

Report to the Chairman, Subcommittee
on Foreign Operations, Export
Financing, and Related Programs,
Committee on Appropriations, House of
Representatives

GAO

May 1990

SECURITY
ASSISTANCE

Reporting of Program
Content Changes



**National Security and
International Affairs Division**

B-238545

May 22, 1990

The Honorable David R. Obey
Chairman, Subcommittee on Foreign Operations,
Export Financing, and Related Programs
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

In response to your request, we reviewed the Defense Security Assistance Agency's (DSAA) implementation of and compliance with the congressional notification criteria for program content changes established in the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988, P.L. 100-202. The first proviso of section 523 of the act states, in part, that the President shall not commit any Foreign Military Sales (FMS) funds for the purchase of major defense equipment,¹ other than conventional ammunition, that has not been previously justified to Congress, or that is 20 percent in excess of the quantities justified to Congress, unless the Committees on Appropriations are notified 15 days in advance of such commitment.

As agreed with your office, we also reviewed DSAA's implementation of the March 1989 agreement between Congress and DSAA to report items identified as sensitive or comparable to major defense equipment. Additionally, you expressed concern that DSAA did not notify Congress about Egypt's proposed use of FMS funds to purchase a Gulfstream IV executive jet and asked us to determine whether DSAA had approved FMS financing for any other aircraft for a foreign head of state.

As the agency responsible for implementing the first proviso of section 523, DSAA submits a classified annex to the administration's security assistance budget request. The annex is DSAA's estimate—by country, item, quantity, and dollar amount—of what foreign governments will purchase with FMS financing. It is the baseline used for determining whether a program content change requires DSAA to notify Congress. DSAA country desk officers have primary responsibility for initiating program content notifications.

¹Section 47 of the Arms Export Control Act defines the term major defense equipment as any item of significant military equipment that is on the U.S. Munitions List and has a nonrecurring research and development cost of more than \$50 million or a total production cost of more than \$200 million.

Results in Brief

Overall, DSAA has complied with the program content notification requirements as defined by law. DSAA implements the proviso with some minor variations, however, because of a lack of specific written definitions of key terms in the proviso. In particular, there was not a common understanding within DSAA of the terms "conventional ammunition" and "previously justified." As a result, in one case, general purpose bombs were not reported because the DSAA country desk officer considered them "conventional ammunition", which is exempted from the notification requirements.

DSAA has had difficulties implementing the March 1989 agreement due to a lack of specific definitions of the terms "major defense equipment-comparable" and "sensitive" items. This situation is most acute in the program for Israel, which DSAA administers differently from other countries' programs. DSAA does not review Israel's low-dollar purchases and reviews certain high-dollar purchases after Israel has received FMS funds. As a result of the lack of definitions and the administrative conditions, DSAA does not review the majority of Israeli purchase orders to determine if they are major defense equipment-comparable or sensitive items. However, in reviewing 889 cases we found only one item, a sale of tear gas cartridges, that probably should have been but was not reported. DSAA officials estimate that if they were to review all purchase orders for Israeli commercial procurements, depending on the structure of the Israeli program, they would need an additional two to seven staff persons.

In our letter to you dated May 16, 1989, we reported on the Gulfstream IV executive jet sale. Subsequently, we found that DSAA had notified Congress of the proposed sales of five Beech King aircraft to Israel and an armored car to Honduras. The aircraft were purchased for military purposes, but they could also be used as executive jets. The car is intended for use by high-level officials. The foreign governments have signed contracts in all three cases.

Conclusions and Observations

While our review disclosed that DSAA officials are having some difficulties implementing the reporting requirement due to a lack of a common understanding of key terms, we did not find that this resulted in numerous major defense equipment purchases not being reported. However, in the interest of addressing a problem before it occurs, we suggested that DSAA issue written definitions or interpretations of key terms such as "conventional ammunition," "previously justified," and "sensitive" to ensure consistent reporting of program content changes. Subsequently,

DSAA updated its guidelines and procedures to define most of those terms.

While the Israeli program is administered differently, our review of its commercial purchases did not identify any significant lack of reporting. Therefore, we are not making any recommendations.

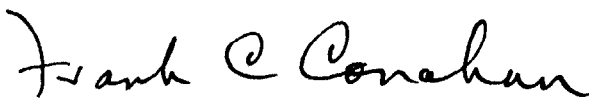
Agency Comments

The Defense Department concurred with our findings (see app. V). It suggested some technical changes, and the report has been revised to reflect its suggestions.

Appendix I contains the details of our review. Appendix II lists the major defense equipment items DSAA reported in fiscal years 1988 and 1989 for the countries we reviewed. Appendix III lists the major defense equipment-comparable and sensitive items reported in fiscal year 1989 for the same countries. Appendix IV describes our objectives, scope, and methodology.

Copies of this report will be sent to the Chairmen, Senate and House Committees on Appropriations; the Secretary of Defense; the Director, Office of Management and Budget; and other interested parties. This report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues, who may be reached on (202) 275-4128 if you or your staff have further questions. Other major contributors are listed in appendix VI.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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Abbreviations

CPD	Congressional Presentation Document
DSAA	Defense Security Assistance Agency
FMS	Foreign Military Sales
IOA	Letter of offer and acceptance
MDE	Major Defense Equipment

Reporting of Program Content Changes

Since 1974, appropriations acts have required the executive branch to notify Congress of intended reprogrammings of foreign economic aid and military assistance funds 15 days before their obligation. As a result of differences over the need to report a sale of F-5E aircraft to Honduras, Congress added a proviso to section 523 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988, P.L. 100-202. In part, the proviso requires the administration to notify Congress 15 days before committing Foreign Military Sales (FMS) funds to purchase major defense equipment (MDE), other than conventional ammunition, that has not previously been justified to Congress or that is 20 percent in excess of the quantities previously justified to Congress.

Setting the Baseline

The Defense Security Assistance Agency (DSAA) is responsible for administering the security assistance program, including implementing the proviso requiring notification of program content changes. DSAA uses a classified list of estimated FMS funding requirements as a baseline for determining what changes it needs to report to the Congress. The list is submitted as an annex to the Congressional Presentation Document (CPD), the administration's security assistance budget request and justification. The annex lists—by country, item, quantity, and dollar amount—DSAA's estimate of FMS funding requirements for ongoing programs, support of equipment, and potential new programs. DSAA submits the annex after it submits the CPD and bases its estimates on the total appropriated funds allocated for each country. If a foreign government or international organization¹ decides to use FMS financing to purchase MDE that is not listed in the annex, or if the requested quantity is 20 percent or more of the quantity listed in the annex, then DSAA must notify Congress of the proposed purchases.

At the time of our review, DSAA had submitted the annex twice—for fiscal years 1989 and 1990. According to a DSAA official, in preparing the annex, DSAA exceeded the instructions of the congressional directive by listing not only MDE but also support and training requirements. DSAA improved the format of the annex between the two submissions and plans to continue refining it based on feedback from Congress and GAO.

¹When we use the term "foreign government," we intend for it to include international organizations.

DSAA Process for Reporting Program Content Changes

DSAA's Operations Directorate is responsible for reporting program content changes. The Directorate is organized into geographically oriented divisions, each with country desk officers responsible for specific countries, and a management division to deal with policy and other matters. The country desk officers administer the FMS program on a day-to-day basis and have primary responsibility for initiating program content notifications under the proviso to section 523.

Foreign governments purchase items and services with FMS financing using the FMS process, through which the U.S. government sells the item or service to the foreign buyer. Ten foreign governments also have the option of using the commercial process, through which the contractor sells directly to the foreign buyer. With the exception of Israel, foreign governments make the majority of their purchases through FMS channels. Excluding Israel, in fiscal year 1989, DSAA processed 89 percent of foreign cases through FMS channels. Israel, on the other hand, processed over 99 per cent of its cases through commercial channels. When using their own national funds, foreign governments may use the FMS channel or negotiate directly with a U.S. contractor. In the latter situation, the U.S. government is not involved in the process.

FMS Procedures

Under the FMS process, the Defense Department purchases articles and services from U.S. firms, takes title to the equipment or already has title, and sells the articles or services to the foreign buyer. The U.S. military service responsible for the equipment negotiates with the purchasing government the terms of the letter of offer and acceptance (LOA). The LOA, a contractual document, lists the items and/or services, estimated costs, and terms and conditions of the sale. Upon defining the requirement, the military branch forwards the LOA to DSAA for countersignature. The relevant DSAA country desk officer reviews the LOA to determine if a program content notification is required. If a notification is required, DSAA must notify the House and Senate Appropriations Committees of the intended sale and wait at least 15 days before countersigning the LOA. During this waiting period, members of Congress may inquire about the sale and seek to postpone or prevent the sale.²

If no one objects to the sale, the DSAA Comptroller signs the LOA and returns it to the military service. The service then forwards the LOA to

²According to a DSAA official, no member of Congress has ever postponed or prevented a sale during the 15-day waiting period.

the country, thus formally offering the sale. To accept the offer, the representative of the foreign government signs the LOA.

While the DSAA country desk officer is responsible for identifying items that require a notification, personnel in the DSAA Comptroller's office also review the LOAs for compliance with the first proviso and the agreement to report MDE-comparable and sensitive items. Questionable LOAs are referred to the Operations Directorate for a decision. Since all LOAs require the Comptroller's signature, this review serves as a second check to that of the country desk officer.

Commercial Procedures

As previously noted, under commercial procedures, the U.S. vendor contracts directly with the foreign government. When they have negotiated a contract, the foreign government seeks DSAA's approval for FMS financing. DSAA reviews the contract to ensure that it meets DSAA contractual and FMS financing requirements. Once DSAA approves financing, vendors submit invoices to the foreign government for its verification. The foreign government then forwards the invoice to the DSAA Comptroller for disbursement of FMS funds to the vendor. Except for Israel, commercial contracts must exceed \$100,000.

The review process for commercial contracts and purchase orders is slightly different from the FMS process. As in the case of FMS sales, the country desk officer is primarily responsible for identifying items that require notifications. However, personnel in the management division of the Operations Directorate, rather than in the Comptroller's Office (as in FMS sales), provide the second check of the sales (with the exception of the Israeli program).

Israeli Program Procedures

The process for implementing the Israeli security assistance program differs from all other countries' processes. Whereas other countries primarily use the government-to-government process, Israel uses commercial contracts for about 99 percent of its purchases. In the view of Israeli officials, by negotiating directly with the company rather than through the U.S. government, they are able to get better prices and payment and delivery schedules. Furthermore, by using the commercial process, Israel can avoid the Defense Department's 3-percent administrative charge for FMS sales.

While DSAA approves FMS sales for Israel through the normal countersignature procedure, DSAA handles commercial sales for Israel differently

than it does for other countries. First, DSAA will finance contracts and purchase orders for Israel in any amount, while other countries are limited to a minimum of \$100,000. Second, whereas the Defense Department disburses FMS credits directly to the supplier for all other countries, Israel's Purchasing Mission in New York pays suppliers and then seeks reimbursement with FMS funds. Third, DSAA must approve FMS financing for contracts and purchase orders exceeding \$500,000 before Israel can request disbursement of FMS credits. Contracts and purchase orders valued at over \$1 million require the signature approval of DSAA's director, while the country desk officer can approve those between \$500,000 and \$1 million. DSAA is not required to review contracts and purchase orders from \$50,000 to \$500,000 until after Israel receives the FMS funds. DSAA does not review contracts and purchase orders below \$50,000.

Table I.1 shows the DSAA approval thresholds for the Israeli program.

Table I.1: Approval Thresholds for the Israeli Program

Value of purchase order or contract	Required DSAA action
Over \$1 million	Prior approval by director
\$500,000 - \$1 million	Prior approval by country desk officer
\$50,000 - \$500,000	No prior approval; subsequent review
Under \$50,000	No prior approval; no review

For purchases reviewed after the disbursement of FMS funds, the U.S. government can subsequently recover the funds from the Israeli government. In the 3 years that the current DSAA country desk officer has covered Israel, the U.S. government has sought and recovered FMS funds in only two cases, both involving the purchase of machine tools. Thus, while the mechanism exists for the U.S. government to refuse funding approval after Israel has been reimbursed, DSAA determined its use has been necessary only in rare instances.

DSAA Reporting Under Section 523

Since enactment of the proviso, DSAA has complied with the reporting requirements, but country desk officers and management interpret some terms differently. In fiscal year 1988, DSAA filed 28 program content notifications for MDE. As shown in table I.2, 21 were for the 12 countries we selected for review. These 12 countries received most of the FMS funds appropriated by the Congress during this period. In fiscal year 1989, DSAA filed 28 notifications, of which 22 were for the 12 countries in our review.

**Appendix I
Reporting of Program Content Changes**

Table I.2 compares the number of notifications filed in fiscal years 1988 and 1989 for these 12 countries.

Table I.2: Program Content Notifications of MDE

Country	Fiscal Year	
	1988	1989
Colombia	0	0
Egypt	5	7
El Salvador	3	4
Greece	2	3
Israel	2	2
Liberia	0	0
Pakistan	3	0
Philippines	1	0
Portugal	1	2
Thailand	1	2
Turkey	3	2
Zaire	0	0
Total	21	22

Appendix II lists the MDE that DSAA reported for these countries.

At the time of our review, DSAA had signed 67 letters of offer and agreement for MDE (other than conventional ammunition) with the 12 countries since enactment of the proviso. The majority of these MDE purchases were listed in the CPD annex; or were components or subsystems of MDE listed in the CPD annex, which DSAA interprets as having been reported; or were covered by the 43 notifications that DSAA has filed. Only one of the 67 MDE was not reported in the CPD annex or in a notification. This MDE purchase of general purpose bombs was not reported because the DSAA country desk officer defined the bombs as conventional ammunition, which the proviso excludes from the reporting requirement.

Terms in Proviso Lack Specific Definitions

Because DSAA management has not given its country desk officers specific definitions of key terms in the proviso to section 523, there is no common understanding within DSAA on these terms. Successful implementation of the proviso requires that DSAA management and country desk officers agree on the meaning of the terms.

We asked DSAA management, legal counsel, and country desk officers to define the following key terms as they apply to the proviso: “commitment,” “quantities,” “major defense equipment,” “conventional ammunition,” and “previously justified.”

For three of the five terms—“commitment,” “quantities,” and “major defense equipment”—there is a common understanding within DSAA. For the purposes of the proviso, “commitment” on the part of the U.S. government occurs when DSAA countersigns the letter of offer and acceptance. “Quantities” refers to the number of items DSAA expects the country will purchase; it does not refer to the dollar value. All MDE is listed in the Security Assistance Management Manual.³ DSAA’s management division maintains the MDE list.

On the other hand, DSAA management and country desk officers do not have a common definition of the terms “conventional ammunition” and “previously justified” as they apply to the proviso. This can lead to confusion within DSAA as to whether a notification is required.

Some country desk officers stated that conventional ammunition is anything listed on the MDE list under “Category III -Ammunition.” This category covers cartridges and projectiles. Most of the persons we interviewed, however, described conventional ammunition in less specific terms, such as anything nonnuclear or nonchemical, unguided weapons, and bullets. They did not agree as to whether cluster bomb units and general purpose bombs would qualify as conventional ammunition. The Deputy Director, DSAA, said that cluster bombs are not conventional ammunition. On the other hand, the Director of Plans, DSAA, who helped formulate the proviso, stated that cluster bombs are conventional ammunition. We found that one country desk officer did not report general purpose bombs on the basis that they are conventional ammunition. If DSAA had defined conventional ammunition as those items under Category III on the MDE list, country desk officers would have been required under the proviso to report the bombs.

According to DSAA management, an item is considered previously justified only if it is listed in the current CPD annex. However, some country desk officers consider items to have been justified if they were listed in

³The Security Assistance Management Manual establishes the policies and procedures required to carry out the management of security assistance in accordance with the foreign assistance legislation.

other reports—such as the Javits report.⁴ One country desk officer stated that an item has been previously justified if DSAA reported it as part of a special provision that Congress legislated. For example, in fiscal year 1989, there were special reporting requirements for Somalia, Sudan, Uganda, and Central America. We did not find any examples of items that were not reported as a result of these interpretations.

We briefed DSAA management on the need to better define these terms. On March 23, 1990, DSAA issued revised guidelines and procedures for compliance with the notification requirements. Included in the revised guideline were specific definitions of the above terms.

DSAA Reporting of MDE-Comparable and Sensitive Items

In March 1989, the House Appropriations Subcommittee on Foreign Operations expressed concern that DSAA had not issued a program content notification informing the Subcommittee that Egypt was seeking FMS financing for a Gulfstream IV executive jet. It was the Subcommittee's understanding that the jet should have been reported under the first proviso of section 523. Subsequently, the Senate Appropriations Subcommittee on Foreign Operations expressed similar concerns. DSAA, on the other hand, argued that it was not required to report the Gulfstream aircraft, since it was not MDE according to the definition in the Arms Export Control Act.

In response to concerns about the aircraft, DSAA management issued a notification for the jet and, in March 1989, agreed with the Subcommittee that in the future DSAA would notify the Subcommittees of MDE-comparable and sensitive items. Under this agreement, DSAA then notified the Subcommittees that Egypt was seeking FMS financing to modify three Boeing aircraft to KC-135 air refueling tankers.

In addition, DSAA revised its guidelines for compliance with notification requirements to include instructions on reporting items meeting the new criteria. In the guidelines, DSAA describes MDE-comparable items as those that have a cost and function comparable to MDE. The guidance for reporting sensitive items states that if DSAA personnel in the Operations Directorate are "aware of any Congressional sensitivity toward a particular program or commodity," the DSAA director, on the advice of DSAA's management division, will determine whether the item should be

⁴Section 25(a)(1) of the Arms Export Control Act requires the President to report all sales and licensed commercial exports of major weapons or weapons-related equipment that meet certain dollar thresholds. This report is known as the Javits report.

reported. The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990, P.L. 101-167 defines other major defense items (MDE-comparable) as "aircraft, ships, missiles, or combat vehicles." While this language provides a more specific definition of MDE-comparable items, neither Congress nor DSAA has further defined sensitive items.

Despite the lack of clear definitions for MDE-comparable and sensitive items, DSAA has reported items identified as fitting the new criteria. In fiscal year 1989, the first year DSAA reported under the new criteria, DSAA issued 24 notices for non-MDE items; 20 of these involved the countries we reviewed. When issuing the notifications, DSAA does not distinguish between MDE-comparable and sensitive items.

Table I.3 identifies the number of notifications filed in fiscal year 1989 for MDE-comparable and sensitive items for the countries we reviewed.

Table I.3: Program Content Notifications of MDE-Comparable and Sensitive Items
(Fiscal Year 1989)

Country	Number of notices
Colombia	0
Egypt	4
El Salvador	4
Greece	3
Israel	4
Liberia	0
Pakistan	2
Philippines	1
Portugal	0
Thailand	2
Turkey	0
Zaire	0
Total	20

Among the items DSAA reported were squad automatic weapons, M-60 machine guns, and an airborne communications intelligence system. For a full listing of MDE-comparable and sensitive items DSAA reported in fiscal year 1989 for the 12 countries, see appendix III.

Overall Problems in Implementing the New Criteria

While DSAA is reporting items meeting the new criteria, country desk officers said that the terms "MDE-comparable" and "sensitive" are too vague. Some country desk officers suggested that DSAA management, in consultation with the Appropriations Committees, should devise a list that would detail the MDE-comparable and sensitive items that the Committees want reported. As previously noted, the fiscal year 1990 appropriations act will help DSAA to identify MDE-comparable items, but it does not address sensitive items.

Implementation Problems With the Israeli Program

The Israeli program presents DSAA a greater obstacle to reporting MDE-comparable and sensitive items. In addition to the lack of clear definitions for these items, the unusual way DSAA administers the Israeli program and staffing limitations complicate full implementation of the agreement to report MDE-comparable and sensitive items. The lower the value of the contract or purchase order, the less DSAA scrutinizes the sale, if it does so at all. It is therefore more difficult for DSAA to identify low value MDE-comparable and sensitive items.

As noted previously, commercial purchases over \$500,000 receive prior approval in DSAA and purchases between \$50,000 and \$500,000 receive subsequent review for contractual and FMS financing requirements. At the time of our review, the Israeli desk officer was not looking for MDE-comparable and sensitive items on contracts and purchase orders in this latter category (between \$50,000 and \$500,000). The desk officer explained that he does not have sufficient time to check for these items. Of the 1,777 purchase orders that the country desk officer reviewed in fiscal year 1989, 1,532, or 86 percent, were in the \$50,000 to \$500,000 category.

In fiscal year 1989, Israel processed another 15,225 purchase orders for items below \$50,000 that DSAA did not review for any reason. Since DSAA does not review these low-dollar items and has not asked Israel to identify MDE-comparable and sensitive items, it may be overlooking items that should be reported. Machine guns and riot gas guns are examples of MDE-comparable and sensitive items that can be purchased for less than \$50,000.

DSAA is most apt to report MDE-comparable items valued at more than \$500,000 because it scrutinizes these purchases more carefully than those of lower value. Of course, MDE (and thus MDE-comparable items) usually cost more than \$500,000 or are purchased in large enough quantities that they reach this threshold. In fiscal year 1989, 245 purchase

orders were above \$500,000. DSAA filed four notifications for Israeli purchases of MDE-comparable and sensitive items—Beech King aircraft, tank engines, an airborne communications system, and a sensor for an electronic intelligence system. The value of these purchases ranged from \$2.8 million to \$16 million.

To determine the extent to which additional notifications might have been warranted, we reviewed 889 contracts and purchase orders from a list provided to us by the Israelis for items purchased between April 1 and July 31, 1989. We identified only one purchase that qualified as MDE-comparable and/or sensitive but was not listed in the CPD annex or reported under the March 1989 agreement. The DSAA country desk officer stated that this \$470,400 purchase of tear gas cartridges was not reported because the Congress was already aware that the Israeli government had and used tear gas.

DSAA would have difficulties identifying MDE-comparable and sensitive items, since purchase orders and contracts sometimes contain code words—such as “Delilah”—which do not disclose what the item is. While the purchase orders usually have some additional information, not all clearly describe the item’s function. To determine the function, the desk officer would have to consult with the Israeli Purchasing Mission, DSAA personnel, the military services, and the manufacturer. This time-consuming process would be an obstacle to DSAA’s implementation of the new criteria.

DSAA would need more staff if it were to review all Israeli commercial sales. In fiscal year 1989, one desk officer reviewed 1,777 purchase orders and contracts (only 245 were reviewed for the reporting requirement). If DSAA had reviewed all commercial sales, regardless of value, in fiscal year 1989, DSAA would have needed enough staff to review 15,225 additional purchase orders plus the 1,532 orders the desk officer did not review to meet the reporting requirement. DSAA officials estimate that if they were to review all Israeli commercial purchases, they would require an additional five to seven people. They estimate that this requirement would decrease to two or three people if, like all other foreign governments, the Israelis could make commercial purchases only if they exceed \$100,000.

Reporting of Aircraft and Other Vehicles for High-Level Officials

In March 1989, DSAA and the House Appropriations Subcommittee on Foreign Operations disagreed over whether DSAA should have filed a program content notification on the sale of a Gulfstream IV executive jet. Subsequently, DSAA agreed to report MDE-comparable and sensitive items and, on March 2, 1989, sent the Subcommittee a notification for the jet. In two other cases, DSAA approved FMS financing for transport items—five Beech King aircraft for Israel and an armored Ford car for Honduras—that may be used for high-level foreign officials. Israel designated the Beech King aircraft for military purposes, but it could also use the aircraft as executive jets. The armored car is for the protection of the commander-in-chief of the Honduran military. In both cases, DSAA notified the Subcommittee of the proposed sale, waited 15 days as required by the proviso, and then approved FMS financing for the aircraft and car.

MDE Reported to Congress Under Section 523

Country	Fiscal Year	
	1988	1989
Egypt	Electronic countermeasure pods	Artillery locating radar
	Guided bomb units	C-130H aircraft
	LANTIRN targeting pods	Hawk missiles
	Maverick missiles	Machine guns
	Pathfinder navigation pods	Radio sets
	TOW-2 launchers	
El Salvador	Light antitank weapons	Light antitank weapons
	UH-1 helicopters	UH-1 helicopters
		Rockets, 2.75 inch
Greece	Machine guns	Howitzers
	New frigate weapons suites	Light antitank weapons
		Tank engines
Israel	F-15 aircraft	Guided bomb units
	LANTIRN targeting pods	Standard Arm missiles
Pakistan	TOW-2 launchers and missiles	
	Howitzers	
Philippines	Machine guns	
Portugal	Radio sets	Aircraft engines
Thailand	Harpoon missiles	
		Night vision goggles
		Turbine engines
Turkey	TOW-2 launchers and missiles	
	Harpoon launcher system	Torpedoes
	Radio sets	UH-1H helicopter
	TOW-2 launchers and missiles	frames and engines

Note: DSAA did not issue any program content notifications for Colombia, Liberia, and Zaire.

MDE-Comparable and Sensitive Items Reported to Congress (Fiscal Year 1989)

Country	Item reported
Egypt	Artillery target locating vehicles
	Boeing B-707s modified to KC-135s
	Gulfstream IV aircraft
	Launch recovery vehicles
	Remotely piloted vehicles
El Salvador	Colt commando carbines
	Grenade launchers
	M-60 machine guns
	M-9 pistols
	Squad automatic weapons
Greece	Night vision devices
	Night vision drivers' viewers
	Radio sets
Israel	Airborne communications intelligence system
	Beech King aircraft
	Sensor for electronic intelligence system
	Tank engines
Pakistan	Engine upgrade kits
	TOW-2 night sights
Philippines	Nonstandard armament systems for helicopters, including machine gun pods, rocket launcher pods, and control systems
Thailand	M-260 rocket launchers
	M-60 machine guns

Note: DSAA did not issue any program content notifications for Colombia, Liberia, Portugal, Turkey, and Zaire.

Objectives, Scope, and Methodology

The Chairman of the House Appropriations Subcommittee on Foreign Operations, Export Financing, and Related Programs requested that we review DSAA's implementation of and compliance with the program content notification requirement established in the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988, P.L. 100-202. Specifically, the Chairman requested that we (1) determine if DSAA had reported all MDE that should have been reported, (2) review DSAA's implementation of the March 1989 agreement to report MDE-comparable and sensitive items, and (3) determine whether DSAA has approved FMS financing for any aircraft for a foreign head of state.

We reviewed DSAA's implementation of the proviso for the following 12 countries: Colombia, Egypt, El Salvador, Greece, Israel, Liberia, Pakistan, the Philippines, Portugal, Thailand, Turkey, and Zaire. These countries accounted for more than \$4.7 billion, or 94 per cent, of the \$5 billion of total FMS funds requested for fiscal year 1990. The funds requested for Israel (\$1.8 billion) and Egypt (\$1.3 billion) account for 62 percent of the total program. In addition to reviewing the recipients of the largest amounts, we also chose to review countries that would provide a regional balance.

For every country, we reviewed DSAA's list of FMS cases for which DSAA signed a letter of offer and acceptance between January 1, 1988 and July 1, 1989, and the list of commercial sales (except those for Israel) for which the purchase order or contract was completed in the same time period. Since DSAA does not maintain a list of commercial sales for Israel, we obtained a computer list from the Israeli Purchasing Mission in New York to cover the same time period. To determine whether DSAA was reporting all MDE items as required by law, we identified MDE items on the computer lists and checked to see if DSAA reported the items in either the CPD annex or in a program content notification. If DSAA reported an item in the annex but the quantity purchased exceeded the amount listed in the annex by 20 percent or more, we checked to see if DSAA had filed a notification.

We verified the accuracy of the data for 25 percent of the MDE sales on the DSAA lists by checking the data on the list against the actual letter of offer and acceptance. We selected cases on a judgmental basis.

The Israeli list was made up of commercial contracts and purchase orders valued at \$10,000 and above, with one-line descriptions of each sale. We reviewed the approximately 4,000 contracts and purchase orders valued at more than \$25,000. Of these, we selected over

250 purchase orders for which the descriptions did not clearly identify the item or the purpose of the item and interviewed officials at the Purchasing Mission for details on these contracts and purchase orders.

We verified the accuracy of the Israeli computer list by reviewing contracts and purchase orders for 25 percent of those cases that we had questions about concerning the descriptions. We selected cases on a judgmental basis.

To resolve any questions on policy and specific sales, we interviewed DSAA management and the country desk officers.

To determine the effect of the agreement to report MDE-comparable and sensitive items, we followed the same steps as those for MDE items. Using the DSAA list, we reviewed FMS sales for which DSAA signed a letter of offer and acceptance between April 1, 1989, and July 1, 1989. Using DSAA's and Israel's lists, we reviewed commercial sales for which the purchase order or contract had been completed during the same time period. We also reviewed notifications filed in fiscal year 1989 to determine the extent to which DSAA had reported items meeting the new criteria.

To determine if DSAA had approved FMS financing for contracts for any other aircraft or other vehicles for high-level foreign officials since enactment of the proviso, we reviewed all notifications and the sales between January 1, 1988, and July 1, 1989, for the 12 countries we selected.

We conducted our review between March and October 1989 in accordance with generally accepted government auditing standards.

Comments From the Department of Defense



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

02 APR 1990

In reply refer to:
I-033104/90

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DOD) response to the General Accounting Office (GAO) draft report, "SECURITY ASSISTANCE: Reporting of Program Content Changes," dated March 15, 1990 (GAO code 463778/OSD case 8013-A).

The DOD has reviewed the report and concurs without further comment. (Suggested technical changes were provided separately to your staff.) The Department appreciates the opportunity to review the report in draft form.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn A. Rudd", is written above the typed name.

GLENN A. RUDD
ACTING DIRECTOR

Major Contributors to This Report

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