material, funding, contracts, training, and other services provided are accounted for and used for the purposes intended. Assurances that MCA&PP assistance is being used properly can be obtained through a variety of methods, including documentation, visits and visual observations,¹⁴ and contract monitoring. Information obtained through such means can then be documented in an assurance report. According to the Department of Energy, project managers collect the necessary data, compile these reports, and provide the documentation to the management of Energy's MCA&PP task force. To date, Energy has compiled about 200 assurance reports covering 50 projects. According to an Energy official, such reports indicate that the CTR-provided assistance was being used for the purposes intended.

Determination of Assistance Use

As required, DOD made a determination about whether CTR assistance was being used for the purposes intended. DOD reported that as of December 1996 it was confident that CTR-provided assistance had been properly accounted for and used, in most instances, for the purposes intended. However, it reported three incidents in which assistance had

¹³The Department of Energy intends to use its assurance program to monitor both CTR- and Energy-funded MCA&PP projects.

¹⁴According to an Energy official, Energy technical teams make over 1,200 trips per year to 45 sites in Belarus, Kazakhstan, Ukraine, and Russia that receive MCA&PP assistance.

been used improperly¹⁵ and the corrective measures taken. DOD based its determination on a wide range of evidence obtained from audit and examination and technical support teams, program and contractor personnel, the intelligence community, and other government agencies involved in implementing CTR projects. DOD acknowledged that the risk of diversion exists, but believes that the cooperative relationship that it has developed with the CTR-recipient country officials and its emphasis on the audit and examination process help to ensure the appropriate use of assistance. According to DOD, it remains reasonably confident that any diversions of assistance would be discovered before U.S. interests were affected. Because we could not validate DOD's determination, we cannot comment on its veracity; however, nothing came to our attention that would call into question the reasonableness of the determination.

Future Audit and Examination Activities

According to its report, DOD plans to conduct 17 audit and examination activities during calendar year 1997. Although not required to do so, DOD's report also includes a list of 17 planned audit activities for 1998. Both listings provide a monthly breakdown of how many audits and examinations DOD will conduct per year. As of July 1997, DOD had conducted eight audits and examinations for 1997.

Although not mentioned in DOD's report, auditors from the European Union have agreed to conduct the annual financial audit of the ISTC for 1997. Furthermore, DOD, in consultation with the Department of State, has requested that the DCAA conduct audits at 19 sites involving 25 ISTC projects and conduct the 1997 annual financial audit of the STCU.

DOD's report also omitted specific information on planned the Department of Energy audit activities. An Energy official stated that the Department is now strengthening its MCA&PP assurance plan to make it more comprehensive and intends to issue the revised guidelines by September 15, 1997. Moreover, Energy's MCA&PP task force has appointed an individual to consolidate the assurance reports on an annual basis.

Recommendation

To better inform Congress about how CTR-funded assistance has been used, we recommend that the Secretary of Defense, in preparing future reports on such assistance, provide more complete data on CTR-funded

¹⁵CTR-provided equipment was accounted for and being used for the purposes intended, except for data processing equipment provided to Kazakhstan for export control purposes, emergency response equipment provided to Russia, and equipment for dismantling nuclear delivery vehicles—a crane—provided to Russia.

projects managed by the Departments of State and Energy, including the values and types of assistance, a detailed description of how the assistance was accounted for, and information on future audit activities for the CTR assistance they provide to the recipient countries.

Agency Comments

In commenting on a draft of our report, DOD concurred with our findings and indicated that it was undertaking measures to improve future reporting of CTR assistance with the other departments receiving CTR funds. DOD suggested two technical clarifications, and we have incorporated them in the text where appropriate. DOD's comments are reprinted in appendix I.

Scope and Methodology

In conducting our work, we reviewed DOD's latest report to determine whether it (1) contained current and complete data on CTR assistance deliveries, including the current location and condition of the assistance provided; (2) described how CTR-provided assistance was accounted for and used; (3) included an overall determination of whether the assistance was used for its intended purposes; and (4) provided a listing of future audit and examination activities. We also reviewed various documents, including DOD's prior reports accounting for CTR-provided assistance, CTR audit and examination trip reports, DCAA audit reports, ISTC annual reports, and the Department of Energy assurance reports. We spoke with officials from the Office of the Secretary of Defense, the Defense Comptroller's Office, the Defense Special Weapons Agency, the On-Site Inspection Agency, the Departments of State and Energy, and the ISTC. Due to the requirement that we comment on DOD's report within 30 days, we did not visit the recipient countries or meet with country officials to corroborate the information contained in DOD's 1996 report. Because intelligence sources and methods are cited in the classified annex of DOD's report, we do not comment on the information contained in it.

We conducted our review during July and August 1997 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of Defense, Energy, and State and other interested congressional committees. We will also make copies available to others upon request.

Please contact me on (202) 512-4128 if you or your staff have any questions concerning this report. The major contributors to this report were F. James Shafer, Beth Hoffman León, and Jo Ann Geoghan.

A handwritten signature in black ink that reads "Harold J. Johnson". The signature is written in a cursive style with a large, prominent initial "H".

Harold J. Johnson, Associate Director
International Relations and Trade Issues

Comments From the Department of Defense



INTERNATIONAL
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13 AUG 1997

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: Review of DoD's June 1997 Report on Assistance Provided," dated July 21, 1997 (GAO Code 711285/OSD Case 1414).

The Department's review of the draft GAO report finds the report to be technically accurate and concurs with the key issues discussed. However, the Department would like to offer additional information to clarify the comments made in the report. Our two clarifications involve (1) the discussion of the \$10.3 million cash grant to the Ukrainian MoD to support the final removal of nuclear warheads and nuclear support equipment from Ukraine, and the elimination of SS-19 missiles; and (2) the disclosure of internal control weaknesses of the International Science and Technology Centers (ISTC).

With regard to the Ukrainian cash grant, only \$5.3 million of this cash grant is obligated. In January 1997, the Defense Contract Audit Agency (DCAA) audited Ukrainian financial statements accounting for \$1.75 million of this grant. The DCAA found these financial statements to be accurate. The Ukrainian MoD has also submitted additional financial statements, amounting to \$3.5 million, to DoD for additional work performed. This additional work has been verified through national technical means and the DCAA plans to conduct one or more audits this fiscal year to account for these funds. These evaluations will be reported in next year's accounting report. As noted in your draft, the remaining funds from the cash grant have been incorporated into the integrating contract with the Bechtel Corporation for nuclear arms elimination, where they will be subject to standard A&E procedures.



Appendix I
Comments From the Department of Defense

On the issue of DCAA's 17 ISTC audits, DCAA identified deficiencies in the internal control of the ISTC labor charging practices. The DCAA found several instances where ISTC scientists worked more project hours than those billed. DoD considers the employment of weapon scientists and nuclear engineers on peaceful projects to be a key ISTC objective. Having people devote additional time at no cost better fulfills the CTR program objective, costs no additional funds, and poses no risk to the U.S. CTR funding.

Finally, the Department of Defense will convey to the Departments of Energy and State GAO's critique of their inputs to the CY 1996 Report to Congress on Accounting for CTR Assistance. DoD is currently undertaking measures to improve future reporting of CTR assistance with other Departments receiving CTR funds. The Department will ensure continuation of cooperative management of CTR activities, including those managed and implemented by the Departments of State and Energy. The Department greatly appreciates the opportunity to comment on this report.

Sincerely,



Franklin C. Miller
(Acting)

cc:

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