

June 2008

# COMBATING TERRORISM

## Increased Oversight and Accountability Needed over Pakistan Reimbursement Claims for Coalition Support Funds



G A O

Accountability \* Integrity \* Reliability

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Highlights of [GAO-08-806](#), a report to congressional requesters

## 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 to 27 coalition partners for costs incurred in direct support of U.S. military operations. Pakistan is the largest recipient of CSF, receiving 81 percent of CSF reimbursements as of May 2008.

This report 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. To address these objectives, GAO reviewed CSF oversight procedures, examined CSF documents, and interviewed Defense officials in Washington, D.C., U.S. Central Command in Florida, and Pakistan.

## 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 Defense's broad legal authority to disperse funds. This report does recognize Pakistan's contributions and Defense's legal authority.

To view the full product, including the scope and methodology, click on [GAO-08-806](#). For more information, contact Charles Michael Johnson Jr. at (202) 512-7331 or [johnsoncm@gao.gov](mailto:johnsoncm@gao.gov).

# COMBATING TERRORISM

## Increased Oversight and Accountability Needed over 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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## Abbreviations

|             |  |
|-------------|--|
| CENTCOM     | U.S. Central Command                                     |
| Comptroller | Office of the Under Secretary of Defense for Comptroller |
| CSF         | Coalition Support Funds                                  |
| Defense     | Department of Defense                                    |
| FATA        | Federally Administered Tribal Areas                      |
| IMF         | International Monetary Fund                              |
| ODRP        | Office of the Defense Representative to Pakistan         |

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United States Government Accountability Office  
Washington, DC 20548

June 24, 2008

#### Congressional Requesters

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. These reimbursements, known as Coalition Support Funds (CSF), have reimbursed 27 coalition allies for 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, receiving \$5.56 billion of \$6.88 billion (81 percent) of all CSF reimbursements as of May 2008. CSF is structured as a reimbursement mechanism whereby the U.S. Department of Defense (Defense) policy is to validate that support was provided, costs were incurred, and that these costs were incremental to a country's normal military operations.<sup>1</sup> In Pakistan, most of the reimbursements through CSF are intended to enable the government of Pakistan to attack terrorist networks in the Federally Administered Tribal Areas (FATA) and stabilize the border areas.<sup>2</sup> Congress granted the Secretary of Defense the authority to make CSF payments "in such amounts as the Secretary may determine in [his] discretion, based on documentation determined by the Secretary of Defense to adequately account for the support provided."<sup>3</sup> Any such determination by the Secretary shall be final and conclusive. Despite this broad authority, concerns have been raised, given the large amounts of

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<sup>1</sup>CSF has funded a broad range of Pakistani military operations, including navy support for maritime patrols and interdiction operations; air force support for combat air patrol, reconnaissance and close air support missions, airlift support, and air traffic control; army military operations in the FATA; and increased management requirements at the Pakistan Joint Staff Headquarters.

<sup>2</sup>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 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.

<sup>3</sup>Reimbursements are made only after the Office of Management and Budget is consulted, the Secretary of State concurs and the 15 day notification to the appropriate congressional committees has taken place.

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CSF reimbursement payments to Pakistan, about the level of accountability and oversight over these funds.

This report 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 Defense Representative to Pakistan's (ODRP) role has changed over time.

To address our objectives, we obtained information on CSF procedures from relevant officials at the Office of the Under Secretary of Defense for Comptroller (Comptroller), the Office of the Under Secretary of Defense for Policy, U.S. Central Command (CENTCOM), ODRP, and the State Department's Bureau of Political-Military Affairs. We also examined all CSF oversight documentation provided to us, including Pakistani government reimbursement claims, 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 noted above from January 2004 through February 2008. We chose this time frame because a previous Defense Inspector General report had already examined the pre-January 2004 CSF oversight controls and made recommendations to improve oversight.<sup>4</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 FATA, to discuss operations being reimbursed with CSF funds with the U.S. consulate and Pakistan's 11th Army Corps and Frontier Corps.

This is the fourth in a series of products we plan to release assessing various aspects of the U.S. engagement with Pakistan to combat

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<sup>4</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.

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terrorism.<sup>5</sup> We plan to issue a fifth product that assesses the U.S. security, political, and development assistance activities used to meet U.S. strategic goals in Pakistan, as well as the progress of these efforts.

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. (See app. I for details on our scope and methodology.)

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## Results in Brief

We found that Defense did not consistently apply its existing CSF oversight guidance and that 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 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 services, for a large number of claims Defense did not obtain sufficient documentation from Pakistan to verify that claimed costs were incremental,<sup>6</sup> actually incurred, or correctly 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

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<sup>5</sup>See GAO, *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); *Preliminary Observations on the Use and Oversight of U.S. Coalition Support Funds Provided to Pakistan*, [GAO-08-735R](#) (Washington, D.C.: May 6, 2008); and *Combating Terrorism: U.S. Efforts to Address the Terrorist Threat in Pakistan's Federally Administered Tribal Areas Require a Comprehensive Plan and Continued Oversight*, [GAO-08-820T](#) (Washington, D.C.: May 20, 2008).

<sup>6</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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information that would enable a third party to recalculate these costs.<sup>7</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>8</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 that 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 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

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<sup>7</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>8</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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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, we are recommending 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.

Defense provided written comments on the report, which are reproduced in appendix II. We also met with cognizant officials from Defense to discuss their comments and observations. Defense provided technical comments and updates which we incorporated throughout the report, as appropriate.

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 reflect Pakistan's contributions and the role of CSF, and states that Congress gave Defense broad authority to make CSF payments. Regarding Pakistan's accountability standards, we acknowledge that there are limitations in any arrangement with another sovereign nation, but note that Pakistan provided more detailed documentation to support their claims after a request from the Comptroller in 2006.

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## Background

In late 2001, as the United States focused on toppling the Taliban regime and fighting al Qaeda in Afghanistan, Pakistan's importance as an ally in the global war on terror increased. According to Defense, Pakistan's military operations and other contributions to Operation Enduring Freedom in Afghanistan quickly threatened to become unsustainable on its \$2.5 billion defense budget. As a result, Defense requested supplemental funding from Congress to provide payments to Pakistan for logistical and military support in connection with Operation Enduring Freedom. In response, 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 for logistical and military support to U.S. military operations.<sup>9</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, which granted 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>10</sup> Any such determination by the Secretary shall be final and conclusive. The act did, however, require Defense to provide a 15-day notification of upcoming CSF reimbursements. Congress continued to provide funding for Pakistan through Defense without requiring specific accountability controls until 2008.<sup>11</sup> Subsequent legislation required Defense to provide quarterly reports to the 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. Despite these revisions to the reporting requirements, Congress has consistently left decision-making on the suitability of documentation to the discretion of the Secretary of Defense.

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<sup>9</sup>Pub. L. 107-117, sec 301, January 10, 2002.

<sup>10</sup>Pub. L. 107-206, Operation and Maintenance, Defense-Wide, August 2, 2002.

<sup>11</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.

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Defense, on its own, has instituted guidance that goes beyond what is mandated in law.

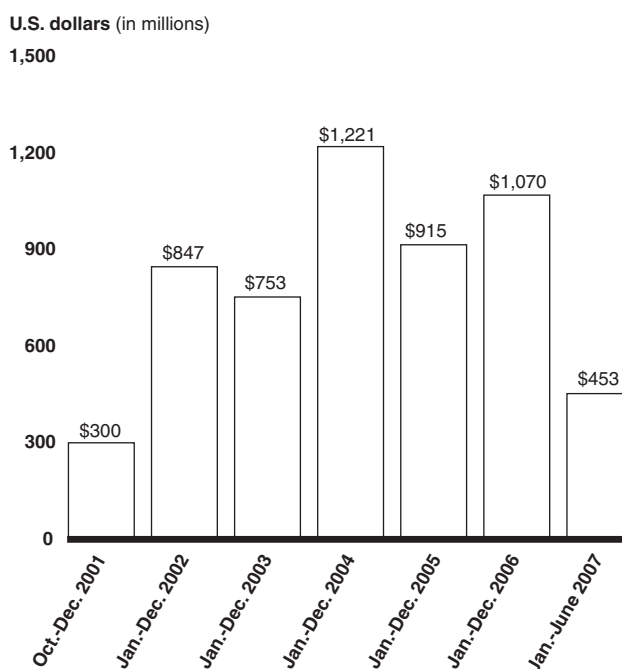
According to Defense, CSF is critical to ensure Pakistan's continued support of U.S. efforts to combat terrorism. Defense officials stated that without CSF or a similar mechanism to reimburse Pakistan for support in Operation Enduring Freedom, Pakistan could not afford to deploy military forces along the Pakistan-Afghanistan border to support U.S. military operations in Afghanistan. Defense also indicates that 84 percent of all containerized cargo and approximately 40 percent of all fuel for U.S. and coalition forces operating in Afghanistan passes through Pakistan. According to Defense officials, CSF has been a major factor in Pakistan's ongoing cooperation in support of U.S. goals in Pakistan and Afghanistan.

Defense has used CSF to reimburse Pakistan for Operation Al Mizan, a major deployment of the Pakistan army in the North West Frontier Province and the Federally Administered Tribal Areas (FATA) that border Afghanistan that began in 2001 and has continued in various phases to this date.<sup>12</sup> Defense also states that CSF payments to Pakistan have played a key role in supporting U.S. national security goals in Pakistan to combat terrorists that threaten U.S. interests in America, Pakistan, Afghanistan, and Western Europe. The CSF reimbursements to Pakistan from October 2001 through June 2007 (the latest period of support reimbursed by Defense) are shown in figure 1.

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<sup>12</sup>The goal of this operation was to combat al Qaeda, Taliban, and other militants attempting to escape the U.S. invasion of Afghanistan by fleeing into Pakistan. According to Defense, Pakistan has deployed about 120,000 army and paramilitary troops in support of this operation, incurred more than 1,400 casualties, and killed hundreds of al Qaeda, Taliban, and other terrorists.

**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 the months March 2007 through June 2007.

## Evolution of the CSF Oversight Process

In a February 2002 internal memo, the Comptroller expressed dissatisfaction with Defense's ability to verify the costs claimed in Pakistan's December 2001<sup>13</sup> reimbursement claim. The Comptroller noted that the reimbursement claim contained total costs but no supporting details. For example, the claim reported a total cost for army airlift without providing information on number of sorties flown, the dates, costs, time frames, purpose, number or types of aircraft flown, or number of man-hours involved. According to the February 2002 memo, the government of Pakistan was unprepared or unable to reconstruct these costs in a verifiable manner in line with standard U.S. government accounting practices and expectations. Staff at CENTCOM in Tampa, Florida, and at ODRP in the embassy were unable to fill in such details.

<sup>13</sup>This reimbursement claim received by Defense in December 2001 covered activity from October through December 2001.

Despite this concern, the Defense Office of General Counsel concluded, based on the statutory authority provided to the Secretary of Defense, that the Secretary of Defense could legally reimburse all of the cost categories identified by the Comptroller as legally defensible. The United States eventually reimbursed Pakistan \$300 million.

In 2003, at the request of the Comptroller, the Defense Inspector General performed an audit of the CSF oversight process for all countries seeking CSF reimbursements. The report found deficiencies in both Defense’s CSF guidance, as well as the supporting documentation CSF recipients provided 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 CENTCOM and other regional combatant commanders and of the Comptroller in the CSF oversight 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 required 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 Pakistani military support had been provided and that costs were incurred, reasonable, and appropriate under the CSF program. Table 1 summarizes the review criteria in the December 2003 Comptroller guidance. We address the implementation of these and other criteria in greater detail later in this report.

**Table 1: December 2003 CSF Guidance for Embassies, Combatant Commanders, and the Comptroller**

| Office responsibility   | Guidance   |
|---|--|
| Defense personnel (such as ODRP) at embassies assist host country military personnel in formulating their claims for reimbursement before forwarding the claims to their combatant commander. | <ul style="list-style-type: none"><li>• CSF reimburses countries that have incurred incremental costs (i.e., above and beyond normal levels) to provide logistical and military support to U.S. military operations in connection with U.S. operations in Iraq, Afghanistan, and elsewhere in the global war on terrorism.</li><li>• Examples of reimbursable costs: transport of forces, sustainment of forces, increased use of equipment or vehicles.</li><li>• Requests for reimbursement must contain quantifiable information that clearly indicates incremental nature of support, such as total personnel fed, number and types of vehicles repaired, total fuel consumed, total number of flight sorties.</li></ul> |

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| Office responsibility   | Guidance  |
|---|---|
| Combatant commanders (such as CENTCOM) must submit documentation to the Comptroller that sufficiently supports the country's reimbursement request. | <ul style="list-style-type: none"><li>• Identification of who requested the service, for what period of time (i.e., a one-time reimbursement requirement versus a recurring requirement), and the initial estimate of the cost of the support or service.</li><li>• Validation that the support or service was provided, and confirmation that the costs incurred were incremental (i.e., that the costs were based on the U.S. requirement and would not otherwise have been incurred by the country requesting reimbursement).</li><li>• A narrative description of the types of costs incurred and a description of how the costs for each were computed.</li><li>• Copies of invoices for support provided, or in the absence of invoices, documentation supporting how the costs were derived for each category of cost, and their basis of measurement.</li></ul> |
| Comptroller receives the package from CENTCOM and evaluates the reasonableness of the reimbursement request.  | <ul style="list-style-type: none"><li>• Comparison, at a macro level, of claimed costs to the U.S. cost to provide the same support.</li><li>• Evaluation of the reasonableness of the individual categories for which reimbursement is requested.</li><li>• Comparison of representative U.S. costs for a subset of items (where similar comparisons can be made).</li><li>• Assessment that the claimed costs are consistent with previous reimbursement requests.</li></ul>  |

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Source: Defense.

Under the December 2003 guidance and oversight process, Pakistan would first submit its claim for reimbursement to ODRP at the U.S. Embassy in Islamabad. According to Comptroller guidance, ODRP would assist the Pakistani military in formulating the reimbursement claim before sending the claim 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. The Department of State and the Under Secretary of Defense for Policy must each verify that the CSF reimbursement is consistent with the U.S. government's national security policy and does not adversely affect the balance of power in the region. In addition, Defense is required to consult with the Director of the Office of Management and Budget during the CSF process. Defense is also required to provide a 15-day notification of the upcoming reimbursement, as well as quarterly reports to the House and Senate Committees on Appropriations

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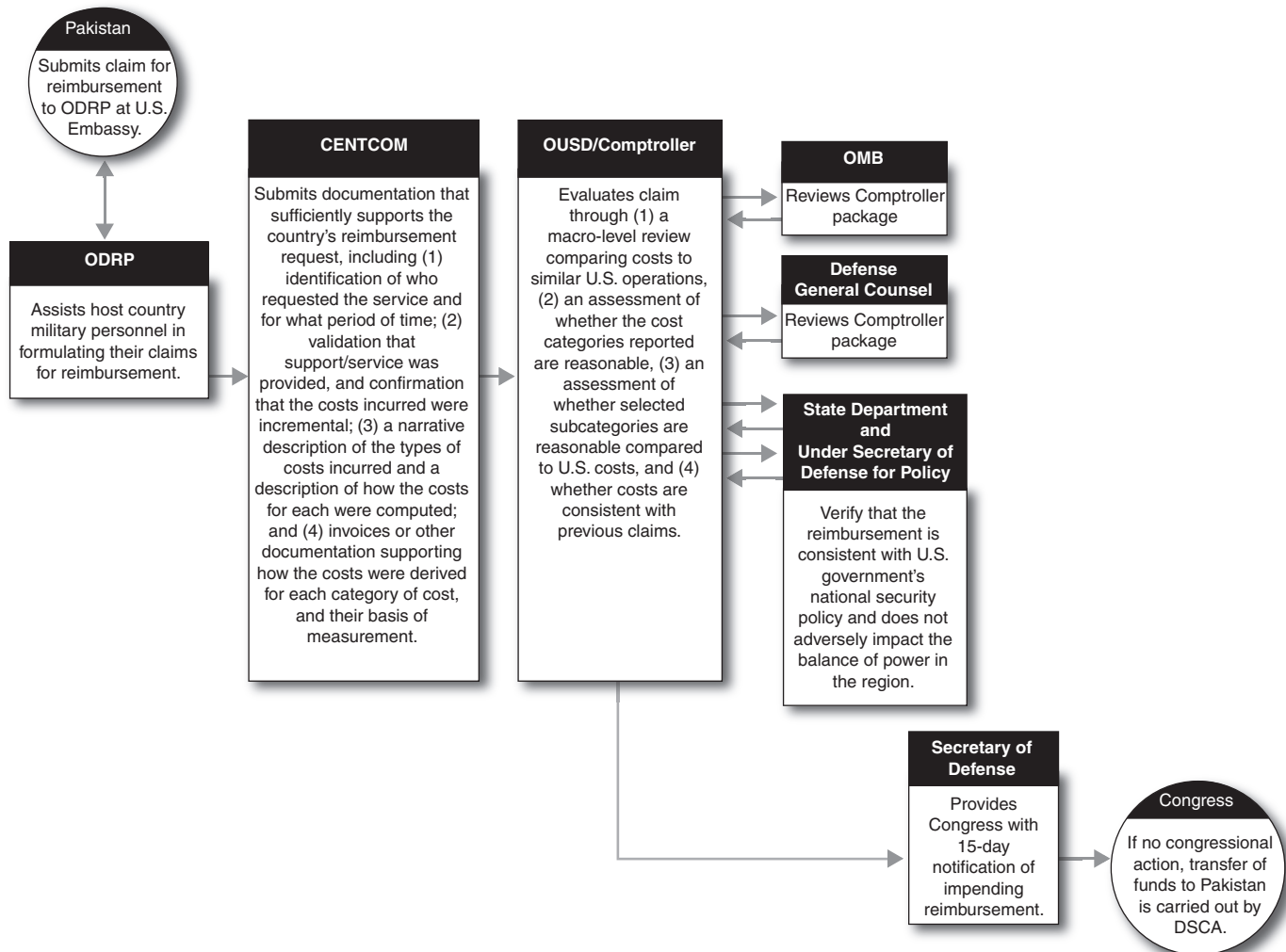
and the House and Senate Armed Services Committees on the use of funds made available for payments to Pakistan and other CSF recipients. Congress passed the National Defense Authorization Act for Fiscal Year 2008, which now requires Defense to submit an itemized description of logistic support, supplies, and services “provided by Pakistan to the United States for which the United States provided reimbursement” during the period beginning February 1, 2008 and ending September 30, 2009.<sup>14</sup> The CSF process is detailed in figure 2.

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<sup>14</sup>Pub. L. 110-181, sec 1232(b).



**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 required to support Pakistan's reimbursement claims. Furthermore,

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according to Defense, the Office of the Under Secretary of Defense for Policy emphasized the importance of enhancing transparency within Pakistan's CSF claims in a June 2007 letter to the Pakistan Ministry of Defense.

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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>15</sup> We reviewed the Pakistani claims for January 2004 through June 2007, as well as related CENTCOM and Comptroller memos, to determine if DOD had consistently applied the Comptroller criteria issued in December 2003. The memos prepared by the Comptroller generally included the four macro-level analytical reviews outlined in the criteria; however, implementation of these criteria was not sufficient to validate claimed costs. For example, the Comptroller generally performed a comparison of total claimed costs to the estimated U.S. cost to provide the same services; however, there was not enough information in the Pakistani claims to determine that the claimed amount and the estimated U.S. cost included the same expenses or that the claimed costs were valid. Defense guidance developed by the Comptroller 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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<sup>15</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.

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

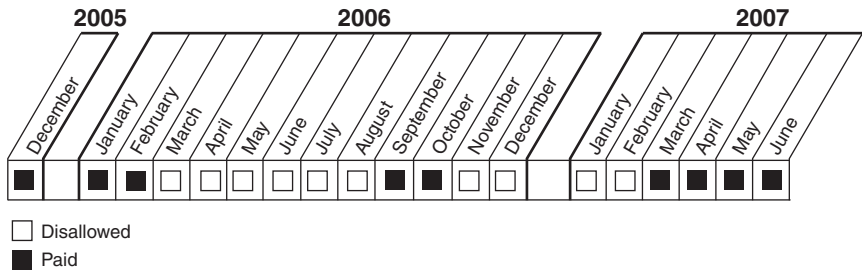
The Comptroller's CSF guidance states that Pakistani claims should include associated invoices. In the absence of such support, CENTCOM officials should obtain from Pakistan a detailed description of how these costs were computed. For example, claims for fuel should include information such as total fuel consumed, the number and types of vehicles supported, and best available assessments of the number of miles driven or hours employed. However, we found that few of the Pakistani claims we reviewed met the criteria contained in the Comptroller's guidance. For example, 76 percent of the army's costs from January 2004 through June 2007 lacked sufficient information to allow Defense to perform basic recalculations needed to verify the claims, such as quantity times price.<sup>16</sup> Despite the lack of documentation, Defense reimbursed Pakistan more than \$2.2 billion. 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 the Comptroller's office, they indicated that the Pakistani claims do not provide enough detail to explain the context of the costs, which makes it difficult to determine whether the costs are incremental (i.e., that claimed costs are above and beyond the partner country's normal operating costs) and, therefore, whether under the Comptroller's guidance the costs should be reimbursed.

We found other examples where Defense officials did not obtain sufficient information necessary to validate the claims and did not adequately document the basis for their decisions to allow or disallow claims. As a result, there were 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 support the Pakistani government provided for the claims.

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<sup>16</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. Payments made to the Pakistani army constituted over 85 percent of total payments made to Pakistan from January 2004 through June 2007.

**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 identified additional inconsistently reimbursed costs that contained no discernable differences in the level of support. For example, the Comptroller generally disallowed Pakistani army claims for bulletproof jackets but occasionally paid them. Conversely, the Comptroller generally paid for army telephone cables but occasionally disallowed these costs. Without better support for the rationale behind disallowed costs, we could not determine if these costs were reimbursed consistent with the Comptroller’s guidance. According to Defense officials, payments were made based on informed judgment, however they could not provide documentation to support each instance.

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. However, we found that the Pakistani claims did not provide such information, which led to differences among Defense officials as to whether the claims should be disallowed or deferred until Pakistan could provide additional support.

Defense paid Pakistan \$200 million in radar expenses from January 2004 through February 2007. For the March through June 2007 claims, ODRP recommended the Comptroller disallow the costs, reasoning that this was not an incremental expense, as terrorists in the FATA did not have air attack capability. However, 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 (i.e., to patrol, monitor, and provide air traffic control) and provide air traffic control for U.S.

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

military support flights into Afghanistan. The Comptroller nonetheless agreed that the claims lacked sufficient detail to determine whether these charges were definitively incremental. In the March through June 2007 claim package, the Comptroller chose to defer the air defense radar costs until Pakistan could provide better justification for the charges.

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 reviewed as part of our audit did not provide sufficient support that all claimed costs were based on actual activity or expenses. For example, Defense paid more than \$30 million for army road construction<sup>17</sup> and over \$15 million for army bunker construction<sup>18</sup> without adequate support. Defense paid these costs despite a CENTCOM recommendation to disallow the claims for road construction in September and October 2006 due to insufficient documentation. For the most recent claims processed in February 2008, covering the months March 2007 through June 2007, concerns about the validity of these charges led ODRP to request that the Pakistani military provide the coordinates of the roads and bunkers built. As of June 2008, Pakistan had not provided this additional information, and Defense has not paid these costs.

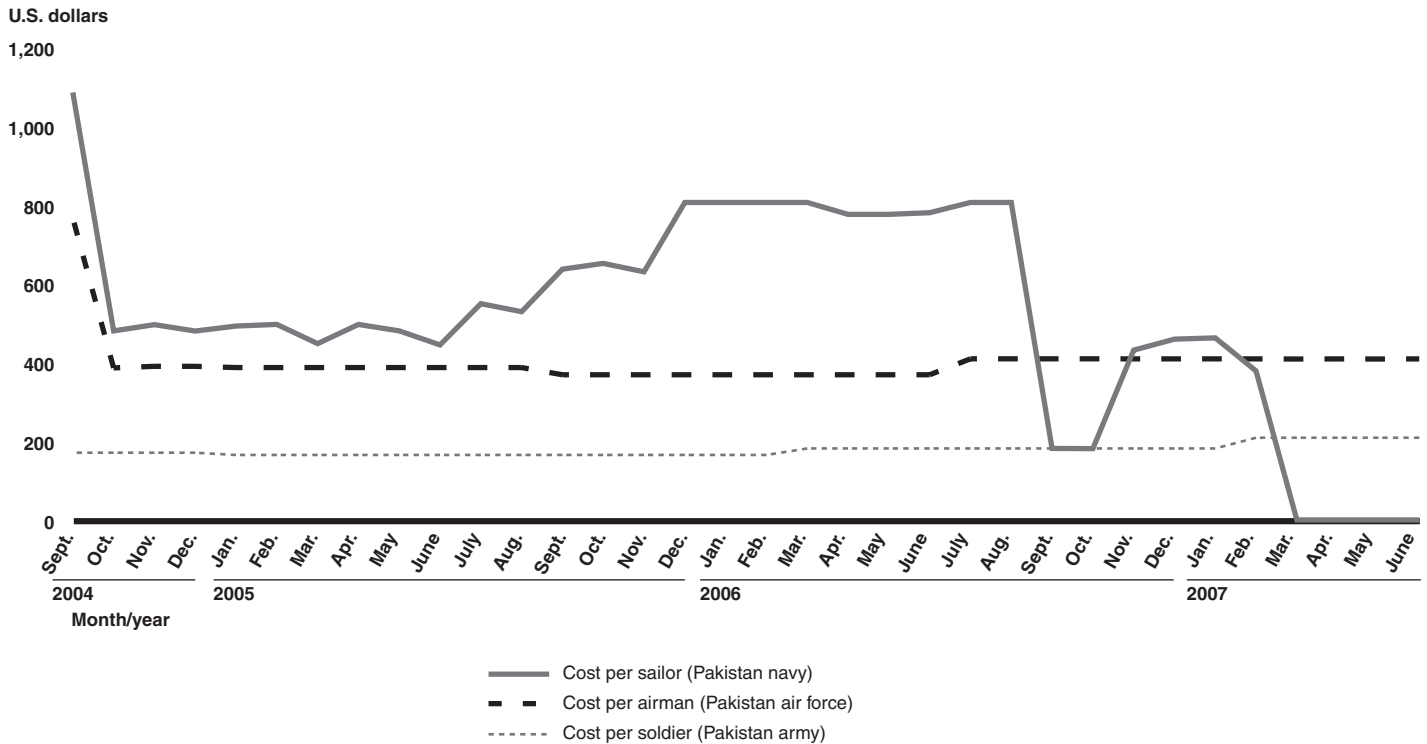
We also found large unexplained differences between the average costs of food per person for each force, as shown in figure 4.

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<sup>17</sup> Army road construction costs were included as a specific line item beginning in September 2004. These costs were claimed and paid each month from September 2004 through February 2007.

<sup>18</sup> Army bunker construction costs were included as a specific line item 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 figure 4 shows, navy monthly food costs per person were generally higher than monthly air force and army food costs per person. Navy claims for food rapidly increased from approximately \$445 per sailor in June 2005 to \$800 per sailor in December 2005, while air force and army food costs per person remained stable. Despite these anomalies, the Comptroller continued to pay the navy \$800 per sailor for food until September 2006, when the Comptroller partially disallowed these costs, reducing the cost of navy food to the same amount as that paid for the army (approximately \$200 per person). In November 2006, Defense approved navy food cost at approximately the same level as that paid for the air force (approximately \$400 per person). However, the Comptroller deferred all navy food costs for the March through June 2007 claim period (processed in February 2008), pending receipt of additional justification from Pakistan.

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## Defense Paid Costs That Were Potentially Duplicative

In addition, we found that Defense paid the Pakistani navy more than \$1.5 million in possibly inflated costs for damage to navy vehicles. On average, Defense paid the Pakistani navy more than \$5,700 per vehicle per month in damages, in comparison with the army's average claim of less than \$100 per vehicle per month.<sup>19</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 calls for CENTCOM to ensure that costs are not counted twice; however, none of the CENTCOM memos we reviewed provided 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 there is no detail 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. This claim also included the categories "cost of fuel for vehicles" and "average cost of running of vehicle deployment on operation," which could also contain duplicate charges. The detail provided within these categories was insufficient to determine the difference between these costs, and therefore they could contain duplicate charges. 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>20</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.

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## Opportunities Exist to Improve CSF Oversight Controls

We found deficiencies in the Comptroller's guidance concerning historical comparison of claimed costs and verification of currency conversions. Specifically, we found that while Comptroller guidance calls for a historical comparison of claimed costs, it does not indicate how this comparison should be performed. In addition, we found that CSF guidance

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<sup>19</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>20</sup> These figures include the \$5,700 average navy cost per vehicle per month for "vehicle damages" discussed previously. In addition, these figures do not include claims prior to September 2004, as these claims did not contain specific categories.

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Potentially Significant Cost  
Fluctuations Were Not  
Investigated

does not require Defense to identify or 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.

The Comptroller guidance calls for the Comptroller to perform a historical comparison of claimed costs to previous reimbursements made by the United States for similar support. Such an analysis could identify costs that do not reflect actual activity levels. However, we found that the Comptroller's guidance does not describe how the comparison should be performed. In our audit, we found that some of Pakistan's claimed costs experienced potentially significant unexplained fluctuations from month to month. Although the Comptroller noted some of these fluctuations, we found that it did not investigate the reasons behind them. For example, Defense paid the army's largest<sup>21</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.

Currency Conversions Were  
Not Verified

CSF guidance does not require Defense to identify or evaluate the exchange rates used for claims presented in U.S. dollars. Foreign currency exchange rates, such as those computed by the International Monetary Fund (IMF), fluctuate.<sup>22</sup> As a result, transactions made in a foreign currency can result in transaction gains or losses. 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. Pakistani reimbursement claims are presented in U.S. dollars; however, the Comptroller did not verify the currency conversions calculated by Pakistan. Although the Comptroller was not required to do so, lack of such verification may have resulted in overpayment of Pakistan claims. For example, on 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. In performing our review,

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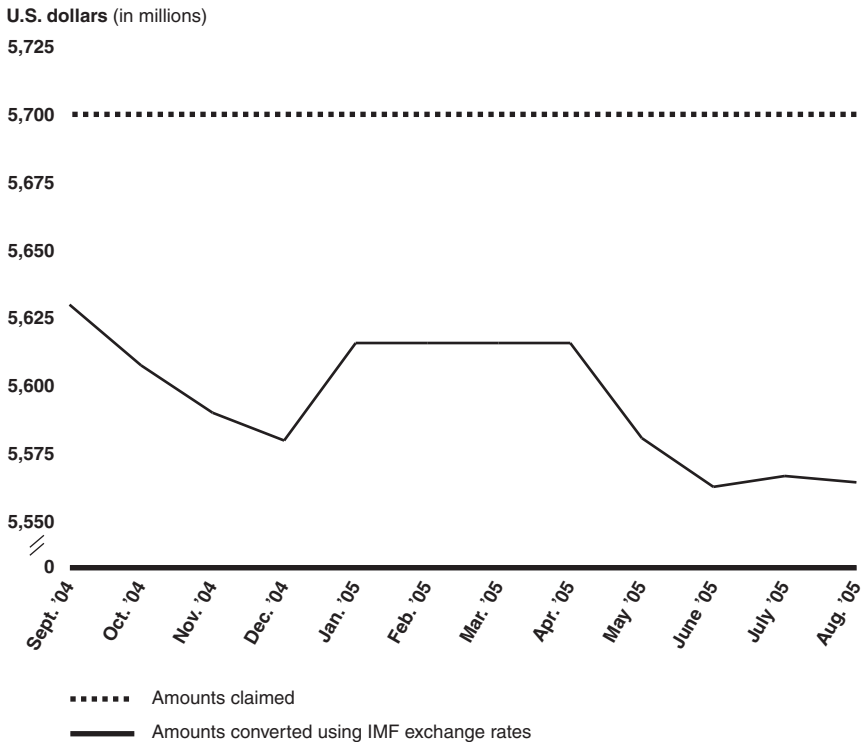
<sup>21</sup>This cost category was the largest for April 2006 based on the percentage of total dollars claimed that was included in each category. This cost category accounted for 28 percent of the entire claim for April 2006.

<sup>22</sup>GAO used the IMF market rate, period average, by month, in our analysis because this rate takes into account economic variables such as gross domestic product (GDP), revenue, and wages.



we used the claimed amounts<sup>23</sup> and 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 with the amount paid by Defense. Figure 5 illustrates the results of our analysis and shows that CSF would have been billed fewer dollars had IMF exchange rates been used.

**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.

<sup>23</sup>These claimed amounts did not fluctuate over the 12-month period and were presented in U.S. dollars.

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Most of the Pakistani claims do not provide enough information to determine if the costs were appropriately converted from rupees to dollars. Therefore, we were unable to calculate the potential overbilling for all claims for the entire period under review. However, if Pakistan has been using a fixed exchange rate, then Defense has likely overpaid its reimbursements. 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. As such, 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 validate Pakistani military support and expenses. This increased verification effort contributed to an increase in the amount of disallowals and deferrals of the Pakistani government's CSF claims from an average of a little over 2 percent from January 2004 through August 2006, an average of 6 percent from September 2006 through February 2007, and 22 percent for the most recent claims (March 2007 through June 2007) processed in February 2008. Despite this increased effort, there is no assurance that ODRP will continue this level of oversight because Defense has not issued formal guidance delineating ODRP verification responsibilities.

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## Defense Never Formally Tasked ODRP to Attempt to Verify That Pakistani Military Support Was Provided and That Costs Were Incurred

According to the Standards for Internal Control in the Federal Government, clear delegation of authority and responsibility is important to establishing an effective internal control system.<sup>24</sup> Defense officials in Washington, at CENTCOM, and at the U.S. Embassy in Islamabad stated that U.S. officials in Pakistan are best suited to perform primary verification that Pakistani military support was provided and that claimed costs were actually incurred. ODRP officers have access to a broad range of Pakistani military officials, including some involved in military operations, and can conduct limited field visits and onsite inspections if permitted by the Pakistani government. By contrast, Comptroller staff are

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<sup>24</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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located thousands of miles from Pakistan and lack the level of access available to ODRP officials. Despite this, Defense never explicitly tasked ODRP with performing such verification efforts.

In Pakistan's case, the Comptroller's 2003 guidance did not specify whether this verification should take place in Pakistan or from CENTCOM in Florida. The guidance simply indicated that ODRP should assist Pakistan in formulating their claims. However, the guidance did not require or suggest that ODRP attempt to verify that Pakistan's claimed military support had been provided or that its costs were actually incurred. For example, it did not recommend that ODRP conduct any oversight activities, such as onsite inspections of completed Pakistani construction or a comparison of flight hours to maintenance costs.

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**ODRP Initiated  
Verification of Pakistani  
Support and Costs;  
Contributed to Increases in  
the Amount of Claims  
Deferred or Disallowed**

In late 2006, without any formal guidance or directive to do so from CENTCOM or the Comptroller, 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. ODRP officials who were in Pakistan from July 2005 through March 2008 stated they had received no training or guidance from Defense on whether, or how, to conduct verification of Pakistani reimbursement claims. These officials said that the 2006 presentation was the first time they had seen any guidance on what could or could not be reimbursed under the CSF program or what type of information was needed to support Pakistan's reimbursement claims.

As a result, ODRP recommended for the first time that Defense disallow or defer costs that it found questionable, beginning with Pakistan's September through October 2006 claim. For example, ODRP recommended that the Comptroller disallow payments to Pakistan for procurement of bulletproof vests, radios, and road construction due to insufficient information necessary to verify the costs. Defense eventually disallowed approximately \$13 million of the September through October 2006 reimbursement claim.

ODRP's increased verification efforts contributed to significantly larger disallowals and deferrals (\$81.2 million) in the most recently processed

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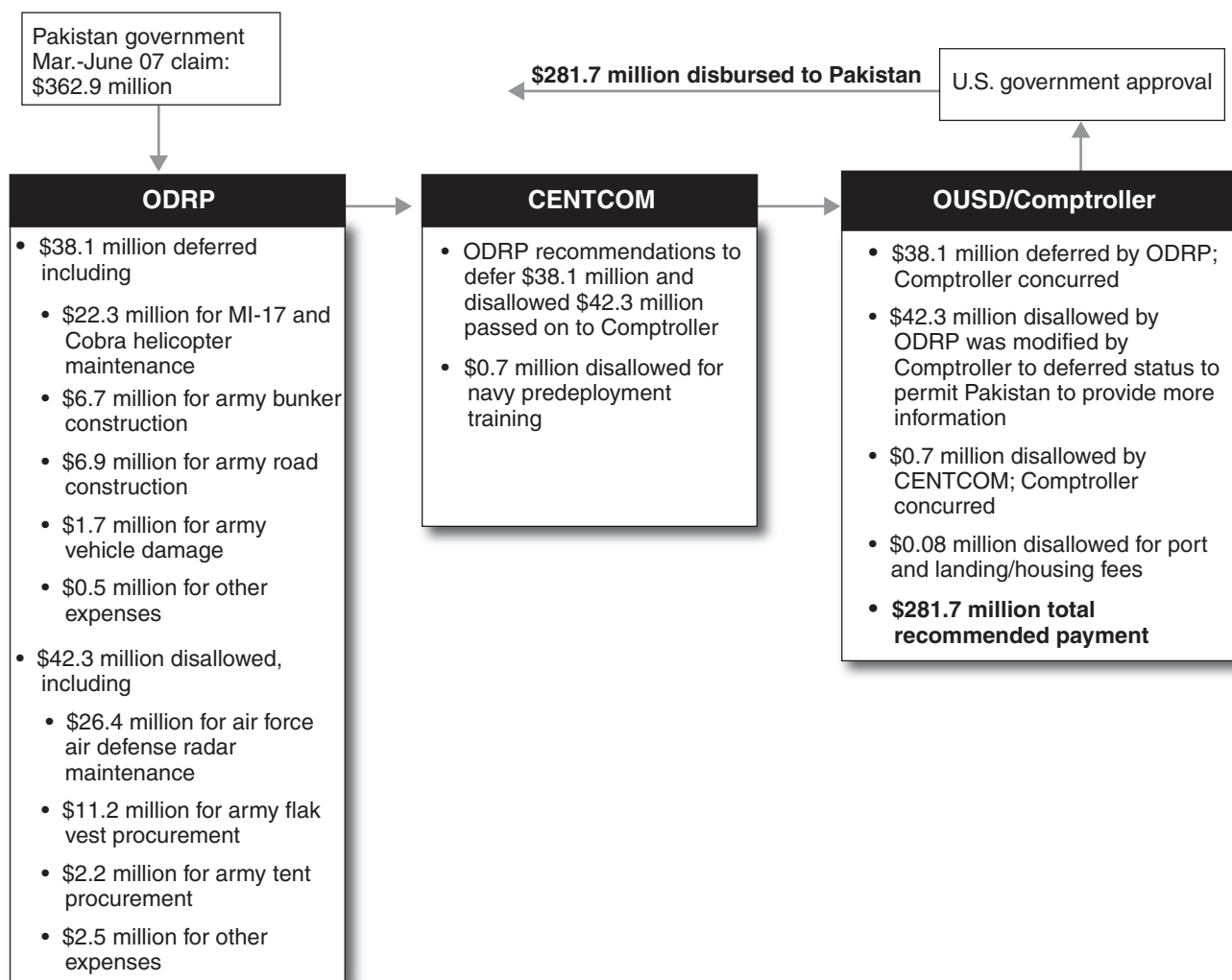
(February 2008) Pakistan government reimbursement claims for the months of March through June 2007. ODRP recommended deferring payment on \$38.1 million in claimed costs until the Pakistani government provided information necessary to verify its claims. For example, ODRP recommended deferring payment to Pakistan on its reimbursement request for \$22.3 million in helicopter maintenance costs. ODRP found that even though the United States had paid Pakistan \$55 million in CSF reimbursements for maintenance of helicopters in the border area, only a few of these helicopters were fully operational.<sup>25</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 payment on an additional \$42.3 million to Pakistan for such things as air defense radars, procurement of tents and vests, and funding for Pakistan's joint staff headquarters operations.

After ODRP submitted its recommendations, CENTCOM and the Comptroller performed their own reviews of the reimbursement claim (see fig. 6).

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<sup>25</sup>Defense reimbursed Pakistan approximately \$55 million for maintenance of the Pakistan army's MI-17 and AH-1 Cobra helicopter wings in the border area from July 2006 through February 2007.

**Figure 6: Reimbursement Process for Pakistani Claims, March through June 2007**



**Legend**

CENTCOM = United States Central Command

ODRP = Office of the Defense Representative to Pakistan

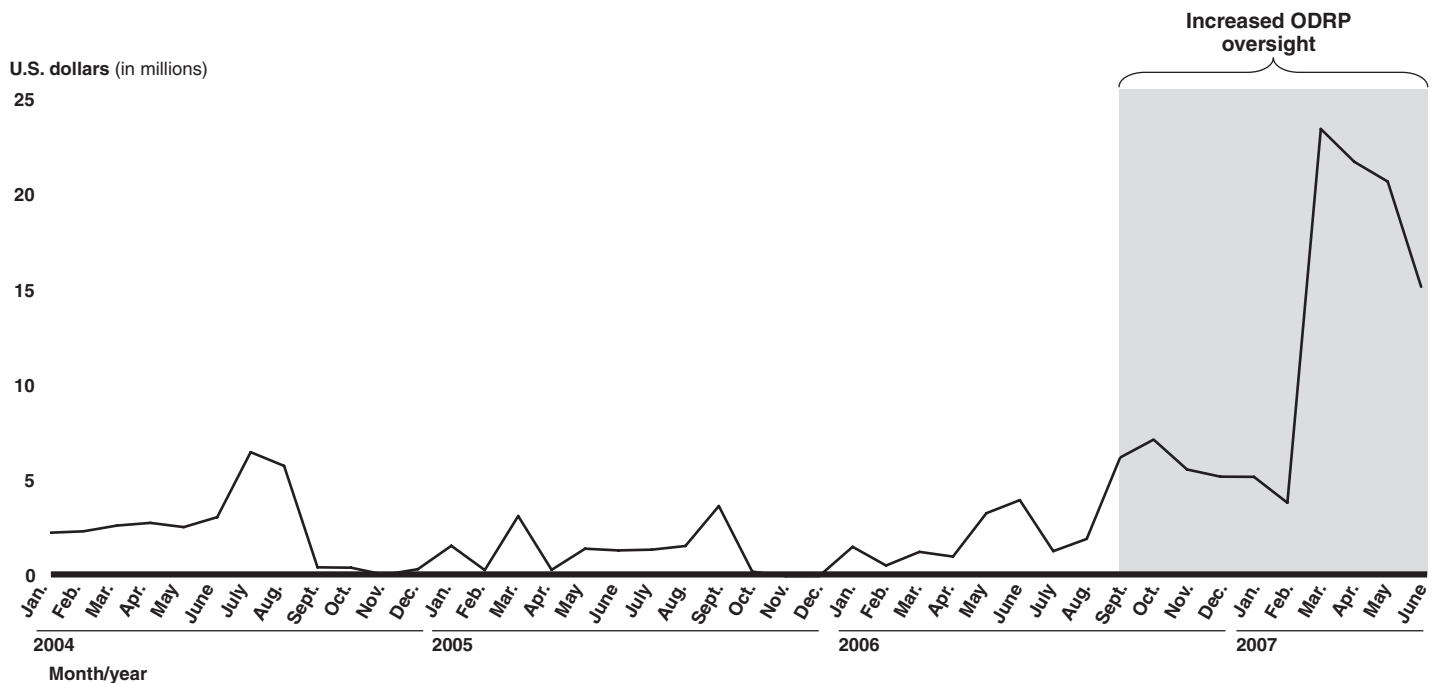
OUSD/Comptroller = Office of the Under Secretary of Defense for Comptroller

Source: GAO analysis of Defense oversight documentation.

The Comptroller disagreed with some of ODRP's recommendations. For example, ODRP recommended disallowing \$26.4 million for the maintenance of air defense radars since terrorists in the border region possessed no air force. The Comptroller noted, however, that these radars could also provide air traffic control for Pakistani military aircraft operating in the area and for U.S. military flights to Afghanistan. As a

result, the Comptroller modified ODRP's recommendations to disallow certain costs and instead deferred payment on these costs until Pakistan could provide more information to support the reimbursement request. However, as of May 2008, Defense has not paid any of these deferred CSF costs because Pakistan has not provided evidence to indicate that these costs were valid. Figure 7 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.

**Figure 7: 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

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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).

Based on our assessment, it appears that ODRP began this increased oversight effort without any formal guidance or directive to do so. The Comptroller has provided no formal guidance that stipulates ODRP should verify that Pakistani military support has actually been performed and that expenses were actually incurred. Furthermore, officials at ODRP from 2005 to early 2008 said that the Comptroller had provided no guidance or training on the level of oversight they should provide. Despite this lack of guidance, in November 2007, officials at the Comptroller and the Office of the Under Secretary of Defense for Policy stated that ODRP was in fact responsible for performing this oversight. However, as of May 2008, Defense had not formalized any new guidance on ODRP's verification responsibilities.

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## No Guidance to Ensure Continued Oversight by ODRP

Despite ODRP's increased oversight activity, 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>26</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. Staff at ODRP stated they had previously received little to no guidance or training on their specific role in analyzing Pakistani CSF reimbursement claims. Formal guidance is especially important in Pakistan, where U.S. officials are generally limited to 1-year tours due to the status of the U.S. mission in Islamabad as a high-risk post. Because of the constant turnover of Defense officials in Pakistan, clear guidance is needed to ensure the continuity of oversight efforts.

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<sup>26</sup>See [GAO/AIMD-00-21.3.1](#).

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In addition, the Comptroller has never provided guidance on how ODRP and Defense representatives in other sovereign countries should verify that the countries 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. Because of this, ODRP staff described their analysis as “macro-level verification,” whereby the reasonableness of high-level costs reported in the Pakistani claim is judged through a comparison with other information. For example, ODRP’s recommendation to defer helicopter maintenance costs in the March through June 2007 claims stemmed from their comparison of Pakistan’s reported maintenance costs against ODRP’s knowledge of the low readiness rates of Pakistan’s helicopters. Although such analyses can be supplanted by anecdotal information from discussions with Pakistani military officials or through occasional visits to the field, according to ODRP, the Pakistani government strictly controls foreigners’ access to the FATA, making spot-checks difficult. The Pakistani submissions are, therefore, the chief component of the ODRP analysis.

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. For example, food cost would include costs for procurement, transport, storage, and field preparation that ODRP cannot directly monitor. Furthermore, according to ODRP, although the Pakistani government generally keeps detailed financial records, these records are usually in paper form and electronic record keeping is rare. Additionally, the Pakistani military does not possess automated systems to track logistics and supplies. Because of these factors, information retrieval from the field and collation at the Pakistani joint staff level can take a great deal of time and may entail a certain amount of approximation and averaging. Given Pakistan’s record-keeping systems, it is unclear to what level of precision ODRP should be expected to verify Pakistani support and incurred costs.

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## Conclusions

Coalition Support Funds are critical components of America’s global war on terror and 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 given the grave and immediate threat at the time, Congress recognized that ensuring accountability for these funds was secondary to protecting the nation from



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another attack. However, given the large amounts of funding provided to Pakistan since October 2001, and indications that Pakistan will continue to receive such payments in the future, we believe that Defense should ensure it follows its own guidance and consider what other guidance is needed.

Our assessment found that while CSF played a key role in Pakistan's support for our war on terror, Defense had not followed its existing guidance and 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 that 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 include the documentation needed to verify the claims.
- Define and formalize the roles and responsibilities of ODRP.

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- 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 onsite 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

Defense provided written comments on the report, which are reproduced in appendix II.

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 three areas. These include the Pakistan's significant contributions to the global war on terror enabled by CSF; the fact that the Department has adhered to the law; and that Pakistan is a sovereign country that may not meet U.S. accounting and administration standards. However, our report does reflect Pakistan's efforts in combating terrorism and the role of CSF. Furthermore, we note several times that Congress granted the Secretary of Defense the authority to make CSF payments in such amounts as the Secretary may determine in his discretion, based on documentation determined by the Secretary of Defense to adequately account for the support provided.

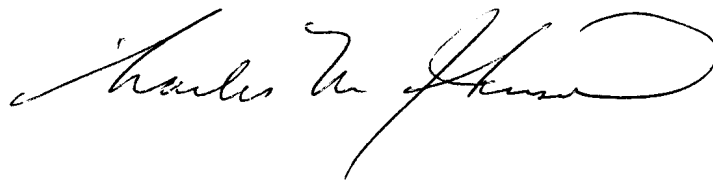
Although we acknowledge that there are limitations in any arrangement with another sovereign nation, we believe that Defense should work more closely with Pakistan to improve their capacity to support these claims. We note that the information provided by Pakistan has improved over time, particularly when Defense has provided additional guidance to Pakistan. For example, following the Comptroller's visit to Pakistan in 2006, Pakistan's more detailed submissions allowed ODRP to conduct greater oversight of Pakistan's claims, leading to the increases in deferrals and disallows in late 2006 and 2007. In addition, we did not assume that Pakistan could provide receipts for all items; we assessed whether Defense followed its guidelines. According to the Comptroller's guidelines, a recipient country's reimbursement claim must contain quantifiable information and supporting documentation on how costs were derived so Defense can validate the claim. Most of Pakistan's claims that we reviewed lacked this information.

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We also received technical comments from Defense, which we have incorporated throughout the report, where appropriate.

We are sending copies of this report to interested congressional committees, as well as the Secretaries of State and Defense. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-7331 or [johnsoncm@gao.gov](mailto: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 appendix IV.

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

Charles Michael Johnson Jr.  
Director, International Affairs and Trade

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*List of Requesters*

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

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# Appendix I: Scope and Methodology

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Legislation governing the Coalition Support Funds (CSF) program states that the Secretary of Defense's determination whether documentation adequately supports reimbursement to key cooperating nations is final and conclusive. Our review therefore focused on the extent to which Defense has applied its own guidance to validate reimbursements and on Office of the Defense Representative to Pakistan's (ODRP) role in this process. To conduct our review, we obtained information on current procedures from relevant officials at the Office of the Under Secretary of Defense for Comptroller (Comptroller), the Office of the Under Secretary of Defense for Policy, U.S. Central Command (CENTCOM), ODRP, and the State Department's Bureau of Political-Military Affairs. We also examined all CSF oversight documentation provided to us, including Pakistani government reimbursement claims, ODRP memos, CENTCOM validation memos, Comptroller evaluations, and other CSF documentation from February 2002 through June 2007 (the latest period of support reimbursed by Defense.) Additionally, we examined all Defense CSF guidance provided to us.

To examine the extent to which Defense has applied its guidance to validate costs claimed by Pakistan, we first reviewed a December 2003 Defense Inspector General report<sup>1</sup> that cited deficiencies in the CSF oversight process from October 2001 through May 2003. Because this report led to new CSF oversight guidance in December 2003, our assessment of Defense's oversight controls focused on 42 monthly reimbursement claims submitted by the Pakistani government from January 2004 to June 2007. 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. We did not verify the reliability of Comptroller's data processing. As part of this review, we examined all available Comptroller criteria and guidance—including the December 2003 guidance, as well as the July 2006 presentation to the Pakistani government and the February 2008 flowchart. Using the Comptroller criteria, the internal control standards, and general cost accounting criteria for adequacy, eligibility, and reasonableness, we

- recalculated selected portions of Pakistani claims for mathematical accuracy;

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<sup>1</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.

- reviewed items included in claims and noted items that may be nonincremental under CSF, duplicative charges, and questionable dollar amounts for the charges;
- compared selected claims and payments over time to analyze consistency of charges disallowed;
- reviewed ODRP cables and memos, CENTCOM analyses, and Comptroller analyses for support for charges, disallowed amounts, and fluctuations in claimed amounts;
- compared supporting documentation to Comptroller-issued criteria to determine compliance; and
- compared supporting documentation to internal control criteria to determine the sufficiency of Comptroller criteria and current oversight procedures.

To assess the oversight role played by ODRP, we met with the officials noted above, 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, to conduct discussions with the U.S. consulate and Pakistan's 11th Army Corps and Frontier Corps regarding operations being reimbursed with CSF funds. We also examined all of the previously mentioned CSF oversight documents and guidance.

We conducted this performance audit from September 2007 to 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.

# Appendix II: Comments from the Department of Defense



ASIAN & PACIFIC  
SECURITY AFFAIRS

## THE ASSISTANT SECRETARY OF DEFENSE

2700 DEFENSE PENTAGON  
WASHINGTON, DC 20301-2700

Mr. Charles Johnson Jr.  
Director, International Counterterrorism Issues,  
International Affairs and Trade  
Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

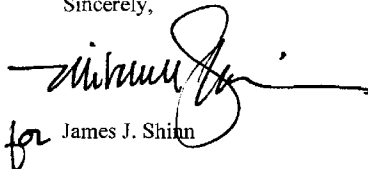
Mr. Johnson:

This is the Department of Defense (DoD) response to the GAO Draft Report, "COMBATING TERRORISM: Increased Oversight and Accountability Over Pakistan Reimbursement Claims for Coalition Support Funds Needed (GAO-08-806)," dated June 16, 2008.

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](mailto:eric.lebson@osd.mil).

Sincerely,

  
for James J. Shinn



GAO DRAFT REPORT DATED JUNE 16, 2008  
GAO-08-806

“COMBATING TERRORISM: Increased Oversight and Accountability Over Pakistan  
Reimbursement Claims for Coalition Support Funds Needed,”

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

The Department of Defense (DoD) appreciates the opportunity to comment on this draft report. DoD welcomes periodic reviews on the administration of critical DoD programs like Coalition Support Funds (CSF) and looks forward to recommendations to enhance effectiveness and oversight. In the case of this investigation, however, DoD believes the draft of the final report fails to give sufficient weight to three key areas:

- The context in which CSF evolved, the significant contribution to the Global War on Terror (GWT) that Pakistan has made and that CSF enabled, and the required flexibility in guidance and processes for contingency environments.
- The fact that the Department has consistently adhered to the letter and spirit of the law while continuously providing oversight and analysis of submissions.
- That Pakistan and several other recipients of reimbursements under the CSF authority are sovereign countries that may not meet U.S.-comparable standards of accounting and administration.

**CSF Context**

During the buildup and initial phases of Operation Enduring Freedom (OEF), Pakistan allowed the U.S. nearly unlimited use of its airspace, made available four of its air bases and one seaport for staging and onward movement of deploying coalition forces, provided jet fuel and other utilities at these locations, and deployed substantial ground forces to provide force protection. In December 2001, at U.S. request, the Pakistan Army deployed major ground forces for the first time in its history into the largely ungoverned Federally Administered Tribal Areas (FATA) to attempt to capture remnants of Al Qaeda and Afghan Taliban forces fleeing into Pakistan from the Tora Bora area of Afghanistan.

As of October 2007, approximately 40 percent of fuel (roughly 120,000 gallons per day) and 84 percent of all containerized cargo for delivery to Coalition forces operating in Afghanistan passed through Pakistan. Pakistan’s cooperation in facilitating this support is a critical component of the Coalition’s ability to operate in Afghanistan.

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The financial demands of military operations and other contributions to OEF on the relatively restricted Pakistan defense budget (approximately \$2.5 billion in 2001) quickly threatened to become unsustainable. Initially, the U.S. used a variety of methods to reimburse Pakistan and other coalition partners for their contributions to OEF and the GWoT, which eventually resulted in Congress providing the CSF authority.

Without the CSF authority or a similar mechanism to reimburse Pakistan for its level of effort in OEF, it is unlikely that Pakistan would have the financial capacity to deploy and maintain sizable military forces in the FATA and other locations along the Pakistan-Afghanistan border to support U.S. and International Security Assistance Force (ISAF) military operations in Afghanistan. Such support has been significant. Since December 2001, Pakistan has conducted 91 major and countless small operations in the FATA and other locations along the border with Afghanistan.

The cost to Pakistan of these operations, in human terms, has been significant. Approximately 1,400 Pakistani security forces members have lost their lives since 2001 in the GWoT; since July 2007, over 700 Pakistanis have been killed by suicide bombings. CSF reimbursements to Pakistan have been a significant factor in Pakistan's ability to assist U.S. operations in the GWoT.

#### **DoD Oversight of CSF**

DoD regularly reviews implementation of the CSF program to ensure it is effective and complies with Congressional intent. DoD frequently refines the review and approval process for CSF reimbursements to adapt to coalition country systems and to apply lessons learned in the contingency environment. A series of meetings with involved parties took place in conjunction with the 2006 revision. OSD Comptroller is presently promulgating revised 2008 guidance. Useful inputs from independent entities – such as the DoD Inspector General and the Government Accountability Office (GAO) – combined with our internal initiatives and visits with responsible parties throughout the process have, and will continue to, enhance oversight and facilitate improved communications and consistency. The various offices within the U.S. Embassy in Islamabad, U.S. Central Command, and the Office of the Secretary of Defense each play a role in managing the program and in identifying opportunities for enhancement.

Pakistan – like the other 26 recipient nations of CSF – is a sovereign country. Their bookkeeping standards, processes and sensitivity about military operations are different and, at times, less transparent than our own. The political circumstances under which nations like Pakistan operate make their processes somewhat different from our own. In addition, the tribal areas of Pakistan are 'denied areas' – not only to U.S. forces, but largely to Pakistani military forces as well. This impacts their responsiveness, apparent transparency, and ability to work with us on the ground to conduct on-site verification of claimed expenses. The Government of Pakistan provides documentation for all of its CSF claims. However, the GAO appears to operate on a presumption that receipts are available for all items, when the reality is that receipts are not readily available for

helicopter flying hours, road building and maintenance of tracks in a combat zone. In cases where receipts are not available, DoD procedures provide for the use of a comparison with U.S. costs for similar operations as an important tool in analyzing reasonableness.

**DoD Responses to GAO Recommendations**

- **RECOMMENDATION 1:** The GAO recommends that 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. (p. 39/GAO Draft Report)

**DOD RESPONSE:** Partially concur. The Department concurs with the importance of following a set of criteria to support approval of payments while simultaneously accommodating the fact that partner countries often do not have financial systems, recordkeeping procedures, and data transparency comparable to the United States. The Department has clarified its guidance to emphasize the criteria used to approve payments when invoices, receipts, or contracts are not available to substantiate claims. Such criteria will include non-financial indicators such as the size and scope of the mission for which costs are claimed. In the absence of detailed documentation, the Department will continue to evaluate claims under authority provided by statute.

- **RECOMMENDATION 2:** The GAO recommends that the Secretary of Defense define and formalize the roles and responsibilities of the Office of Defense Representative to Pakistan (ODRP). (p. 39/GAO Draft Report)

**DOD RESPONSE:** Concur. The Department updated its guidance to clarify the roles and responsibilities of the U.S. Embassy personnel assigned to interact with cooperating nations on the subject of CSF reimbursements.

- **RECOMMENDATION 3:** The GAO recommends that the Secretary of Defense work with the Government of Pakistan to develop procedures to allow the Office of Defense Representative to Pakistan or other U.S. representatives to conduct greater oversight of coalition support funds use in Pakistan, including the potential use of on-site monitoring. (p. 39/GAO Draft Report)

**DOD RESPONSE:** Concur. The Government of Pakistan does not permit access to the FATA to U.S. forces; therefore, certain operations require Pakistani forces to perform actions unaccompanied by U.S. on-site monitors. Pakistan has legitimate concerns about the safety of U.S. government representatives on tribal territory when they are operating in such close proximity to Al Qaeda and/or the Taliban. Because CSF is a reimbursement for expenses already incurred by Pakistan, on-site monitoring is not a realistic verification requirement. However, to the degree possible, Embassy and ODRP personnel work with Pakistani

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officials to conduct on-site inspections as a regular element of our security assistance relationship. DoD will continue to seek out such opportunities.

- RECOMMENDATION 4: The GAO recommends that the Secretary of Defense clarify guidance for Comptroller analysis of cost fluctuations. (p. 39/GAO Draft Report)

DOD RESPONSE: Concur. The Department has already incorporated this recommendation into its revised guidance.

- RECOMMENDATION 5: The GAO recommends that the Secretary of Defense develop and apply criteria to evaluate currency exchange rates to ensure that the U.S. Government is not overpaying for Pakistan operations. (p. 39/GAO Draft Report)

DOD RESPONSE: Concur. The Department has already incorporated this recommendation into its revised guidance.

# Appendix III: Pakistan CSF Reimbursement Claims, January 2004-June 2007<sup>a</sup>

| Date     | Pakistan request | Defense reimbursement    | Disallowed or deferred | Percentage of claim disallowed or deferred |
|----------|------------------|--------------------------|------------------------|--|
| Jan. 04  | \$60,531,000     | \$58,251,000             | \$2,280,000            | 3.77%                                      |
| Feb. 04  | 65,334,100       | 62,981,000               | 2,353,100              | 3.60                                       |
| Mar. 04  | 79,541,600       | 76,886,000               | 2,655,600              | 3.34                                       |
| Apr. 04  | 84,890,100       | 82,094,200               | 2,795,900              | 3.29                                       |
| May 04   | 79,861,372       | 77,287,372               | 2,574,000              | 3.22                                       |
| June 04  | 95,048,300       | 327,033,276 <sup>b</sup> | 3,097,000              | 3.26                                       |
| July 04  | 96,857,000       | 90,345,700               | 6,511,300              | 6.72                                       |
| Aug. 04  | 115,104,000      | 109,313,700              | 5,790,300              | 5.03                                       |
| Sept. 04 | 93,246,580       | 92,784,580               | 462,000                | 0.50                                       |
| Oct. 04  | 89,067,574       | 88,625,574               | 442,000                | 0.50                                       |
| Nov. 04  | 79,928,000       | 79,856,000               | 72,000                 | 0.09                                       |
| Dec. 04  | 75,478,500       | 75,114,600               | 363,900                | 0.48                                       |
| Jan. 05  | 87,255,700       | 85,661,800               | 1,593,900              | 1.83                                       |
| Feb. 05  | 80,535,500       | 80,219,300               | 316,200                | 0.39                                       |
| Mar. 05  | 89,853,500       | 86,698,400               | 3,155,100              | 3.51                                       |
| Apr. 05  | 67,431,200       | 67,102,600               | 328,600                | 0.49                                       |
| May 05   | 70,048,300       | 68,608,500               | 1,439,800              | 2.06                                       |
| June 05  | 70,072,000       | 68,722,000               | 1,350,000              | 1.93                                       |
| July 05  | 73,036,600       | 71,646,500               | 1,390,100              | 1.90                                       |
| Aug. 05  | 74,050,500       | 72,467,600               | 1,582,900              | 2.14                                       |
| Sept. 05 | 82,246,400       | 78,564,600               | 3,681,800              | 4.48                                       |
| Oct. 05  | 89,090,868       | 88,856,000               | 234,868                | 0.26                                       |
| Nov. 05  | 75,446,693       | 75,446,693               | 0                      | 0.00                                       |
| Dec. 05  | 71,453,834       | 71,453,495               | 339                    | 0.00 <sup>c</sup>                          |
| Jan. 06  | 80,939,674       | 79,400,674               | 1,539,000              | 1.90                                       |
| Feb. 06  | 78,962,330       | 78,406,260               | 556,070                | 0.70                                       |
| Mar. 06  | 89,039,426       | 87,766,027               | 1,273,399              | 1.43                                       |
| Apr. 06  | 93,058,372       | 92,032,823               | 1,025,549              | 1.10                                       |
| May 06   | 89,588,661       | 86,283,491               | 3,305,170              | 3.69                                       |
| June 06  | 104,869,074      | 100,877,374              | 3,991,700              | 3.81                                       |
| July 06  | 100,918,230      | 99,607,230               | 1,311,000              | 1.30                                       |
| Aug. 06  | 99,609,440       | 97,656,140               | 1,953,300              | 1.96                                       |
| Sept. 06 | 89,480,274       | 83,249,465               | 6,230,809              | 6.96                                       |

**Appendix III: Pakistan CSF Reimbursement  
Claims January 2004-June 2007<sup>a</sup>**

|  |                     |                              |                           | Percentage<br>of claim    |
|--|---------------------|------------------------------|---------------------------|---------------------------|
| Date   | Pakistan<br>request | Defense<br>reimbursement     | Disallowed or<br>deferred | disallowed or<br>deferred |
| Oct. 06  | 95,299,466          | 88,126,587                   | 7,172,879                 | 7.53                      |
| Nov. 06  | 95,785,981          | 90,183,688                   | 5,602,293                 | 5.85                      |
| Dec. 06  | 91,370,854          | 86,146,231                   | 5,224,623                 | 5.72                      |
| Jan. 07  | 90,750,144          | 85,535,351                   | 5,214,793                 | 5.75                      |
| Feb. 07  | 89,482,052          | 85,628,299                   | 3,853,753                 | 4.31                      |
| Mar. 07  | 95,392,884          | 71,899,270                   | 23,493,614                | 24.63                     |
| Apr. 07  | 92,914,150          | 71,145,810                   | 21,768,340                | 23.43                     |
| May 07   | 90,265,124          | 69,536,440                   | 20,728,684                | 22.96                     |
| June 07  | 84,353,540          | 69,153,140                   | 15,200,400                | 18.02                     |
| Totals   | \$3,597,488,897     | \$3,658,654,790 <sup>b</sup> | \$173,916,083             |                           |
| Prior to increased ODRP role                     |                     |                              |                           |                           |
| Jan. 2004–Aug. 2006 avg. monthly disallow/defer  |                     |                              | 2.15%                     |                           |
| Jan. 2004–Aug. 2006 total disallow/defer         |                     |                              | \$59,425,895              |                           |
| Post increased ODRP role                         |                     |                              |                           |                           |
| Sept. 2006–Feb. 2007 avg. monthly disallow/defer |                     |                              | 6.02%                     |                           |
| Sept. 2006–Feb. 2007 total disallow/defer        |                     |                              | \$33,299,150              |                           |
| Mar.–June 2007 avg. monthly disallow/defer       |                     |                              | 22.26%                    |                           |
| Mar.–June 2007 total disallow/defer              |                     |                              | \$81,191,038              |                           |

Source: GAO analysis of Defense data.

Notes: GAO has not verified the accuracy of Defense Comptroller's data processing.

<sup>a</sup>The last U.S. reimbursement to Pakistan covered March through June 2007 and was processed in February 2008.

<sup>b</sup>June 2004 reimbursement includes a one-time Bell helicopter procurement totaling \$235,081,976. The disallow/defer percentage for June 2004 does not take into account this figure.

<sup>c</sup>Percent rounded to two decimal places.

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Charles Michael Johnson Jr., (202) 512-7331 or [johnsoncm@gao.gov](mailto:johnsoncm@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Steve Sebastian, Director; Hynek Kalkus, Assistant Director; Roger Stoltz, Assistant Director; Edward J. George; David W. Hancock; Claude Adrien; Cara Bauer; Janice Friedeborn; Arthur James; Jeffrey S. Beelaert; Lynn Cothorn; Mark Dowling; and Jena Sinkfield made key contributions to this report.

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