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# COMBATING TERRORISM

## U.S. Oversight of Pakistan Reimbursement Claims for Coalition Support Funds

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Highlights of [GAO-08-932T](#), a testimony before the Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

The United States has reimbursed Pakistan, a key ally in the global war on terror, about \$5.56 billion in Coalition Support Funds (CSF) for its efforts to combat terrorism along its border with Afghanistan. The Department of Defense (Defense) provides CSF for costs incurred in direct support of U.S. military operations. Pakistan is the largest recipient of CSF, receiving 81 percent of CSF reimbursements.

This testimony focuses on (1) the extent to which Defense has consistently applied its guidance to validate the reimbursements claimed by Pakistan and (2) how the Office of the Defense Representative to Pakistan's (ODRP) role has changed over time. This statement is based on a concurrently issued GAO report titled *Combating Terrorism: Increased Oversight and Accountability Needed over Pakistan Reimbursement Claims for Coalition Support Funds*, GAO-08-806 (Washington, D.C.: June 24, 2008).

## What GAO Recommends

GAO recommends that Defense consistently implement existing oversight criteria, formalize ODRP's oversight responsibilities, and implement additional controls. Defense generally concurred with the recommendations but stated that the report lacked sufficient context, such as Pakistan's military contributions enabled by CSF and broad legal authority to disperse funds. Our report does recognize Pakistan's military contributions and Defense's broad legal authority to disperse funds.

To view the full product, including the scope and methodology, click on [GAO-08-932T](#). For more information, contact Charles Michael Johnson Jr. at (202) 512-7331 or [johnsoncm@gao.gov](mailto:johnsoncm@gao.gov).

## COMBATING TERRORISM

### U.S. Oversight of Pakistan Reimbursement Claims for Coalition Support Funds

#### What GAO Found

Defense Comptroller issued new guidance in 2003 to enhance CSF oversight. The guidance calls for, among other things, CSF reimbursement claims to contain quantifiable information that indicates the incremental nature of support (i.e., above and beyond normal operations), validation that the support or service was provided, and copies of invoices or documentation supporting how the costs were calculated. While Defense generally conducted macro-level analytical reviews called for in its guidance, such as determining whether the cost is less than that which would be incurred by the United States for the same service, for a large number of reimbursement claims Defense did not obtain detailed documentation to verify that claimed costs were valid, actually incurred, or correctly calculated. GAO found that Defense did not consistently apply its existing CSF oversight guidance. For example, as of May 2008, Defense paid over \$2 billion in Pakistani reimbursement claims for military activities covering January 2004 through June 2007 without obtaining sufficient information that would enable a third party to recalculate these costs. Furthermore, Defense may have reimbursed costs that (1) were not incremental, (2) were not based on actual activity, or (3) were potentially duplicative. GAO also found that additional oversight controls were needed. For example, there is no guidance for Defense to verify currency conversion rates used by Pakistan, which if performed would enhance Defense's ability to monitor for potential overbillings.

Defense's guidance does not specifically task ODRP with attempting to verify Pakistani military support and expenses, despite recognition by Defense officials that such verification is best performed by U.S. officials in Pakistan, who have access to Pakistani officials and information. As such, ODRP did not try to verify Pakistan CSF claims from January 2004 through August 2006. Beginning in September 2006, without any formal guidance or directive to do so from U.S. Central Command or the Defense Comptroller, ODRP began an effort to validate Pakistani military support and expenses. This increased verification effort on the part of ODRP contributed to an increase in the amount of Pakistani government CSF claims disallowed and deferred. Prior to ODRP's increased verification efforts, the average percentage of Pakistani claims disallowed or deferred for January 2004 through August 2006 was a little over 2 percent. In comparison, the average percentage of Pakistani claims disallowed or deferred for September 2006 through February 2007 was 6 percent and for the most recent claims (March 2007 through June 2007) processed in February 2008, was approximately 22 percent. However, ODRP's continued oversight activity is not assured, as Defense had not developed formal guidance delineating how and to what degree ODRP should attempt to verify Pakistani claims for reimbursement.

GAO recognizes that Defense may not be able to fully verify every Pakistani claim without the ability to access Pakistani records or do onsite monitoring. However, such ability would enhance CSF oversight.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss the U.S. Department of Defense's (Defense) oversight over Coalition Support Funds (CSF) reimbursed to Pakistan for its support of U.S. efforts to combat terrorism. My testimony is based on our concurrently issued report, which focuses on Defense's efforts to validate Pakistan's reimbursement claims and the role of the Office of Defense Representative to Pakistan (ODRP).<sup>1</sup> Following the attacks of September 11, 2001, the United States began reimbursing coalition partners for their logistical and combat support of U.S. military operations in the global war on terror. CSF has reimbursed 27 coalition allies for their incremental costs (i.e., costs above and beyond the partner country's normal operating costs) incurred in direct support of U.S. military operations. Pakistan is the largest recipient of CSF payments, having received \$5.56 billion (81 percent) of the \$6.88 billion total CSF reimbursements made as of May 2008.

My testimony today focuses on (1) the extent to which Defense has consistently applied its guidance to validate the reimbursements claimed by Pakistan and (2) how ODRP's role has changed over time.<sup>2</sup> Over the course of our work, we reviewed and analyzed information on the CSF oversight process, including Pakistani government reimbursement claims. In addition, we interviewed officials at the Undersecretary of Defense for Comptroller (Comptroller), the Office of the Undersecretary of Defense for Policy, U.S. Central Command (CENTCOM) in Tampa, Florida, ODRP, and the State Department's Bureau of Political-Military Affairs. ODRP memos, CENTCOM validation memos, Comptroller evaluations, and other CSF documentation from February 2002 through February 2008 (February 2008 was when the latest claim, for March through June 2007, was reimbursed). To assess the application of current CSF guidance, we examined the CSF oversight documentation referenced above from January 2004 through February 2008. We chose this timeframe because a previous Defense Inspector General report had already examined the pre-January 2004 CSF oversight controls and made recommendations to

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<sup>1</sup>See GAO, *Combating Terrorism: Increased Oversight and Accountability Needed Over Pakistan Reimbursement Claims for Coalition Support Funds*, [GAO-08-806](#) (Washington, D.C.: June 24, 2008).

<sup>2</sup>See appendix I for a brief description of our scope and methodology. The work on which this testimony is based was conducted in accordance with generally accepted government auditing standards.

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improve oversight.<sup>3</sup> We evaluated these controls against all available Comptroller criteria and guidance, as well as internal control standards and general cost accounting criteria for adequacy, eligibility, and reasonableness. As part of our data reliability process, we confirmed that the data provided by the Comptroller were accurately recorded in the software we used to analyze the data. To assess the oversight role played by ODRP, we met with the relevant ODRP, CENTCOM and Comptroller officials, as well as with other officials from the U.S. Embassy, and Pakistan's Ministries of Defense and Interior. We visited Peshawar, near the Federally Administered Tribal Areas (FATA), to discuss operations being reimbursed with CSF funds with the U.S. consulate, Pakistan's 11th Army Corps, and Frontier Corps.

We conducted this performance audit from September 2007 through June 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Summary

In summary, we found the following:

Defense did not consistently apply its existing CSF oversight guidance and certain deficiencies existed in Defense's oversight procedures. Defense's 2003 guidance calls for, among other things, CSF reimbursement claims to contain quantifiable information that indicates the incremental nature of support (i.e., above and beyond normal operations), validation that the support or service was provided, and copies of invoices or documentation supporting how the costs were calculated. While Defense generally conducted the broad analytical reviews called for in its guidance, such as determining whether the cost is less than that which would be incurred by the United States for the same services, for a large number of claims Defense did not obtain sufficient documentation from Pakistan to verify that claimed costs were incremental,<sup>4</sup> actually incurred, or correctly

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<sup>3</sup>Department of Defense Inspector General, *Financial Management: Coalition Support Funds*, D-2004-045 (Washington, D.C., Jan. 16, 2004). This is a classified report.

<sup>4</sup>Defense guidance defines incremental costs as those costs that are above and beyond the partner country's normal operating costs.

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calculated as called for by the Comptroller's CSF guidance. For example, as of May 2008, Defense paid over \$2 billion in Pakistani reimbursement claims for military activities covering January 2004 through June 2007 without obtaining detailed information that would enable a third party to recalculate these costs.<sup>5</sup> In addition, Defense often did not adequately document the basis for their decisions to allow or disallow claims, and we found inconsistencies in Defense payments that were not explained. As a result, Defense may have reimbursed costs that (1) were not incremental, (i.e., above and beyond normal operations); (2) were not based on actual activity; or (3) were potentially duplicative. For example, Defense paid

- more than \$200 million for Pakistan's air defense radar before ODRP questioned whether this was an incremental cost, as stipulated in CSF guidance;<sup>6</sup>
- approximately \$30 million for army road construction and \$15 million for bunker construction without evidence that the roads and bunkers had been built; and
- an average of more than \$19,000 per vehicle per month for Pakistani navy reimbursement claims that appeared to contain duplicative charges for a fleet of fewer than 20 passenger vehicles.

We also found that additional oversight controls were needed. Comptroller guidance calls for a historical comparison of claimed costs; however, the Comptroller's instructions do not indicate how this comparison should be performed. In addition, we found there is no guidance for Defense to verify currency conversion rates used by Pakistan, which if performed would enhance Defense's ability to monitor for potential overbillings.

Defense's 2003 guidance does not specifically task ODRP with attempting to verify Pakistani military support and expenses, despite recognition by Defense officials in Washington and CENTCOM that such verification is

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<sup>5</sup>This example is based on our analysis of Pakistani army claims and does not include the other service's claims. However, we found generally that the navy claims' documentation was similar to the army's, and the other services' claims had less documentation.

<sup>6</sup>The Comptroller took the position that Pakistan likely incurred some increased costs by using the radars to police the airspace over the Northwest Frontier Province and provide air traffic control for U.S. military support flights into Afghanistan. The Comptroller nonetheless agreed that the claims lacked sufficient detail to determine whether these charges were definitively incremental.

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best performed by U.S. officials in Pakistan, who have access to Pakistani officials and information. As such, ODRP did not try to verify Pakistan CSF claims from January 2004 through August 2006. Beginning in September 2006, without any formal guidance or directive to do so from CENTCOM or the Comptroller, ODRP began an effort to validate Pakistani military support and expenses. This increased verification effort on the part of ODRP contributed to an increase in the amount of Pakistani government CSF claims disallowed and deferred. Prior to ODRP's increased verification efforts, the average percentage of Pakistani claims disallowed or deferred for January 2004 through August 2006 was almost 3 percent. In comparison, the average percentage of Pakistani claims disallowed or deferred for September 2006 through February 2007 was 6 percent, and for the most recent claims (March 2007 through June 2007), processed in February 2008, was approximately 22 percent. For example, ODRP observed poor readiness rates of Pakistani helicopters and recommended deferring payment for helicopter maintenance that had been routinely reimbursed. However, ODRP's continued oversight activity is not assured. As of May 2008, Defense had not developed formal guidance delineating how and to what degree ODRP should attempt to verify Pakistani military support and expenses.

To improve CSF oversight, in our report issued concurrently with this testimony we included recommendations that Defense consistently implement existing oversight criteria, formalize the roles and responsibilities of ODRP, work with the government of Pakistan to gain greater access, clarify guidance for cost fluctuation analysis, and develop criteria to evaluate the effect of currency exchange rates on reimbursement claims. Defense generally concurred with our recommendations, and indicated they had updated their CSF guidance to incorporate our recommendations. We plan to review this guidance when it is made available to us.

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## Background

As the United States focused on toppling the Taliban regime and fighting al Qaeda in Afghanistan, Pakistan became an important ally. In December 2001, Congress passed the Defense Appropriations Act for fiscal year 2002, stipulating that the "Defense Emergency Response Fund" could be used by the Secretary of Defense to reimburse coalition partners like Pakistan for

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their logistical and military support of U.S. military operations.<sup>7</sup> This funding became known as Coalition Support Funds.

To provide Defense with maximum flexibility, Congress passed the Defense Appropriations Act for Fiscal Year 2002 granting the Secretary of Defense the authority to make CSF payments notwithstanding any other provision of law in such amounts as the Secretary may determine in his discretion, based on documentation determined by the Secretary to adequately account for the logistical and military support provided by partner nations.<sup>8</sup> Any such determination by the Secretary shall be final and conclusive.

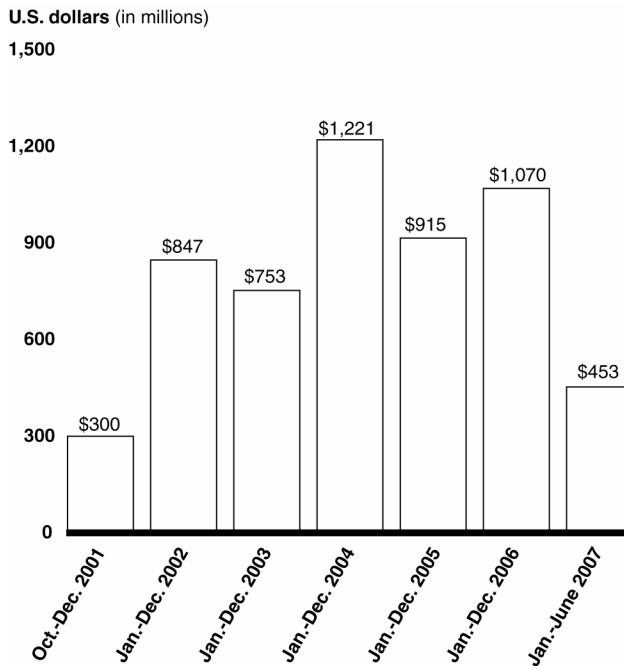
The amount of CSF reimbursements to Pakistan from October 2001 through June 2007 are shown in figure 1.

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<sup>7</sup>P.L. 107-117, sec 301, Jan.10, 2002.

<sup>8</sup>Pub. L. 107-206, Operation and Maintenance, Defense-Wide, August 2, 2002. Defense was required to provide a 15-day notification of upcoming CSF reimbursements. Later legislation also required Defense to provide quarterly reports to the congressional House and Senate Committees on Appropriations and the House and Senate Armed Services Committees on the use of funds made available for payments to Pakistan and other CSF recipients.

**Figure 1: U.S. CSF Reimbursements to Pakistan, October 2001 through June 2007**



Source: GAO analysis of Defense oversight documentation.

Note: The most recent claims processed during our review were completed in February 2008 and covered Pakistani government reimbursement claims for months March 2007 through June 2007.

## Evolution of the CSF Oversight Process

In 2003, at the request of the Comptroller, the Defense Inspector General performed an audit of the CSF oversight process. The report found deficiencies in both the CSF guidance and documentation provided by CSF recipients to support their claims. It recommended improvements in Defense's analysis of CSF reimbursement requests and greater documentation requirements for countries seeking reimbursement.

In response, the Comptroller published guidance in December 2003 to clarify the roles and responsibilities of the Comptroller, CENTCOM (and other regional combatant commanders), and ODRP in the CSF process. The 2003 guidance notes that Congress provided the Secretary of Defense with the authority to determine how much to reimburse partner countries, and how much documentation was needed to adequately account for the support provided. However, the guidance also stated that CENTCOM and the Comptroller are to obtain sufficient documentation to validate that



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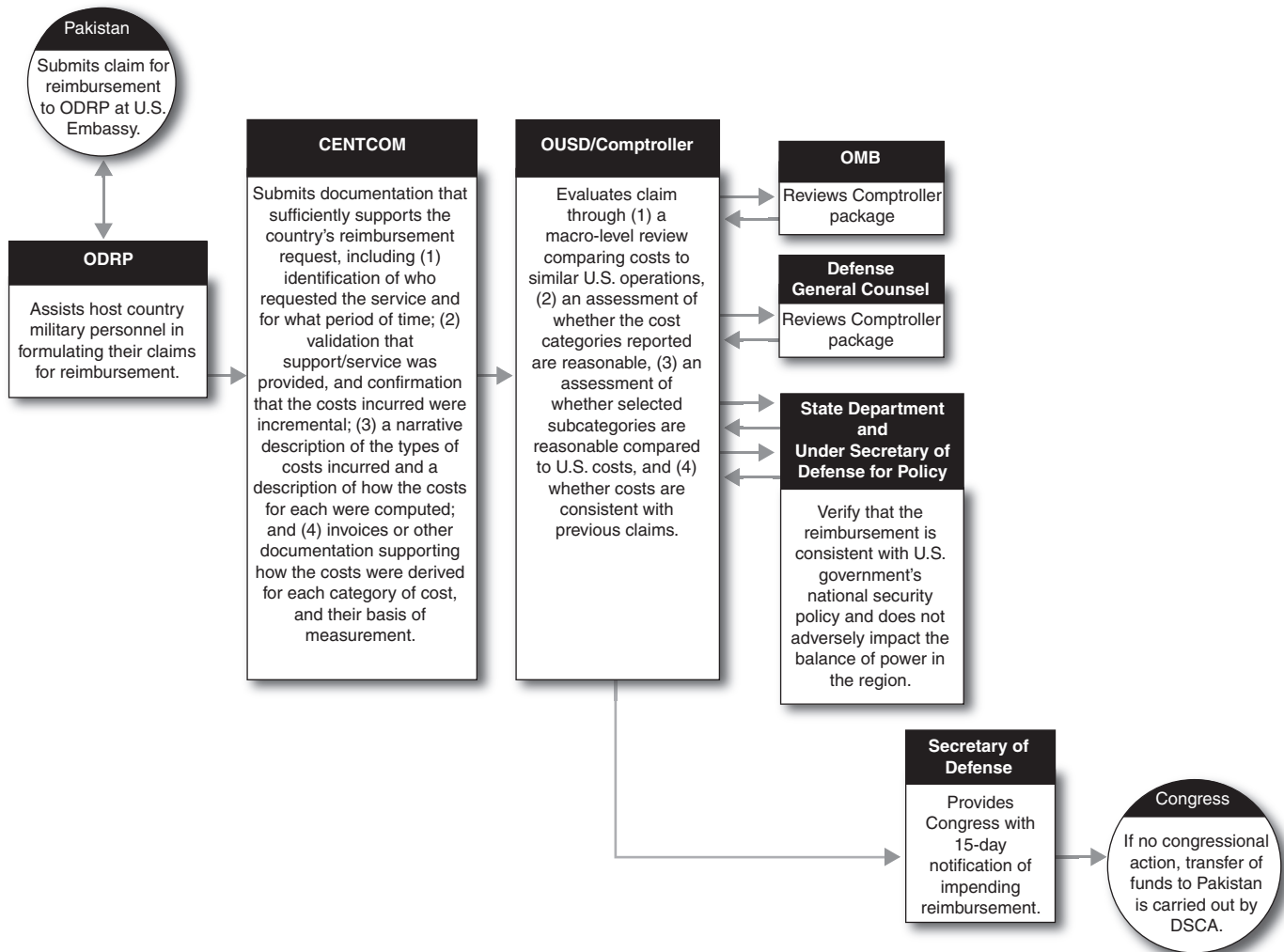
Pakistani military support had been provided and that costs were incurred, reasonable, and appropriate under the CSF program.

Under the December 2003 guidance and oversight process, Pakistan would first submit its claim to ODRP at the U.S. Embassy in Islamabad, which would assist the Pakistani military in formulating the claim before sending it to CENTCOM in Tampa, Florida. CENTCOM would then conduct its own review in an attempt to link claimed expenses to U.S. military operations before forwarding the claim package to the Comptroller. Under this process, ODRP and CENTCOM staff can make recommendations to defer or disallow costs based on their analysis of the Pakistan submission; however, the Comptroller makes the final recommendation to the Secretary of Defense on which costs should be paid, deferred, or disallowed. The Department of State, the Office of Management and Budget, and Congress also have a role in the CSF oversight process after the Comptroller has finished its review.<sup>9</sup> The CSF process and guidance is detailed in Figure 2.

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<sup>9</sup>See, for example, Pub. L. 107-206; Pub. L. 108-11, sec 1310; Pub. L. 110-161. Beginning in 2003, with the passage of the Emergency Wartime Supplemental Appropriations Act, 2003 (Pub. L. 108-11), Congress required that CSF payments be made with concurrence of the Secretary of State and in consultation with the Director of OMB. The Secretary of Defense's determination with respect to the documentation supporting payments is final and conclusive.

**Figure 2: CSF Reimbursement Process**



**Legend**

CENTCOM = United States Central Command  
 Defense = Department of Defense  
 DSCA = Defense Security Cooperation Agency  
 ODRP = Office of the Defense Representative to Pakistan  
 OMB = Office of Management and Budget  
 OUSD/Comptroller = Office of the Under Secretary of Defense for Comptroller  
 Source: GAO analysis of Defense documentation and discussions with OUSD/Comptroller.

In July 2006, the Comptroller provided the Pakistani government with a cost template and information intended to clarify the types of costs that were reimbursable under CSF and the information the Comptroller needed to support Pakistan’s reimbursement claims.

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## Defense Did Not Consistently Apply Its Existing Guidance, and Additional Procedures Are Needed to Ensure Accountability over CSF to Pakistan

We found that Defense did not consistently apply existing CSF guidance and that certain deficiencies existed in their oversight procedures.<sup>10</sup> Comptroller generally performed four broad analytical reviews as called for in its guidance. For example, the Comptroller generally performed a comparison of total claimed costs to the estimated U.S. cost to provide the same support. Defense guidance developed by the Comptroller also calls for obtaining sufficient information to validate Pakistani claims to determine that costs were incurred, reasonable, and appropriate. However, Defense did not fully implement this criteria. For example, Defense reimbursed Pakistan over \$2 billion for claims from January 2004 through June 2007 without obtaining detailed documentation that would allow a third party to recalculate the costs. In addition, Defense often did not adequately document the basis for their decisions to allow or disallow claims, and we found inconsistencies in Defense payments that were not explained. As a result, Defense may have paid costs that were (1) not incremental, (2) not based on actual activity, or (3) potentially duplicative. We also found that additional oversight controls were needed. Specifically, while Comptroller guidance calls for a historical comparison of claimed costs, the guidance does not indicate why or how the comparison should be performed. Additionally, Defense did not verify the currency conversion rates used by Pakistan from January 2004 through June 2007 and, as a result, may have overpaid Pakistani claims due to the devaluation of the Pakistan rupee.

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## Defense Made Payments without Obtaining Detailed Documentation to Support Pakistani Claims

The Comptroller's CSF guidance states that Pakistani claims should include associated invoices. In the absence of such support, CENTCOM officials are to obtain from Pakistan a detailed description of how these costs were computed. For example, claims for fuel should include information such as total fuel consumed, the number and types of vehicles supported, and best available assessments of the number of miles driven or hours employed.

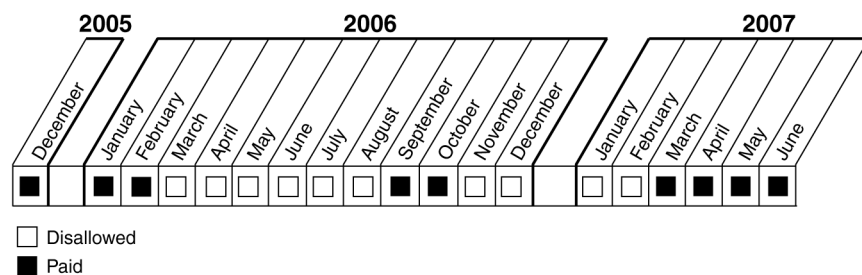
We found that few of the Pakistani claims we reviewed met the criteria contained in the Comptroller's guidance. Defense reimbursed Pakistan more than \$2.2 billion, or 76 percent, of Pakistani army claims from January 2004 through June 2007, without obtaining sufficient information

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<sup>10</sup>Because a previous Defense Inspector General report led to new CSF oversight guidance in December 2003, our assessment focused on reimbursement claims submitted by Pakistan between January 2004 and June 2007.

to support how the costs were calculated. In addition, the lack of documentation led to inconsistencies in Defense’s reimbursement of certain costs. For example, as illustrated in figure 3, Defense paid Pakistani navy claimed costs for boats for about half of the months and disallowed them the other half, despite no discernable differences in the level of documentation the Pakistani government provided for the claims.

**Figure 3: Comptroller Approvals and Disapprovals of Pakistani Navy CSF Reimbursement Claims for Boats, by Month, December 2005 through June 2007**



Source: Defense.

Note: Figure includes all monthly reimbursement claims that itemized costs for navy rigid hull inflatable boats.

We also identified additional inconsistently reimbursed costs, such as bulletproof jackets and telephone cables.

### Defense Paid Costs That May Not Have Been Incremental

Comptroller guidance states that reimbursement claims must clearly indicate the incremental nature of the logistical and military support provided—i.e., that claimed costs are above and beyond the partner country’s normal operating costs. Because the Pakistani claims lacked this information, Defense officials differed as to whether the claims should be disallowed or deferred until Pakistan could provide additional support.

The case of the Pakistani radar claims illustrates this point. From January 2004 through February 2007, Defense paid Pakistan more than \$200 million in radar expenses. However, the next month ODRP recommended the Comptroller disallow the costs. ODRP reasoned that Pakistan’s use of the radar was not related to U.S. efforts to combat terrorism in the region, as terrorists in the FATA did not have air attack capability. The Comptroller took the position that Pakistan likely incurred some increased costs related to U.S. efforts to combat terror in the region—for example, by providing air traffic control for U.S. military support flights into Afghanistan. The Comptroller nonetheless agreed that the claims lacked

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sufficient detail and has since deferred payment until Pakistan provides additional support for the March through June 2007 claims.

**Defense May Have Paid Costs That Were Not Based on Actual Activity or Expenses**

According to the Comptroller's criteria, both the Comptroller and CENTCOM are responsible for validating that claimed costs are associated with actual activities and are based on documentation that adequately accounts for the support provided. However, the documentation we were provided did not provide sufficient support that all claimed costs were based on actual activity or expenses. These include costs associated with construction, food, and vehicle maintenance. For example, Defense paid Pakistan more than \$30 million for army road construction<sup>11</sup> and over \$15 million for army bunker construction<sup>12</sup> before concerns about the validity of these charges led ODRP to ask the Pakistani military for the coordinates of the roads and bunkers to verify their existence.

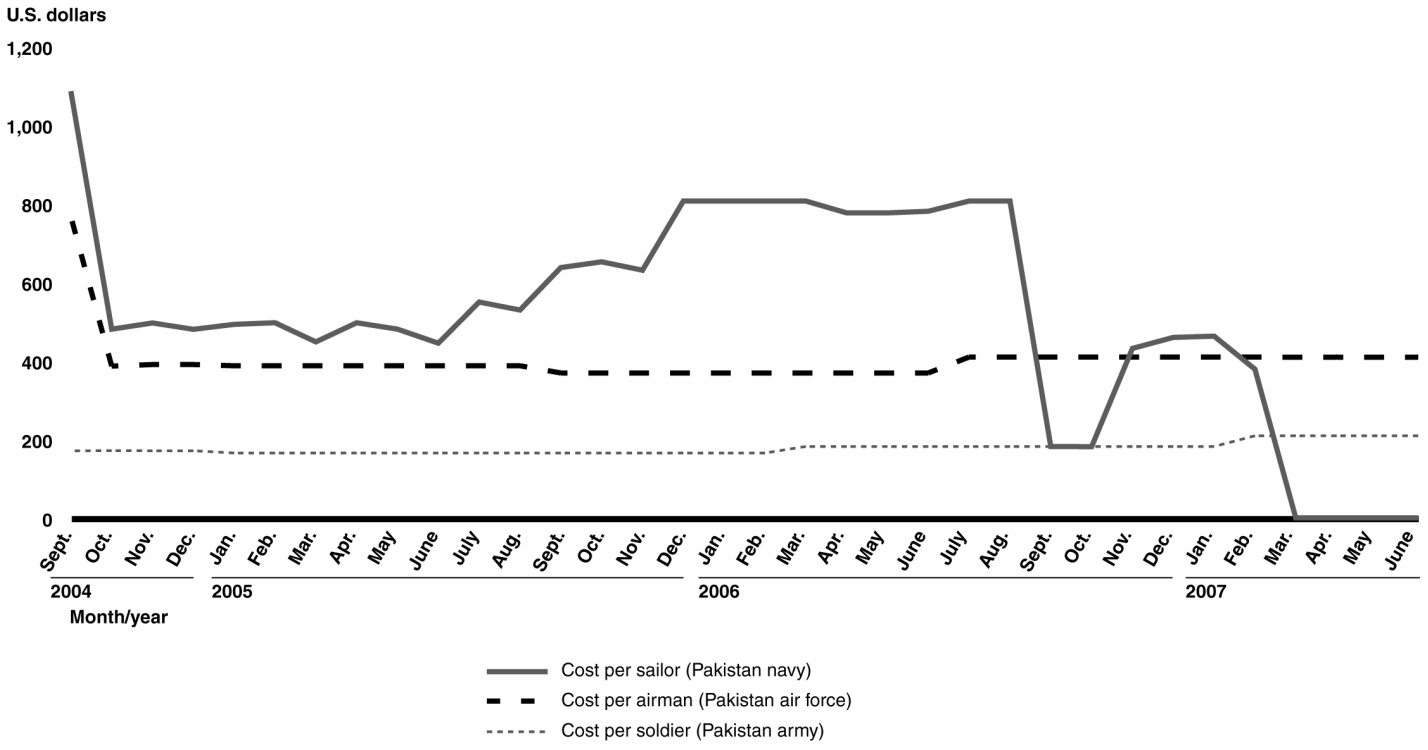
We also found large unexplained differences between the average costs of food per person for each force, as shown in figure 4.

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<sup>11</sup>Army road construction costs were included as a specific line item amount beginning in September 2004. These costs were claimed and paid each month from September 2004 through February 2007.

<sup>12</sup>Army bunker construction costs were included as a specific line item amount beginning in July 2006. These costs were claimed and paid each month from July 2006 through February 2007.

**Figure 4: Average Monthly Food Costs Per Person by Force Reimbursed to Pakistan Government, September 2004 through June 2007)**



Source: GAO analysis of food cost data from Defense and troop levels from Pakistan claims.

Note: Pakistani reimbursement claims January 2004 through August 2004 did not provide sufficient information to allow us to calculate average food costs per person.

As the figure above shows, navy monthly food costs per person were generally higher than monthly air force and army food costs per person. From June 2005, navy claims for food rapidly increased from approximately \$445 per sailor to \$800 per sailor in December 2005, while air force and army food costs per person remained stable. Despite these anomalies, Defense continued to pay the navy \$800 per sailor for food until September 2006, when the Comptroller began to question these costs.

We also found Defense paid the Pakistani navy more than \$1.5 million in possibly inflated costs for damage to navy vehicles. On average, Defense

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Defense Paid Costs That Were Potentially Duplicative

paid the Pakistani navy more than \$5,700 per vehicle per month in damages compared with the army's average claim of less than \$100 per vehicle per month.<sup>13</sup> According to the most recent navy claims, these vehicles generally consisted of passenger cars and SUVs that were not involved in combat. By contrast, the army vehicles were used to conduct military operations in the FATA and border region.

Comptroller guidance requires CENTCOM to ensure that costs are not counted twice; however, none of the CENTCOM memos we reviewed provide any indication that a review for duplicate costs had been performed. As a result, Defense paid more than \$8.9 million in potentially duplicative costs.

For example, the most recent Pakistani navy claim (June 2007) includes cost categories titled "vehicle damage" and "cost of vehicles repaired," but no details were provided to explain the differences between these two categories, and there was insufficient detail to determine whether some or all of the claimed costs were unique or duplicative. Despite this lack of detail, we found that Defense paid the Pakistani navy an average of over \$19,000 per vehicle per month (more than \$3.7 million per year)<sup>14</sup> to operate, maintain, and repair a fleet of fewer than 20 passenger vehicles without sufficient information to determine that these costs were not duplicative.

An official at ODRP with a role in reviewing CSF reimbursement claims stated that, based on the scarce details provided in the CSF claims, it was nearly impossible to know the actual cost of claimed items. When we discussed this issue with officials at the Comptroller's office, they indicated that the Pakistani claims do not provide enough detail to explain the context of the costs. According to the Comptroller, this makes it difficult to determine whether the costs should be reimbursed as called for under the Comptroller's guidance.

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<sup>13</sup> Average vehicle damage cost paid was calculated using claims in which vehicle damage was listed as a specific category (September 2004 through June 2007).

<sup>14</sup> These figures include the \$5,700 average navy cost per vehicle per month for "vehicle damages" discussed previously. These figures do not include claims prior to September 2004, as these claims did not contain specific categories.

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## Opportunities Exist to Enhance CSF Oversight Controls

We found deficiencies in the Comptroller's guidance concerning historical comparison of claimed costs and verification of currency conversions. The Comptroller guidance calls for a historical comparison of claimed costs, and such an analysis could identify costs that do not reflect actual activity levels. We found that some of Pakistan's claimed costs experienced potentially significant unexplained fluctuations from month to month. For example, Defense paid the army's largest<sup>15</sup> cost claimed in April 2006, which experienced a 12 percent (\$2.8 million) increase from March, without investigating this fluctuation. As a result, Defense may be paying for costs based on activities that did not occur.

In addition, we found that CSF guidance does not require Defense to evaluate the exchange rates used to convert claimed costs from Pakistani rupees into U.S. dollars, and as a result, potential overbillings may have gone undetected. Since January 2004, the Pakistani rupee has declined over 6 percent against the U.S. dollar. Consequently, fewer dollars should have, over time, purchased more rupees, resulting in a lower cost to the CSF program. For one cost category we reviewed, Defense may have overpaid more than \$1.25 million over 12 months because it did not consider the currency conversion used to calculate the cost.<sup>16</sup> Figure 5 illustrates the results of our analysis and shows that CSF would have been billed fewer dollars had International Monetary Fund (IMF) exchange rates been used.

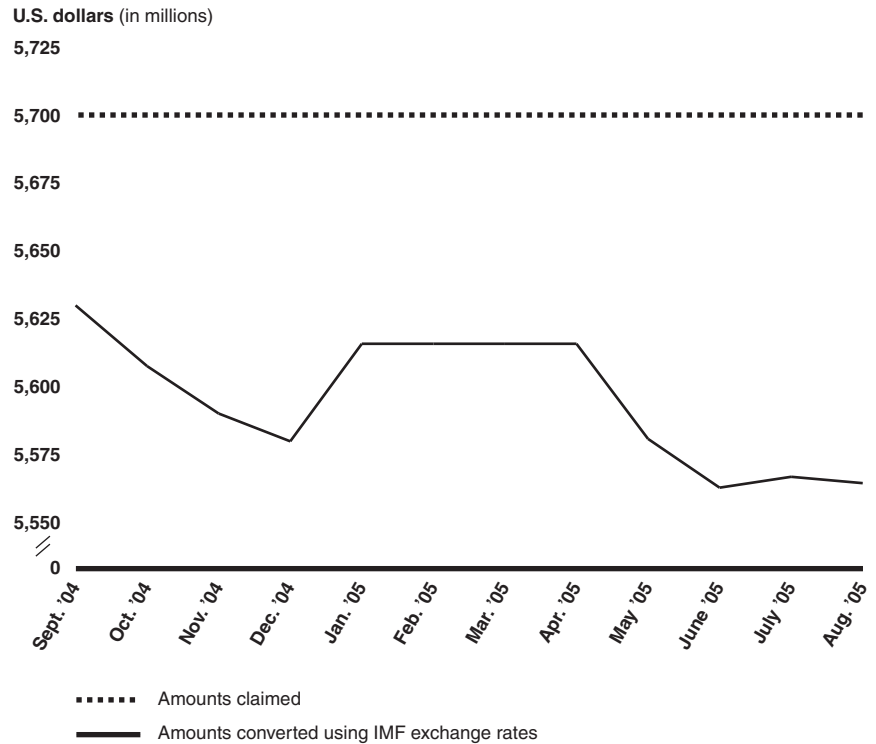
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<sup>15</sup>This cost category was the largest for April 2006 based on the percentage of total dollars claimed that was included in each category. This cost category accounted for 28 percent of the entire claim for April 2006.

<sup>16</sup>We determined this by using the claimed amounts and the exchange rates that were stated in Pakistan's September and October 2004 claims, and we converted the claimed cost into rupees. We then converted the claimed cost back into U.S. dollars using the applicable IMF exchange rates and compared the resulting figure to the amount paid by Defense.



**Figure 5: Effect of Exchange Rate Fluctuations on One Fixed Pakistani Claimed Cost, September 2004 through August 2005**



Source: GAO analysis of Pakistani claims and IMF data.

Note: IMF data includes market rate, period average, by month, exchange rates for U.S. dollars per Pakistan rupee.

If the rupee continues to decline against the dollar, future Pakistani claims calculated using a fixed exchange rate will become more and more inflated over time.

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## ODRP Began Playing a Larger Role in the CSF Oversight Process in Late 2006; However, ODRP's Continued Oversight Is Not Assured

Defense's 2003 guidance did not specifically task ODRP with attempting to verify Pakistani military support and expenses, despite recognition by Defense officials that such verification is best performed by U.S. officials in Pakistan, who have direct access to Pakistani officials and information. Because of this, ODRP did not try to verify Pakistani CSF claims until September 2006, when, without any formal guidance or directive to do so, ODRP began an effort to verify that Pakistani military support was provided and costs were actually incurred as claimed in the military's requests for reimbursement. According to ODRP officials, this new effort stemmed from a concern that some of Pakistan's reported costs may not have been valid or properly supported. They also stated that the Comptroller's July 2006 presentation to Pakistani officials helped ODRP conduct more detailed verification because Pakistan began to provide greater detail in its reimbursement claims.

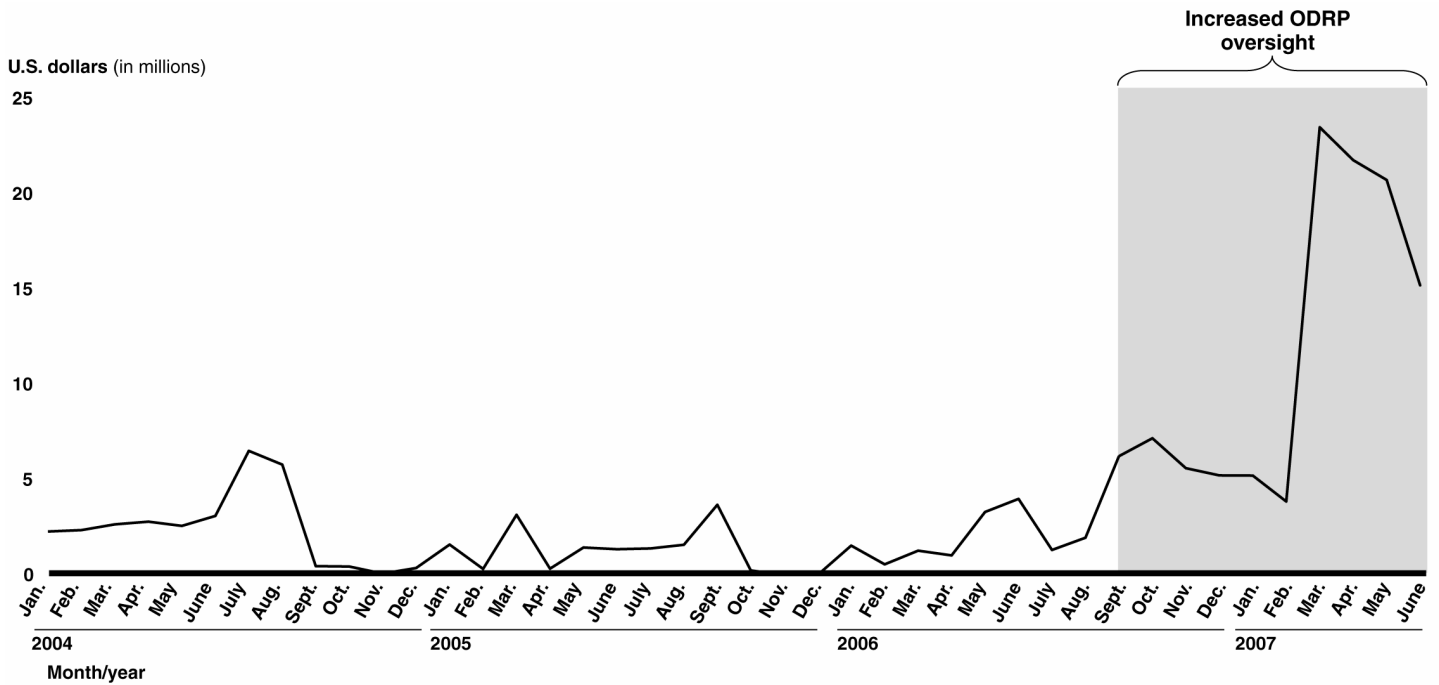
For the March through June 2007 claims, ODRP recommended deferring payment to Pakistan for \$22.3 million in helicopter maintenance costs. ODRP found that, despite \$55 million in Defense reimbursements to Pakistan for helicopter maintenance, only a few of these helicopters were fully operational.<sup>17</sup> According to ODRP officials, the Pakistani army was not maintaining the helicopters, causing essential systems to malfunction. Given the poor readiness rates, ODRP recommended that the Comptroller defer payment on Pakistan's helicopter maintenance claims until a process could be implemented to ensure that Pakistan could maintain its helicopter fleet. ODRP also recommended disallowing Pakistani claims for bulletproof vests, radios, road construction, air defense radars, tents, and funding for Pakistan's joint staff headquarters operations, all due to insufficient information to verify the costs.

Figure 6 shows the increased CSF disallowals and deferrals during ODRP's increased oversight activity in the September through October 2006 claims, and particularly in the latest claim period (March through June 2007), when Defense disallowed or deferred a total of \$81.2 million over these four months.

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<sup>17</sup>Defense reimbursed Pakistan approximately \$55 million for maintenance of the Pakistani army's MI-17 and AH-1 Cobra helicopter wings in the border area from July 2006 through February 2007.

**Figure 6: Pakistani CSF Reimbursement Claims Disallowed or Deferred, January 2004 through June 2007**



Source: Defense.

Note: There is a lag between the claimed period and Defense’s reimbursement of claims. At the time of the issue of this report, the March through June 2007 claims, reimbursed in February 2008, were the latest round of claims reimbursed by Defense. GAO has not verified the reliability of Comptroller’s data processing.

The amount disallowed or deferred for March through June 2007 represents a significant increase in CSF oversight by Defense. For example, from January 2004 through August 2006, Defense disallowed or deferred an average of a little more than 2 percent of each monthly Pakistani reimbursement claim, for a total of \$59.4 million over a 32-month period. In comparison, the average percentage of Pakistani claims disallowed or deferred for September 2006 through February 2007 was 6 percent or \$33.3 million over a 6-month period and for the most recent claims (March 2007 through June 2007) processed in February 2008, was approximately 22 percent, or \$81.2 million in a four month period. This four month period accounts for approximately 53 percent of the total CSF funding disallowed or deferred by Defense since January 2004 (\$173.92 million).

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## No Guidance to Ensure Continued Oversight by ODRP

Despite ODRP's increased oversight activity, the continuity of this oversight is not assured. According to Standards for Internal Control in the Federal Government, clear delegation of authority and responsibility is important to establishing an effective internal control system.<sup>18</sup> However, as of May 2008, ODRP continued to lack formal guidance or training that explicitly described either its oversight responsibilities or the procedures for conducting such oversight. Defense has never provided ODRP with guidance on how, and to what extent, it should verify that Pakistan actually provided military support and that expenses were actually incurred. ODRP is largely dependent upon the quality of information supplied by the Pakistani military. According to Defense officials, Defense lacks the authority to audit the internal finances of the Pakistani military.

ODRP officials said they doubted that ODRP would ever be able to fully verify actual costs in Pakistan. First, the Pakistani military reports costs to ODRP that are already aggregates of many smaller costs that ODRP cannot directly monitor. Furthermore, according to ODRP, electronic record keeping is rare in the Pakistani government, and collation may entail a certain amount of approximation and averaging.

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## Conclusions

Coalition Support Funds are a critical component of America's global war on terror, as well as the primary support for Pakistani operations to destroy the terrorist threat and close the terrorist safe haven in Pakistan's FATA. Following the attacks of September 11, 2001, Congress quickly authorized emergency funding to prevent another attack, and because of the grave and immediate threat at the time, Congress recognized that ensuring accountability for these funds was secondary to protecting the nation from another attack. However, given the large amounts of funding provided to Pakistan since October 2001, and the indications that Pakistan will continue to receive such payments in the future, we believe that Defense should ensure it follows its own guidance and considers what other guidance is needed.

Our assessment found that while CSF played a key role in Pakistan's support for the war on terror, Defense has not followed its existing

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<sup>18</sup>See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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guidance and has provided little oversight of the effort at the embassy in Pakistan. Defense had concerns about the accuracy of Pakistan's claims from the very first claim submitted in 2001. Based on the lack of supporting evidence in the Pakistani claims from January 2004 through June 2007 (the latest claims reimbursed by Defense), we found that neither Defense nor we could determine if Pakistan had actually incurred most of the costs in their claims. Prior to 2004, it appears there was even less evidence to support Pakistan's claims. As a result, we conclude that Defense cannot accurately determine how much of the \$5.56 billion in costs reimbursed to Pakistan since 2001 were actually incurred.

As a result of these and other findings, we believe that Defense should consistently implement its own CSF guidance to fully verify Pakistani claims and ensure the effective use of CSF in meeting key U.S. national security goals. While we recognize that CSF is used to support 27 countries in fighting terrorism, the fact that Pakistan receives 81 percent of these funds indicates that Defense should provide oversight procedures that reflect the role Pakistan plays as both the major recipient of CSF and its role in supporting U.S. national security objectives in Pakistan and Afghanistan. Additionally we recognize that Defense may not be able to fully verify all Pakistani claims without having the ability to access the Pakistani government's records and make site visits or conduct spot checks. ODRP's recent increased efforts, however, show that greater oversight may be achieved through the use of U.S. representatives in Pakistan.

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## Recommendations for Executive Action

To improve the impact and oversight of CSF payments to Pakistan, we make the following five recommendations to the Secretary of Defense:

- Consistently implement existing criteria to disallow or defer Pakistani claims that do not supply the documentation needed to verify their claims.
- Define and formalize the roles and responsibilities of ODRP.
- Work with the government of Pakistan to develop procedures to allow ODRP or other U.S. representatives to conduct greater oversight of CSF use in Pakistan, including the potential use of on-site inspections.
- Clarify guidance for Comptroller analysis of cost fluctuations.
- Develop and apply criteria to evaluate currency exchange rates to ensure that the U.S. government is not overpaying for Pakistan operations.

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## Agency Comments and Our Evaluation

In response to our concurrently issued report, Defense generally concurred with our recommendations, and indicated they had updated their CSF guidance to incorporate our recommendations. We plan to review this guidance when it is made available to us. In addition, Defense's comments noted that our report did not give sufficient weight to (1) Pakistan's military contributions enabled by CSF; (2) the Department's adherence to the law; and (3) Pakistan's accounting standards. Our report does recognize Pakistan's contributions and the role of CSF, and stated that Congress gave Defense broad authority to make CSF payments. Regarding Pakistan's accounting for CSF, we acknowledge that there are limitations in any arrangement with another sovereign nation, but we noted that Pakistan provided more detailed documentation to support their claims after a request from the Comptroller in 2006.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to answer any questions that you may have.

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## GAO Contact and Staff Acknowledgments

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