



United States Government Accountability Office
Washington, DC 20548

May 6, 2008

Congressional Requesters

Subject: Preliminary Observations on the Use and Oversight of U.S. Coalition Support Funds Provided to Pakistan

According to U.S. embassy officials in Islamabad and unclassified U.S. intelligence documents, since 2002, al Qaeda and the Taliban have used Pakistan's Federally Administered Tribal Areas (FATA) and the border region to attack Pakistani, Afghan, U.S. and coalition troops; plan and train for attacks against U.S. interests; destabilize Pakistan; and spread radical Islamist ideologies that threaten U.S. interests. Since October 2001, the United States has provided Pakistan with over \$10 billion for military, economic, and development activities in support of the critical U.S. national security goals of destroying terrorist threats and closing terrorist safe havens.¹ A major component of this effort has been U.S. Coalition Support Funds (CSF) reimbursed to Pakistan. The purpose of CSF is to reimburse coalition countries for logistical and military support provided to United States military operations in the global war on terror. In Pakistan, reimbursements through CSF are intended to enable the government of Pakistan to attack terrorist networks in the FATA and stabilize the border areas. It is structured as a reimbursement mechanism in which the U.S. Department of Defense (Defense) policy is to validate that support was provided, costs were incurred, and these costs were incremental to normal Pakistani military operations.

We were asked to assess how CSF reimbursements have been used to meet U.S. goals in Pakistan, and what controls exist to ensure that reimbursements are for legitimate claims. During the months of March and April 2008, we briefed the Chairman of the House Committee on Oversight and Government Reform's Subcommittee on National Security and Foreign Affairs and his staff, as well as various other congressional staff members, including those from the House Committee on Foreign Affairs, on the interim results of our work on CSF. This report provides

¹These goals have been set forth in the 2002 *National Security Strategy*, the 2003 *National Strategy for Combating Terrorism*, and the 2004 *9/11 Commission Report*, and have been endorsed by the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458, sec 7102 (b)(3)) and the Implementing the Recommendations of the 9/11 Commission Act of 2007 (P.L. 110-53, sec. 2042(b)(2)).

preliminary unclassified observations conveyed during those briefings; it does not include findings and recommendations on the CSF program.

We plan to issue the final results of our evaluation regarding the use and oversight of CSF in the summer of 2008, which will include an evaluation of Defense's implementation of the CSF oversight process. This report will be followed by a report assessing security, political, and development assistance activities undertaken by the United States to meet U.S. national security goals in the FATA.²

In summary, the briefings provided to the Chairman and various congressional staff members note that:

- For the period covering October 2001 through June 2007, the United States reimbursed Pakistan about \$5.56 billion in CSF for military operations in FATA and other support in the war on terror. CSF reimbursement funds are paid directly into the Pakistani government treasury and become sovereign funds. Once they become sovereign funds, the U.S. government has no oversight authority over these funds.
- In response to a Defense Inspector General review conducted in 2003, DOD implemented additional guidance to improve oversight of the CSF reimbursed to Pakistan. Moreover, in 2007, the Office of the Defense Representative to Pakistan (ODRP) began playing a larger role in overseeing CSF reimbursement claims.
- In performing oversight, ODRP reviews the Pakistani claims and indicates that to the best of their knowledge military support was provided and expenses were actually incurred. U.S. Central Command (CENTCOM) then validates that Pakistani operations listed were essential to support U.S. military operations in the theater. The claims are sent to the Office of the Under Secretary of Defense for Comptroller, who (1) performs a macro-level review comparing the cost to similar operations, and (2) assesses whether the cost categories are reasonable, selected subcategories are reasonable compared to U.S. costs, and costs are consistent with previous claims. In addition, both the Undersecretary of Defense for Policy and the State Department verify that the reimbursement is consistent with the U.S. government's National Security

² We recently issued a report entitled *Combating Terrorism: The United States Lacks Comprehensive Plan to Destroy the Terrorist Threat and Close the Safe Haven in Pakistan's Federally Administered Tribal Areas*, [GAO-08-622](#) (Washington, D.C.: Apr. 17, 2008).

Strategy and that the CSF payment does not adversely impact the balance of power in the region.

- In recent months,³ Defense has disallowed or deferred a significantly greater amount of CSF reimbursement claims from Pakistan.⁴

We determined the amount and oversight process used for CSF reimbursements to Pakistan by analyzing Defense documents covering reimbursement claims for the period from fiscal years 2002 through June 2007 and by verifying the amounts used for the FATA and the border regions through discussions with Defense officials in Washington, D.C., and Tampa, Florida. As part of our data reliability process, we confirmed that the data provided by the OSD Comptroller were accurately recorded in the software we used to analyze the data. This analysis does not include funding for covert activities in Pakistan. We conducted this performance audit from July 2007 through April 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings based on our audit objectives.

We provided drafts of this report to Defense and State officials for comment.

Defense provided written comments on a draft of this report (see encl. II). Overall, Defense found most of the content to be accurate and provided comments on points it felt needed additional clarification. Defense also commented on the limited time it was given to provide comments on this correspondence. We agree that we were only able to provide Defense a limited time to comment on our draft, and appreciate Defense's assistance in providing detailed comments under tight time constraints. We also note that the briefing charts reflected our preliminary observations on CSF, and did not contain findings, conclusions, or recommendations. Defense is

³ The March-June 2007 claims reimbursed in February 2008 are the latest claims reimbursed by DOD Comptroller.

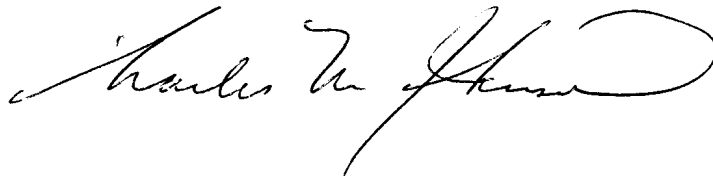
⁴ Submitted costs can be (a) recommended for approval; (b) "deferred" and returned for additional documentation; or (c) "disallowed" for not being consistent with the scope of CSF.

aware that we are conducting a detailed assessment of the CSF effort, and we look forward to working closely with Defense as we finalize the draft.

We also received technical comments from Defense, which we have incorporated throughout the report where appropriate. We requested comments from the Department of State, but none were provided.

Upon releasing the report, we will send copies of this report to interested congressional committees and the Secretaries of Defense and State. We will also make copies of this report available to others upon request. We will also make copies available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4128 or johnsoncm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure III.

A handwritten signature in black ink, appearing to read "Charles M. Johnson Jr.", with a large, stylized flourish at the end.

Charles Michael Johnson Jr.
Director, International Affairs and Trade

Enclosures

List of Congressional Committees

The Honorable Howard L. Berman
Chairman
The Honorable Ileana Ros-Lehtinen
Ranking Member
Committee on Foreign Affairs
House of Representatives

The Honorable Gary L. Ackerman
Chairman
The Honorable Mike Pence
Ranking Member
Subcommittee on the Middle East
and South Asia
Committee on Foreign Affairs
House of Representatives

The Honorable John F. Tierney
Chairman
The Honorable Christopher Shays
Ranking Member
Subcommittee on National Security and Foreign Affairs
Committee on Oversight and Government Reform
House of Representatives

The Honorable Tom Harkin
The Honorable Robert Menendez
United States Senate

Enclosure I: Briefing for Congressional Requesters



Preliminary Observations on the Use and Oversight of Coalition Support Funds to Pakistan

**Briefing for
Congressional Requesters
March and April 2008**



Table of Contents

- Requesters
- Ongoing GAO Work on Pakistan
- Background
- Funding
- Preliminary Observations
- Scope and Methodology
- Appendix: 2004 Coalition Support Funds (CSF) Criteria



Requesters

- **Chairman and Ranking Member of the:**
 - **House Committee on Foreign Affairs**
 - **Subcommittee on the Middle East and South Asia, House Committee on Foreign Affairs**
 - **Subcommittee on National Security and Foreign Affairs, House Committee on Oversight and Government Reform**
 - **Tom Harkin, U.S. Senate, co-requester**
 - **Robert Menendez, U.S. Senate, co-requester**
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Ongoing GAO Work on Pakistan

- U.S. Strategy*
 - What is the status and reported progress in meeting U.S. strategic goals for the Federally Administered Tribal Areas (FATA) and Pakistan's border region with Afghanistan?
 - What is the status of U.S. efforts to develop a strategic plan for the FATA and Pakistan's border region, and does it contain key elements recommended by national security documents and key legislation?
- Coalition Support Funds
 - How have Coalition Support Funds been used to meet U.S. strategic goals for Pakistan and the region?
 - What controls exist to ensure that they are used as intended?
- Capping Report
 - What types of U.S. security, political, and development assistance activities are being used to meet U.S. strategic goals, what has been the progress of these efforts, and what controls exist over them?

* This report has been subsequently released. See GAO-08-622.



Strategic Importance of the FATA and Pakistan's Border Region with Afghanistan

According to the U.S. embassy in Islamabad and U.S. intelligence officials, since 2002 al Qaeda and the Taliban have used the FATA and the border region to

- Attack Pakistan, Afghanistan, U.S. and coalition troops
 - Plan and train for attacks against U.S. interests
 - Destabilize Pakistan, a major nuclear-armed Muslim ally
 - Spread radical Islamic ideologies that threaten U.S. interests
-





Allocation of U.S. Funding to Pakistan (in billions)

• Key Funding Streams (FY02-08)*	
• Coalition Support Funding (CSF)**	\$5.56
• Foreign Military Financing (FMF)***	1.52
• USAID Assistance****	2.48
• State's Border Security Program	.25
• Other*****	.95
• Total FY02-08 Funding	\$10.76

* Includes FY 2008 requests.

**CSF is a reimbursement for support provided by Pakistan to U.S. military operations.

*** FMF is used to purchase military equipment and training from the United States.

****Includes Economic Support Funds, most of which is direct budget support for Pakistan.

*****Other includes assistance for other activities, such as legal reform and police and military training.

Source: GAO analysis of Defense, State, and USAID documents.

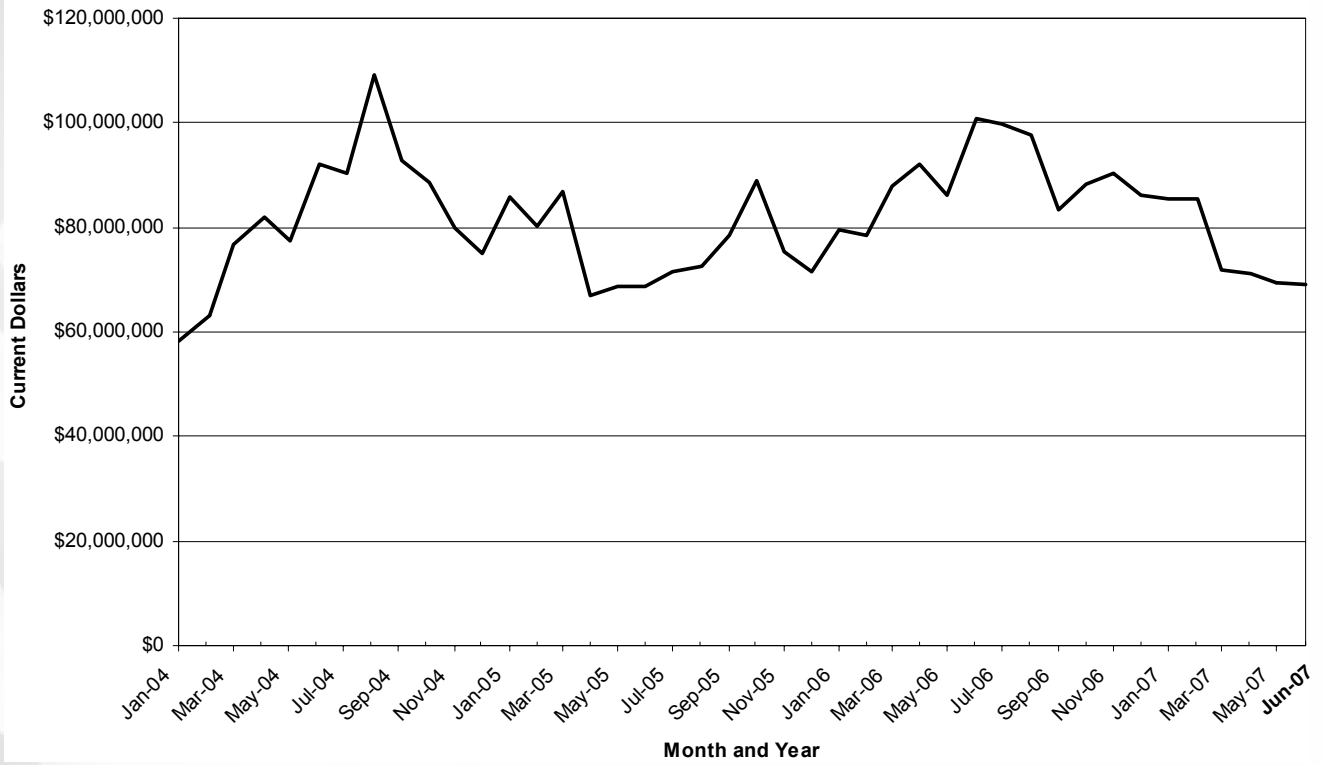


CSF Purpose, Objective, and Funding

- Purpose: To reimburse coalition countries for logistical and military support provided to U.S. military operations
 - Objective in Pakistan: To enable government of Pakistan efforts to attack terrorist networks in the FATA and stabilize the border areas
 - Funding: \$5.56 billion reimbursed to Pakistan for military operations in FATA and other support to war on terror from October 2001 through June 2007 (latest reimbursement)
-



Reimbursement Amount by Month



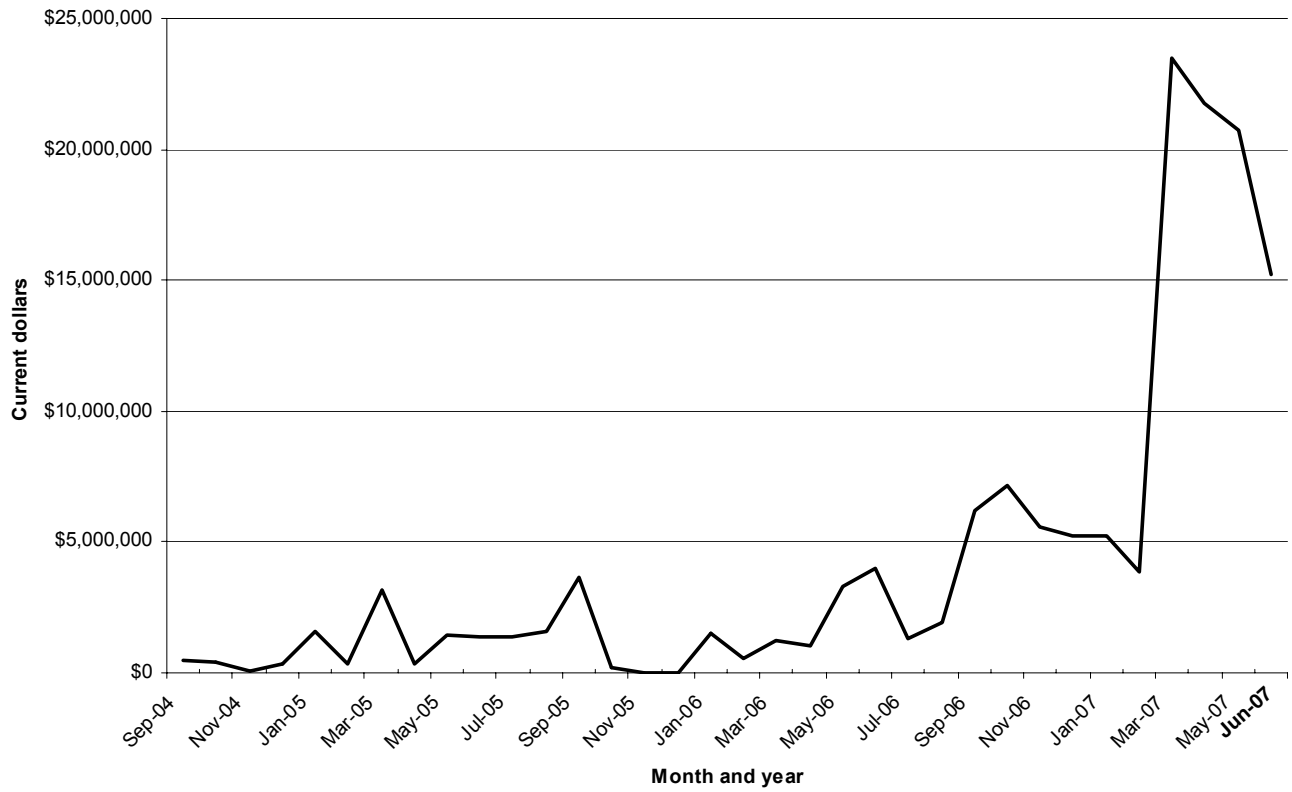
Note: There is a lag between the provision of support and DOD's reimbursement of these costs. The March-June 2007 claims were reimbursed in February 2008 and are the latest claims reimbursed by DOD Comptroller as of April 24, 2008.

Source: DOD. GAO has not verified the reliability of DOD Comptroller's data processing.

Enclosure I: Briefing for Congressional Requesters



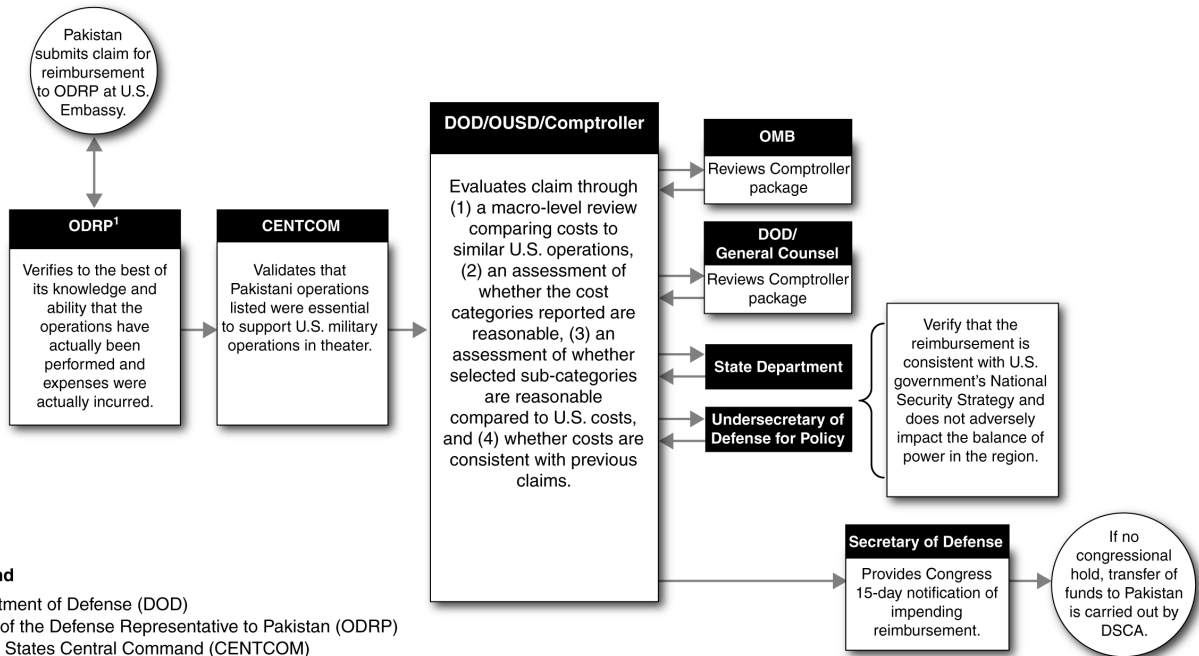
Claimed Amounts Disallowed or Deferred by Month



Note: There is a lag between the provision of support and DOD's reimbursement of these costs. The March-June 2007 claims were reimbursed in February 2008 and are the latest claims reimbursed by DOD Comptroller. Submitted costs were (a) recommended for approval; (b) "deferred" and returned for additional documentation; or (c) "disallowed" for not being consistent with the scope of CSF.

Source: DOD. GAO has not verified the reliability of DOD Comptroller's data processing.

CSF Oversight Process



Legend

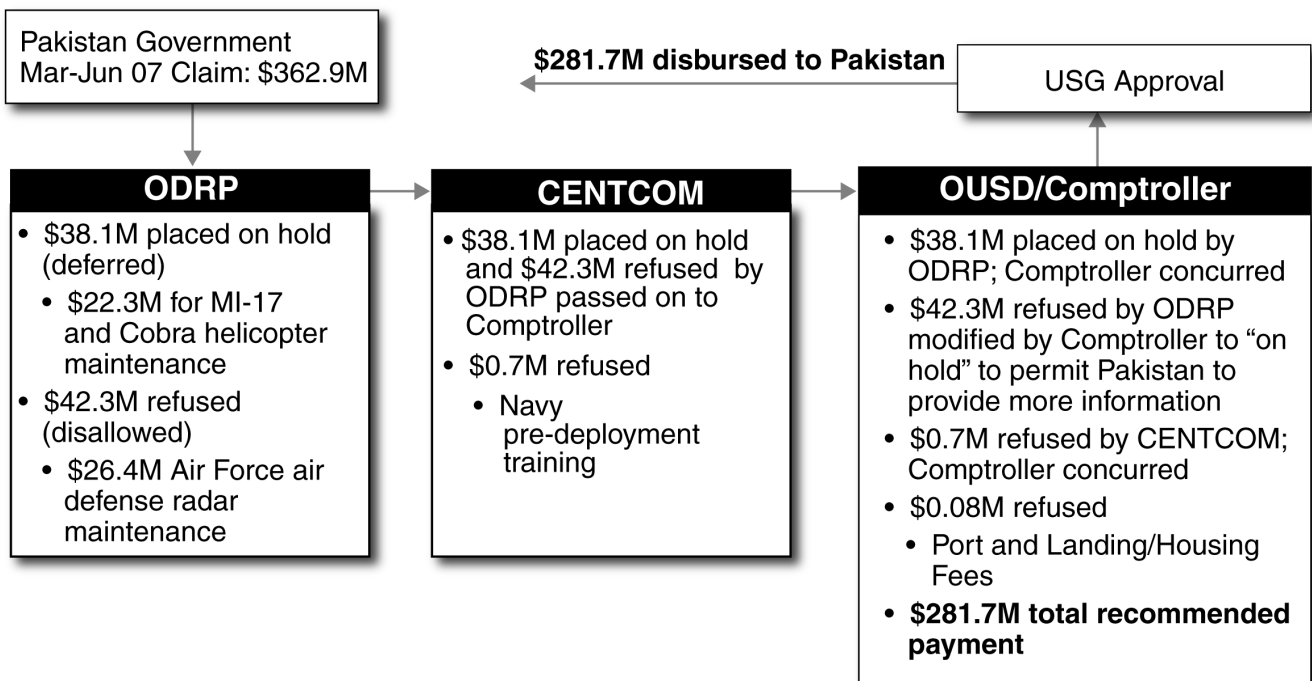
- Department of Defense (DOD)
- Office of the Defense Representative to Pakistan (ODRP)
- United States Central Command (CENTCOM)
- Office of the Undersecretary of Defense for Comptroller (OUUSD/Comptroller)
- Office of Management and Budget (OMB)
- Defense Security Cooperation Agency (DSCA)

Source: GAO depiction of CSF oversight process based on DOD documentation and discussions with DOD/OUUSD/Comptroller.

¹ODRP description based on discussions with DOD officials. Formal guidance for this role does not exist.



Example of Recent Reimbursement



Source: GAO analysis based on DOD oversight documentation.



Preliminary Observations on Use of CSF Funds

- CSF reimbursement funds are paid directly into Pakistan government general treasury and become sovereign funds
- After reimbursement to Pakistan for prior expenditures there is no requirement for further oversight of these funds by the U.S. government



New FATA Effort Seeks to Direct Pakistan Funding

- CSF in current form is strictly a reimbursement program with little or no U.S. direction over funding priorities until after Pakistan has incurred the expense
- CSF has enabled immediate and continued Pakistani military presence in the FATA
- However, according to DOD, Pakistan Army has been unsuccessful at defeating terrorists in FATA
 - Pakistani security forces lack counterinsurgency capability
 - Army neither structured nor trained for counterinsurgency
 - Serious equipment and training deficiencies exist in Frontier Corps
- Security Development Plan*
 - Under CENTCOM review; being implemented at post with FY2007 & FY2008 funds
 - According to the Office of the Secretary of Defense: \$12.3M funding shortfall for FY 2008; no designated funding secured for FY 2009 and beyond

* The Security Development Plan is a joint U.S.-Pakistan effort to enhance the ability of the Pakistan military and security forces to secure its border with Afghanistan, among other things.



Scope and Methodology

- To address our objectives, we met with officials from:
 - Department of State
 - Department of Defense (DOD)

 - Analyzed DOD and embassy oversight documentation including:
 - Pakistan government reimbursement claims
 - ODRP memos
 - Central Command (CENTCOM) operational validations
 - OSD/Comptroller evaluations and guidance

 - Compiled and analyzed DOD Comptroller data October 2002 – June 2007
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Appendix: CSF Oversight Criteria

- 2003 DOD-Inspector General study cited deficiencies in oversight. In response, DOD Comptroller issued new guidance in December 2003 as follows:
 - CENTCOM to include sufficient documentation:
 - Identify of who requested the service, one-time vs. recurring
 - Validate that support/service provided and that costs would not otherwise have been incurred
 - Describe cost categories and method of computation
 - Include copies of invoices or other cost documentation
 - Office of the Under Secretary of Defense for Comptroller performs analysis including:
 - Macro-level comparison of claimed costs to similar U.S. costs
 - Evaluation of cost category reasonableness
 - Comparison of representative U.S. costs for sub-set of items
 - Assessment that costs are consistent with previous claims
-

Enclosure II: Agency Comments and Our Evaluation

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



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Mr. Charles Johnson Jr.
Director, International Counterterrorism Issues,
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Government Accountability Office
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Washington, D.C. 20548

MAY 02 2008

Mr. Johnson:

This is the Department of Defense (DoD) response to the GAO Draft Report, "PRELIMINARY OBSERVATIONS ON THE USE AND OVERSIGHT OF COALITION SUPPORT FUNDS TO PAKISTAN," dated April 25, 2008 (GAO Code 320594).

We have enclosed comments addressing the report.

My point of contact is Mr. Eric Lebson, 703-697-3754, or e-mail: eric.lebson@osd.mil.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Shinn".

James J. Shinn



GAO DRAFT REPORT DATED APRIL 25, 2008
GAO CODE 320594

**“PRELIMINARY OBSERVATIONS ON THE USE AND OVERSIGHT OF COALITION
SUPPORT FUNDS TO PAKISTAN”**

**DEPARTMENT OF DEFENSE COMMENTS ON
THE DRAFT REPORT BY GAO ON COALITION SUPPORT FUNDS**

The Department of Defense (DoD) appreciates the necessity and importance of Congressional oversight of the Coalition Support Funds (CSF) program. This authority is a critical tool in the War on Terror, reimbursing the costs incurred by 27 partner nations in the global effort to fight violent extremism. A July 2007 National Intelligence Estimate highlighted the existence of extremist safe havens in Pakistan’s western border region and the manner by which Al-Qaida and other extremists are using these safe havens to plan attacks against Pakistan, Afghanistan and the American homeland.

At a time when Pakistan has a new civilian government and is working to cope with significant national financial issues, CSF reimburses the significant costs that Pakistan incurs daily in support of U.S. military operations. CSF is a critical tool in our joint effort with Pakistan to constrain the assumption of sanctuary by extremists in western Pakistan and support of U.S. military operations by employing 120,000 military and paramilitary forces in the western border region and conducting military operations against extremist groups. CSF directly contributes to the Pakistani military and political decision to divert forces from their perceived strategic threat in the east, to a lesser understood threat in the west. The missions of Pakistan’s military and civil armed forces have been redefined and over 30,000 additional troops have been employed in the west, which have certainly reduced U.S. casualties in Afghanistan.

In addition, CSF was particularly effective when it was used to fund the \$236M cost of fielding twenty-six Bell 412EP helicopters for use in the fight in the western border region. Without the use of CSF in this manner, Pakistan would be mission non-capable in a variety of air assault, command and control, and administrative/logistics missions essential to the conduct of military operations in western Pakistan. CSF enabled a partner nation to contribute to the GWOT as no other authority could.

While most of the content is accurate, the Department has several comments on certain portions of this report. Despite frequent interaction with GAO personnel in March, DoD was advised of this interim report only on 17 April, when it was noted in the final issuance of a different report (GAO-08-622). On 24 April, DoD was advised that GAO had presented a set of briefing charts on CSF to Members of Congress without DoD input. DoD was then asked to make suggested edits or comments, but was told that because the presentations had already been provided to Members, its comments were limited to only technical modifications.

In recognition of GAO’s position that substantial edits cannot be made to the presentation, DoD provides the following technical comments to the draft presentation in the hope that Congress ultimately will have the full benefit of the Department’s insights into the CSF process.

**Enclosure II: Agency Comments and Our
Evaluation**

See comment 1.

- Cover letter – Page three of the cover note has a bullet that includes the text: “Moreover, in 2007 the Office of the Defense Representative to Pakistan (ODRP) began playing a larger role in overseeing CSF reimbursement claims.” Defense notes that this cover letter was not provided to Defense in the 24 April out-brief and, as such, Defense had no opportunity to ask GAO to explain this reference. GAO should explain in what way ODRP played a different role in 2007.

See comment 2.

- Cover letter – In the bullet on page four, GAO notes: “In recent months, Defense has disallowed or deferred a significantly greater amount of CSF reimbursement claims from Pakistan.” Defense has two comments: (1) GAO needs to contextualize what is meant by “recent months.” In fact, GAO’s slide 10 indicates that the amount of disallowed or deferred claims increased as of September 2006; and (2) In order to present a consistent impression of the numbers, GAO should use the same reference numbers on the Y axis on the charts on slides 9 and 10.

See comment 3.

- Slide 14 – “New FATA Effort Seeks to Direct Pakistan Funding”
 - The Department disagrees with this slide. DoD has advised GAO on several occasions that there is no funding shortfall for the Security Development Plan (SDP) in FY08. Congress included in the FY08 National Defense Authorization Act a \$75M authority to train and equip Pakistan’s Frontier Corps. The Department appreciates Congress having granted the Frontier Corps train and equip authority, which is a critical tool in the War on Terror and in the Security Development Plan within Pakistan. Realigning existing Defense appropriations to fund this important authority has been a major priority for the senior leadership at DoD. In the 24 April meeting between GAO and DoD, GAO was told that Secretary Gates had signed a memo directing that funds be realigned and made available for this purpose. GAO’s response was that the presentation was given in March and April 2008 and, at the time, the funds were not available. DoD replied that this was an inaccurate representation that would leave the reader with the impression that there was both a funding shortfall and a disinclination to fund the program.

The following are GAO's comments on the letter from the Department of Defense dated May 2, 2008.

GAO Comments

1. We intend to address the issue of ODRP's role in the CSF reimbursement process, and how it has changed, in our upcoming product addressing CSF to Pakistan. However, at the time we presented this briefing, our preliminary observations indicated that this was the first time that ODRP recommended significant denials or deferrals of Pakistani claims to CENTCOM.
2. As chart 10 illustrates, the U.S. disallowed or deferred significantly greater amounts in its February 2008 reimbursement to Pakistan for its March through June 2007 claims. We disagree that the September 2006 reimbursement claim represents the significant change in denials and deferrals. We also disagree with Defense's recommendation to use the same Y axis scale on slides 9 and 10. We used scales for slides 9 and 10 that were appropriate to illustrate the amounts reimbursed compared with the smaller amounts that were disallowed or deferred.
3. We did not intend to imply that Defense was not inclined to fund the program, only that at the time of our March and April briefings, there was still a funding shortfall for the fiscal year 2008 elements of the plan. Furthermore, as of May 3, 2008, the process of realigning funds for this effort was not complete.

Enclosure III: GAO Contact and Staff Acknowledgements

GAO Contact

Charles Michael Johnson Jr., Director, International Affairs and Trade,
(202) 512-4128 or Johnsoncm@gao.gov

Staff Acknowledgments

In addition to the individual named above, Hynek Kalkus, Assistant Director; Edward J. George Jr; Claude Adrien; David Hancock; Karen Deans; Roger Stoltz; Cara Bauer; Janice Friedeborn; Arthur James; and Jena Sinkfield made key contributions to this report.