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OVERSIGHT OF U.S. COALITION SUPPORT FUNDS TO PAKISTAN

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

JUNE 24, 2008

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OVERSIGHT OF U.S. COALITION SUPPORT FUNDS TO PAKISTAN

TUESDAY, JUNE 24, 2008

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m. in room 2154, Rayburn House Office Building, Hon. John F. Tierney (chairman of the subcommittee) presiding.

Present: Representatives Tierney, Higgins, Shays, and Platts.

Also present: Representative Moran.

Staff present: Dave Turk, staff director; Andrew Su, professional staff member; Davis Hake, clerk; Andy Wright, counsel; A. Brooke Bennett, minority counsel; Adam Fromm and Todd Greenwood, minority professional staff members; and Nick Palarino, minority senior investigator and policy advisor.

Mr. TIERNEY. Good afternoon.

A quorum being present, the Subcommittee on National Security and Foreign Affairs' hearing entitled, "Oversight of U.S. Coalition Support Funds to Pakistan," will come to order.

I ask unanimous consent that only the chairman and ranking member of the subcommittee be allowed to make opening statements.

Without objection, it is so ordered.

And I ask unanimous consent that the hearing record be kept open for 5 business days so that all members of the subcommittee be allowed to submit a written statement for the record.

That is without objection so ordered, as well.

Again, good afternoon. I suspect that you folks already know that this hearing continues a sustained oversight by this committee in our interest in Pakistan and the strategic interests of the critical Afghan-Pakistan border area and region. Several of you have given us the honor of having your presence and testimony before and we thank you for joining us once again.

Since 2007, we have had six related hearings, and we have dispatched three separate congressional delegations to the region.

The historic February 18, 2008, elections opened a new chapter in Pakistani political history and represent an historic opportunity for the United States to strengthen our ties to Pakistan in a manner, ideally, that both improves the lives of all Pakistanis and that assures our vital U.S. national security interests as well as theirs.

The United States and Pakistan forged an uneasy yet critical alliance following the events of September 11th and after decades of uneven bilateral relations. Pakistan asserts a repudiation of the Taliban and a public alliance with the United States and counterterrorism efforts. Pakistan also has become the third largest recipient of the U.S. military and economic support throughout the entire world.

Much of this final support was developed in the crucible of the immediate days after 9/11 and has not been guided by a long-term strategic plan. In fact, previous Government Accountability Office reports have indicated there is still a failure to have a coherent and cogent strategic plan for that region. We will probably explore that a little bit today, as well, in the questioning.

The centerpiece of the U.S. effort has been Coalition Support Funds, which are drawn from a Presidentially designed and congressionally authorized fund of money to reimburse counterterrorism allies for incremental costs associated with supporting U.S. combat operations, an incremental cost being a cost over and above the normal military expenditures of that government's military.

To date, nearly $6 billion has been transferred under the Coalition Support Funds program to Pakistan. This represents greater than 50 percent of the U.S.'s total support to Pakistan and its people since 9/11.

The Defense Department has been given enormous discretion and authority under this program. The entire legislative guidance consists of a handful of sentences. The State Department has a smaller role, being required to concur with each payment authorized by the Defense Department, and today we will hear from key witnesses from both of those departments.

Our subcommittee has conducted an 8-month investigation into Coalition Support Funds, part of which included our bipartisan request to the Government Accountability Office to undertake the report that is being publicly released today in conjunction with this hearing.

The bottom line—and I think we should be clear the more I learn about the U.S.'s Coalition Support Funds to Pakistan, the more I am troubled: first, in terms of unaccountability for a huge amount of U.S. taxpayer funds; second, about the program's failure to achieve vital U.S. security objectives, at least to a degree; and, third, about the program's incompatibility with the long-term strategic partnership between the United States and Pakistan and strategy overall in that region.

Let me briefly touch on each of these concerns. I am hopeful we will give them a full public airing at the hearing today.

First, the grave concerns about the stewardship of nearly $6 billion in taxpayer funds. The GAO's in-depth, on-the-ground investigation offers a pretty damning critique. Specifically, it found "for a large number of reimbursement claims Defense did not obtain detailed documentation to verify that claimed costs were valid or actually occurred." "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 calculate these costs."

The Defense Department paid costs that may not have been incremental to Pakistan's expenditures, as required by U.S. law. The Defense Department paid millions of dollars to Pakistan for reimbursements of potentially duplicative costs, and the Defense Department more generally established limited and insufficient guidance to assure financial accountability.

We will hear more about what the GAO discovered when the director of the investigatory team testifies in just a few moments.

Second, beyond the lack of financial accountability, there are grave concerns about the efficacy of the program. In short, how much bang or return have the U.S.'s taxpayers gotten for the billions of dollars or bucks that have been spent?

A series of post-9/11 reports have documented western Pakistan's deterioration. In December 2005 the 9/11 Commission's Public Disclosure Project stressed "Taliban forces still pass freely across the Pakistan-Afghanistan border and operate in Pakistani tribal areas."

In April 2007 the State Department concluded, "Pakistan remains a major source of Islamic extremism and a safe haven for some top terrorist leaders."

In July 2007 the National Intelligence Estimate announced that al Qaeda had "protected or regenerated key elements of its Homeland attack capability," including "a safe haven in the Pakistan Federally Administered Tribal Areas."

Coalition Support Funds, as currently structured, are intended to enable Pakistan to attack terrorist networks and to stabilize the border areas. A recent U.S. Defense Department report concludes, "The war on terror has caused Pakistan to engage in a counter-insurgency struggle for which it is ill-suited. The Army has been trained and equipped as a conventional military with a primary focus on fighting a conventional opponent—India. Pakistan's Frontier Corps soldiers are outgunned by their militant opponents. The result of these deficiencies in structure, tactics, doctrine and flexibility is that Pakistan occasionally takes 'tactical pauses' from engagement with the enemy while it reorients for changing targets."

Some have gone even further in criticizing the U.S. funded post-9/11 Pakistani military efforts as, in fact, counterproductive. One wonders where we would be if, as at least one observer has noted, and I will paraphrase what he said, we had sought to deprive insurgent extremists of their base by strengthening legitimate governance throughout the territories of Afghanistan and Pakistan, while ending policies such as invading Iraq that act as recruiting tools for the enemy.

Early concentration on the democratization of Pakistan to include civilian control of its national security strategy, followed by efforts to reinforce its security forces and police forces to act independently against Pakistan's existential threat of extremism, may well have presented an enduring partner that could ensure that foreign aid was effectively directed toward mutual threats.

Let's be clear: many of our Pakistani friends have fought valiantly and many have died to save their country from the scourge of military extremism and international terrorism. There is no dispute about that. But that is just it. They are fighting an enemy that is also an existential threat to their government and to their

families and to their neighbors, as well as to people in the western world.

Which brings us to the third primary concern. The Coalition Support Funds program, as it is currently structured, may be incompatible and inconsistent with a long-term strategic partnership between the United States and Pakistan. Few doubt that aid ought to run in that direction, but many are starting to question the manner in which it is being given.

Our two countries share a common set of enemies, but the Coalition Support Funds program furthers the damaging perception that Pakistan is using its military merely as a rented tool of U.S. interests and that Pakistan is but a client of the United States. This is a negative implication not only between our two governments, but, more fundamentally, in our critical long-term relationship with the Pakistani people.

Today we hope to begin a constructive public dialog on Coalition Support Funds to Pakistan in an effort to constructively reevaluate this program and consider how best to transition from a program born on the ad hoc crucible of the first few days after 9/11 into an accountable, effective, long-term partnership between the militaries and the governments and the peoples of both the United States and Pakistan.

With that, I recognize Mr. Shays for his opening statement.

[The prepared statement of Hon. John F. Tierney follows:]

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

TOM DAVIS, VIRGINIA
RANKING MINORITY MEMBER

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Opening Statement of Chairman John F. Tierney at the National Security and Foreign Affairs Subcommittee Oversight Hearing entitled, "Oversight of U.S. Coalition Support Funds to Pakistan"

June 24, 2008

Good afternoon. This hearing continues our sustained oversight of U.S. national security interests in Pakistan and our strategic interests in the critical Afghanistan-Pakistan border region.

Since 2007, our Subcommittee has held six related hearings, and we have dispatched three separate Congressional delegations to the region.

The historic February 18, 2008, elections opened a new chapter in Pakistani political history, and represent an historic opportunity for the United States to strengthen our ties to Pakistan, in a manner, ideally, that both improves the lives of all Pakistanis and that ensures our vital U.S. national security interests.

The United States and Pakistan forged an uneasy, yet critical, alliance following the events of 9/11 and after decades of uneven bilateral relations. Pakistan asserts a repudiation of the Taliban and a public alliance with the United States in counterterrorism efforts. Pakistan has also become the third largest recipient of U.S. military and economic support throughout the entire world.

Much of this financial support was developed in the crucible of the immediate days after 9/11, and has not been guided by a long-term strategic plan. The centerpiece of the U.S. effort has been "Coalition Support Funds," which are drawn from a Presidentially-designed and Congressionally-authorized fund of money to "reimburse" counterterrorism allies for incremental costs associated with supporting U.S. combat operations.

To date, nearly $6 billion has been transferred under the Coalition Support Funds program to Pakistan. This represents greater than fifty percent of the total United States support to Pakistan and its people since 9/11.

The Defense Department has been given enormous discretion and authority under this program. The entire legislative guidance consists of a handful of sentences. The State Department has a smaller role, being required to concur with each payment authorized by the Defense Department. Today, we will hear from key witnesses from both departments.

Our Subcommittee has conducted an eight-month investigation into Coalition Support Funds, part of which included our bipartisan request to the Government Accountability Office to undertake the report that is being publicly released today in conjunction with this hearing.

Bottom-line – and let me be very clear here – the more I learn about U.S. Coalition Support Funds to Pakistan, the more I am troubled: first, in terms of waste, fraud, and abuse of a huge amount of U.S. taxpayer funds; second, about the program's failure to achieve vital U.S. security objectives; and third, about the program's incompatibility with a long-term strategic partnership between the U.S. and Pakistan.

Let me briefly touch on each of these concerns, all of which, I am hopeful, will receive a full and public airing at today's hearing.

First, I have grave concerns about the Defense Department's stewardship of nearly $6 billion in taxpayer funds. The GAO's in-depth, on-the-ground investigation offers a damning critique.

Specifically, the GAO found:

- *"[F]or a large number of reimbursement claims Defense did not obtain detailed documentation to verify that claimed costs were valid or actually occurred";*

- *"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"*;

- The Defense Department paid costs that may not have been "incremental" to Pakistan's expenditures as required by U.S. law;

- The Defense Department paid millions of dollars to Pakistan for "reimbursements" of potentially duplicative costs; and

- The Defense Department, more generally, established limited and insufficient guidance to ensure financial accountability.

We'll hear more about what the GAO discovered when the director of the investigatory team testifies in just a few minutes.

Second, beyond the lack of financial accountability, I have grave concerns about the efficacy of this program. In short, how much "bang" have U.S. taxpayers gotten for these billions of "bucks"?

A series of post-9/11 reports have documented western Pakistan's deterioration:

- In December 2005, the 9/11 Commission's Public Discourse Project stressed, and I quote: "*Taliban forces still pass freely across the Pakistan-Afghanistan border and operate in Pakistani tribal areas.*"

- In April 2007, the State Department concluded, and I quote: "*Pakistan remains a major source of Islamic extremism and a safe haven for some top terrorist leaders.*"

- In July 2007, the National Intelligence Estimate announced that al Qaeda had "*protected or regenerated key elements of its Homeland attack capability,*" including "*a safe haven in the Pakistan Federally Administered Tribal Areas.*"

Coalition Support Funds, as currently structured, are intended to enable Pakistan to attack terrorist networks and stabilize the border areas. A recent U.S. Defense Department report concludes:

> *The War on Terror has caused Pakistan to engage in a counter-insurgency struggle for which it is ill-suited. The Army has been trained and equipped as a conventional military with a primary focus on fighting a conventional opponent – India. Pakistan's Frontier Corps soldiers are outgunned by their militant opponents. The result of these deficiencies in structure, tactics, doctrine and flexibility is that Pakistan occasionally takes 'tactical pauses' from engagement with the enemy while it reorients for changing targets.*

Some have gone even further in criticizing these U.S.-funded, post 9-11 Pakistani military efforts as, in fact, counterproductive.

One wonders where we'd be if, as at least one observer has noted, and I paraphrase, we had sought to deprive insurgent extremists of their base by strengthening legitimate governance throughout the territories of Afghanistan and Pakistan while ending policies (such as invading Iraq) that act as recruiting tools for the enemy. Early concentration on the democratization of Pakistan, to include civilian control of its national security strategy, followed by efforts to reinforce its security forces and police forces to act independently against Pakistan's existential threat of extremism may well have presented an enduring partner that could ensure that foreign aid was effectively directed toward mutual threats.

Let me be very clear, many of our Pakistani friends have fought valiantly, and many have died to save their country from the scourge of militant extremism and

international terrorism. But that is just it – they are fighting an existential threat to their government and to their families and their neighbors.

This brings me to my third primary concern – the Coalition Support Funds program, as currently structured, is incompatible and inconsistent with a long-term strategic partnership between the United States and Pakistan.

Our two countries share a common set of enemies, but the Coalition Support Funds program furthers the damaging perception that the proud Pakistani military is merely acting as a rented tool of U.S. interests, and that Pakistan is but a client of the United States. This has negative implications not only between our two governments, but, more fundamentally, in our critical long-term relationship with the Pakistani people.

Today, we hope to begin a constructive public dialogue on Coalition Support Funds to Pakistan in an effort to constructively reevaluate this program and consider how best to transition from a program borne in the ad hoc crucible of the first few days after 9/11 into an accountable, effective, long-term partnership between the militaries and the peoples of both the United States and Pakistan.

-30-

Mr. SHAYS. Mr. Chairman, thank you for holding this timely and important hearing on Coalition Support Funds [CSF], for Pakistan. I appreciate the subcommittee's serious, sustained oversight, yours in particular, of issues relating to Pakistan, including the CSF program we are examining today.

CSF is primarily the Department of Defense's responsibility. It represents $6.88 billion in taxpayer funds disbursed to our allies in our shared fight against terrorism.

The CSF fund program was created after September 11, 2001, to reimburse Coalition partners for their logistical and combat support for our military operations. These funds bypass normal congressional appropriations cycles and are reimbursements to nations for their support. Since 2001, CSF has flowed to several countries around the world; however, Pakistan has received over $5.56 billion, accounting for 81 percent of all CSF funds disbursed.

The CSF program is not intended to be a blank check for Pakistan. Pakistan is reimbursed for its efforts in Pakistan for supporting U.S. troops in Afghanistan. This includes expenses associated with passage of Coalition supplies through Pakistan, as well as incremental costs incurred by the Pakistani armed forces fighting terrorists residing along the border between Pakistan and Afghanistan. This makes sense. Our No. 1 enemy, Osama Bin Laden, and his supporters, along with those who perpetuated the assassination of former Pakistani Prime Minister Benazir Bhutto are thought to be hiding in Pakistan's border regions, and Taliban and al Qaeda are thought to be planning and staging their attacks against Coalition forces from this region.

What the Government Accountability Office reports today about the weaknesses in DOD's accountability and verification mechanism is disturbing. In certain instances insufficient documentation was obtained by DOD to verify the costs claimed by Pakistan were valid and actually incurred. And the parade of horrors in GAO's report released today—for example, double counting and double payments, as well as over-billing due to currency conversions—is perplexing. We are talking about $5.56 billion of U.S. taxpayers' money disbursed without what seems to be an adequate record of receipts and verification.

We need better oversight and visibility concerning where these funds are going. I am glad to see the subcommittee shining a very appropriate light on this issue.

As we learned in last week's hearing on the U.S. efforts in training and equipping Afghan's national security forces, it is more than alarming to me how far behind we are in Afghanistan. What is more concerning is that this appears to be the result of extraordinary bad planning on the part of the United States.

From the GAO's report, the planning and execution of CSF program appears also to have serious problems which present challenges to Congress' ability to conduct important oversight.

I look forward to hearing from our witnesses about our CSF program, how the CSF program will be fixed.

Mr. Chairman, I would like to add that the extent of the change that has come to Pakistan and the border region over the past year is remarkable. Just over a year ago, President Musharraf fired the

Chief Justice of the Pakistani Supreme Court, sending off a grassroots movement across Pakistan led by, of all people, lawyers.

In February of this year, Pakistanis went to the polls, asserting by their votes the choice and desire to be ruled by a democratically elected government. And just recently we have seen strong words exchanged between the leaders of Pakistan and its neighbors, Afghanistan, over military incursions into Pakistan.

This is a region that requires our continued attention.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Christopher Shays follows:]

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

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RANKING MINORITY MEMBER

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Ranking Member Christopher Shays
Opening Statement
Oversight of Coalition Support Funds to Pakistan"
June 24, 2008

Mr. Chairman, thank you for holding this timely and important hearing on Coalition Support Funds (CSF) for Pakistan. I appreciate this Subcommittee's serious and sustained oversight of issues related to Pakistan including the CSF program we are examining today.

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Since 2001, CSF has flowed to several countries around the world; however, Pakistan has received over $5.56 billion, accounting for 81 percent of all CSF funds dispersed. The CSF program is not intended to be a blank check for Pakistan.

Pakistan is reimbursed for its efforts in Pakistan for supporting U.S. troops in Afghanistan. This includes expenses associated with passage of coalition supplies through Pakistan as well as "incremental costs" incurred by the Pakistani armed forces fighting terrorists residing along the border between Pakistan and Afghanistan.

This makes sense: our number one enemy, Osama bin Laden, and his supporters, along with those who perpetrated the assassination of former Pakistani Prime Minister Benazir Bhutto are thought to be hiding in Pakistan's border regions. And, Taliban and al Qaeda are thought to be planning and staging their attacks against coalition forces from this region.

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We are talking about $5.56 billion of U.S. taxpayers' money disbursed without what seems to be an adequate record of receipts and verification. We need better oversight and visibility concerning where these funds are going. I am glad to see this Subcommittee shining a light on this issue.

As we learned in last week's hearing on the U.S. efforts in training and equipping Afghan National Security Forces, it's more than alarming to me how far behind we are in Afghanistan. And, what is most concerning is that this appears to be the result of extraordinarily bad planning on the part of the United States.

From the GAO's report, the planning and execution of the CSF program appears also to have serious problems which presents challenges to Congress' ability to conduct important oversight. I look forward to hearing from our witnesses about how the CSF program will be fixed.

Mr. Chairman, I would like to add that the extent of change that has come to Pakistan and the broader region over the past year is remarkable. Just over a year ago, President Musharraf fired the Chief Justice of the Pakistani Supreme Court, setting off a grassroots movement across Pakistan led by—of all people—the lawyers.

In February of this year, Pakistanis went to the polls, asserting by their votes, the choice and desire to be ruled by a democratically-elected government. And just recently, we have seen strong words exchanged between the leaders of Pakistan and its neighbor, Afghanistan, over military incursions into Pakistan.

This is a region that requires our continued attention.

Mr. TIERNEY. Thank you, Mr. Shays.

Now the subcommittee will receive testimony from the witnesses here today. I will give a brief introduction of each of them and then ask the testimony to start.

Major General Bobby Wilkes, retired, serves as the Deputy Assistant Secretary of Defense for Central Asia in the Office of the Secretary of Defense. In this capacity, he is responsible for advising the Secretary of Defense in all aspects of policy formulation for U.S. bilateral relations with central Asian countries. He is a graduate of the U.S. Air Force Academy and completed his career as a major general. We have been keeping him busy lately. As I mentioned earlier, this is his second appearance before the committee in just as many weeks.

Thank you, General.

With him is Mr. John P. Roth, the Deputy Comptroller for Program Budget with the office of the Undersecretary of Defense, the Office of the Comptroller with the U.S. Department of Defense. He is responsible for the preparation of a Defense budget worth $515 billion. Before his current position, he was the Deputy Director for Investment responsible for the review of major Defense procurement and research programs.

Also with us is Ambassador Stephen D. Mull. Ambassador Mull is the Acting Assistant Secretary for the Bureau for Political-Military Affairs at the U.S. Department of State. Ambassador Mull previously represented the United States as Ambassador to Lithuania until June 2006, when he was appointed as the Principal Deputy Assistant Secretary of the Political-Military Affairs Bureau. Ambassador Mull is a career member of the U.S. Foreign Service. His career includes two tours in Poland, as well as in South Africa and Indonesia, where he was Deputy Chief of Mission and received the Baker Wilkins Award as the Outstanding Deputy Chief of Mission. He is also the recipient of the Presidential Meritorious Award and several superior honor awards.

We thank you for being with us again today, having been with us in the full committee hearing this morning.

Mr. Charles Michael Johnson, Jr., is the Director of the International Affairs and Trade Division at the U.S. Government Accountability Office. He has had an extremely distinguished 27-year career with that office, having won numerous awards, including a special commendation award for outstanding performance, leadership, management, and high congressional client satisfaction.

Mr. Johnson, it is terrific to see you and your team here again. I think this is the third time this month that you folks have been here, and we really do appreciate your efforts and your ability to get the work product out to us.

With you today is Mr. Steve Sebastian, as I understand it. Mr. Sebastian is Director of the GAO's Financial Management and Assurance Team. He is responsible for the oversight and review of financial management at numerous Federal agencies. He has been with the GAO since 1981. He will not be giving an opening statement, but will be available to assist during the questioning and the answer portion of the hearing.

As all of you know by now, it is our custom at this hearing to ask you to stand and be sworn in, so please stand and raise your

right hands. All the people who are going to be testifying with you, do the same, please.

[Witnesses sworn.]

Mr. TIERNEY. Thank you. The record will please indicate that everybody has answered in the affirmative.

I remind all of you what I think you already know, that your full written statement will be placed into the record. We ask you to try to keep your remarks within around 5 minutes or so. We understand that you will go over.

General Wilkes, in reading your testimony I note that you give a lot of background information that you may or may not feel necessary to take up your 5 minutes with that. You may want to just go in and respond to some of the points raised in the other report. But you do as you want to do, and I thank you for being with us here today.

STATEMENTS OF MAJOR GENERAL BOBBY WILKES, USAF RET., DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR SOUTH ASIA, OFFICE OF THE SECRETARY OF DEFENSE, U.S. DEPARTMENT OF DEFENSE, ACCOMPANIED BY JOHN P. ROTH, DEPUTY COMPTROLLER, PROGRAM/BUDGET, OFFICE OF UNDERSECRETARY OF DEFENSE, COMPTROLLER, U.S. DEPARTMENT OF DEFENSE; CHARLES MICHAEL JOHNSON, JR., DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY STEVE SEBASTIAN, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE TEAM, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; AND AMBASSADOR STEPHEN D. MULL, ACTING ASSISTANT SECRETARY, BUREAU FOR POLITICAL-MILITARY AFFAIRS, U.S. DEPARTMENT OF STATE

STATEMENT OF MAJOR GENERAL BOBBY WILKES

General WILKES. Chairman Tierney, thank you again, and Congressman Shays. I appreciate the opportunity to come and talk about Pakistan and the Coalition Support Funds.

As you know, Pakistan is the world's second most populous Muslim state and sixth most populous country in the world. It is located at the geopolitical crossroads of Central Asia and finds itself in the front lines of battle against global terrorism.

More than ever, our national security is linked to the success, the security, and the stability of a democratic Pakistan. Pakistan has made important strides toward democracy in the past several months; however, Pakistan is facing severe budgetary, energy, and economic crises and needs to act more decisively to eliminate the al Qaeda and Taliban safe havens in the federally administered tribal areas and Northwestern Frontier provinces.

Following the tragic events of September 11, 2001, Pakistan became a member of the Coalition formed to eliminate al Qaeda and the Taliban government of Afghanistan. at the request of the United States, Pakistan offered the use of its airspace, airfields, and a seaport, and deployed large numbers of its armed forces to protect deployed U.S. forces.

Later, Pakistan permitted the establishment of air and ground lines of communication through Pakistan into Afghanistan. Today,

much of the fuel and dry cargo required to support United States and NATO military operations in Afghanistan transit Pakistan.

Again at our request Pakistan deployed its Army in December 2001, into the FATA to assist U.S. operations in Afghanistan by capturing al Qaeda and Taliban fighters fleeing from the Tora Bora area. Several hundred of these fighters were eventually captured and turned over to the U.S. custody. Because Pakistan had only a limited capacity to sustain such a high level of military activity in support of OEF, the United States decided it needed a mechanism to reimburse Pakistan and other cooperating nations for the support they were providing on the war on terror. This program became known as the Coalition Support Funds.

Since 2002 Congress has appropriated $7.3 billion for the entire CSF program. Pakistan has been the largest single recipient, receiving approximately $6 billion in reimbursements following this week's $373 million reimbursement. This reimbursement program is in addition to security assistance programs which build capacity.

The current DOD process for reviewing and approving claims for CSF reimbursement is described in detail in my written statement; however, I would like to highlight a few of the following: The guidelines used by DOD to review claims were established in 2003 in concert with the Department of Defense Office of the Inspector General. The Department has sought to improve the CSF reimbursement process since it was first developed. The process is reviewed regularly, and the Department has issued guidance on Coalition support funds seven times and has requested two DOD IG visits.

For example, in July 2006 representatives from Comptroller and CENTCOM visited Pakistan to provide guidance and templates for submitting reimbursement claims. In December 2007 the Undersecretaries for Policy and Comptroller requested the DOD IG conduct a management review of the CSF program. The most recent DOD Comptroller guidance was issued June 19, 2008. Without CSF reimbursements, Pakistan could not afford to deploy and maintain the 100,000 military and paramilitary forces in the federally administered tribal areas.

Since 2001 the Pakistan Army has conducted 91 major and countless small operations in support of the war on terror. They have captured or killed more al Qaeda and Taliban than any other Coalition partner, and have sustained more than 1,400 combat deaths, 700 just since July 2007, and more than 2,400 wounded in action.

In conclusion, there are no easy answers or easy solutions in the FATA and North West Frontier province. We will need all the tools available for us to be successful there. CSF is one of the most useful tools we have in this effort. It enables the United States to reimburse the logistic costs of Pakistan's enormous military deployment and operations in this key region. CSF, therefore, is critical to our eventual success in Afghanistan and the war on terror.

I thank you, sir, and look forward to your questions.

[The prepared statement of General Wilkes follows:]

Mr. Bobby Wilkes
Deputy Assistant Secretary of Defense for Central Asia
Testimony to the House Oversight and Government Reform Subcommittee on National Security and Foreign Affairs
24 June 2008

Chairman Tierney, Congressman Shays, Members of the Committee: Thank you for the opportunity to discuss Pakistan and Coalition Support Funds (CSF). I would like to discuss the evolution of the CSF program, the process for evaluating CSF claims, and why CSF is an important tool in the War on Terror (WOT).

Before doing so, however, it is important to understand Pakistan's place in the region and the world. Pakistan, the second most populous Muslim state and sixth most populous country in the world, is located at the geopolitical crossroads of Central Asia. With nuclear armed neighbors and with a nuclear capability itself, Pakistan lives in a very tough neighborhood. And with Afghanistan and Iran next door, it finds itself in the front lines in the battle against global terrorism. More than ever, our national security is linked to the success, security, and stability of a democratic Pakistan. We acknowledge that Pakistan has made important strides towards democracy in the past several months, but much remains to be done. The elections in February were an important step for Pakistan; we applaud the return of civilian leadership and we remain committed to helping the people of Pakistan achieve stability. Pakistan, however, is facing severe budgetary, energy, and economic crises and must act decisively to eliminate the Al Qaeda and Taliban safe havens in the Federally Administered Tribal Areas (FATA) and North West

Frontier Province (NWFP). The new coalition government has a difficult road to navigate, and requires steadfast support.

Evolution of Coalition Support Funds

Following the tragic events of September 11, 2001, Pakistan became a member of the coalition formed to eliminate Al Qaeda and the Taliban Government of Afghanistan. At the request of the U.S. during the early phases of Operation Enduring Freedom (OEF), Pakistan offered the use of its airspace, four airfields and a seaport, fuel, water, and other utilities at those locations, deployed large numbers of its armed forces to protect deployed U.S. personnel, and later permitted the establishment of air and ground lines of communication through Pakistan into Afghanistan. Today, much of the fuel and dry cargo required to support U.S. and NATO military operations in Afghanistan transit Pakistan, and because of our cooperative relationship with the Pakistani armed forces, we lose very little of the supplies to insurgent activity despite the close proximity of these lines of communication to Al Qaeda and Taliban safe havens.

At the request of the U.S. in 2001, Pakistan deployed its Army for the first time in history into the tribal agencies of the FATA along the border with Afghanistan to assist U.S. operations in Afghanistan by capturing Al Qaeda and Taliban fighters fleeing Tora Bora. Several hundred of these fighters were eventually captured and turned over to U.S. custody. For example, Pakistani forces captured Abu Zubayadah, a senior Al-Qaeda operative and Osama Bin Laden confidant. During a raid on a residence in Rawalpindi, Pakistani forces arrested Al-Qaeda senior leader Khalid Sheikh Mohammad, the alleged

mastermind behind the September 11th attacks and wanted by the U.S. for his involvement in the 2002 murder of U.S. journalist Daniel Pearl.

Because Pakistan had only a limited capability to sustain such a high level of military activity in support of OEF, the United States decided it needed a mechanism to reimburse Pakistan and other cooperating nations for the support they were providing in the WOT. This program became known as Coalition Support Funds.

It is important not to confuse CSF with military assistance or development programs to Pakistan. CSF is not bilateral assistance and it is not intended as a mechanism to build capability or capacity in other nation's defense forces. It is an authority Congress granted to the Department of Defense (DoD) to reimburse Pakistan and other key cooperating nations for logistical, military, and other support they provide to the United States in support of the WOT. To date, the authority has been used to reimburse Pakistan and 26 other nations for contributions to U.S. military operations.

In 2002, Congress authorized and appropriated $390M in the FY2002 Emergency Supplemental "for payments to reimburse Pakistan, Jordan, and other key cooperating nations for logistical and military support provided to United States military operations in connection with the Global War on Terrorism." This program has been reauthorized and funds appropriated every year since FY2002. These payments are made only when the Secretary of Defense determines that documents provided to justify reimbursement requests "...adequately account for the support provided..." and upon concurrence of the Secretary of State and in consultation with the Office of Management and Budget. The DoD is required to report CSF reimbursements quarterly to the four Defense oversight

committees and has regularly briefed these Committees, and to the House Oversight and Government Reform Subcommittee on National Security and Foreign Affairs, to answer questions and provide details related to the CSF program.

CSF payments are reimbursements for actual expenses incurred in support of the WOT operations. It is a means to reimburse countries that have incurred *incremental* costs to provide logistical, military, and other support to U.S. military operations. If the country would have incurred certain costs in the normal course of its activities, those costs will not be reimbursed. Moreover, the cost of reimbursing nations for these costs is far less expensive than if we had carried out these operations ourselves.

Reimbursable Costs

DoD reimburses costs associated with the movement and sustainment of forces engaged in providing support to the WOT. Typical categories of reimbursable support include strategic air and sea lift for deployment, troop rotation (for long-term commitments), and redeployment. Resupply flights may be approved for reimbursement on a case-by-case basis, though prior coordination with Combatant Commanders and the Office of the Secretary of Defense is strongly recommended. Reimbursable sustainment costs include expenditures for food; bulk and personal water; appropriate lodging; laundry; waste removal; base operations support; petroleum, oil, and lubricants (POL) for support of both vehicles and personnel (for heaters, air conditioners, and generators); medical consumables; selected inoculations; and planning conferences to facilitate support to operations. Countries may also incur reimbursable costs when providing

services such as security for transiting or deployed forces. Additional costs that may be reimbursed include those for increased use of equipment or aircraft, additional employment of personnel, operation of a field hospital, incremental activities to manage flight operations, costs incurred to coordinate operations in support of U.S. operations, or incremental costs associated with actual provision of a specific unit. Reimbursement will not be approved for costs associated with salaries for troops, hazardous or overseas duty pay, insurance for equipment or personnel, depreciation of equipment used in operations, spare parts beyond those needed for the mission, or stipends for troops, such as those normally associated with missions undertaken on behalf of the United Nations.

Evaluation and Processing of CSF Claims

The Department of Defense has a multi-step approval process before releasing reimbursements to a coalition country. The guidelines DoD uses to review each claim were established in 2003 in concert with the Office of the DoD Inspector General (OIG). The current DoD process for reviewing CSF claims is as follows:

- A country incurs logistical, military, and other expenses in support of the WOT and submits a claim for reimbursement of those expenses to the U.S. Embassy in that country. (Typically, the Defense Attaché or other defense representative in the Embassy receives the claim for reimbursement.)
- The Office of the Defense Representative- Pakistan (ODRP),in the U.S. Embassy endorses that the country incurred the expenses in support of U.S. military operations in the WOT and submits the request for reimbursement to the Combatant Command.
- The Combatant Command evaluates the claim and recommends reimbursement of those items it deems reasonable and supportable and validates that the support was provided in connection with U.S. WOT operations.

- The Under Secretary of Defense for Comptroller evaluates the claim to ensure the reimbursement is based on adequate documentation and that expenses incurred are reasonable and credible.
- DoD obtains the concurrence of the Department of State and OMB for the proposed reimbursement.
- The Under Secretary of Defense for Policy and the Department of State confirms that reimbursements are consistent with USG national security strategy and do not unfavorably affect the balance of power in the region.
- The Under Secretary of Defense for Policy and the Under Secretary of Defense for Comptroller recommend to the Deputy Secretary of Defense that payment to the country is reimbursement for support to the WOT and that the payment is based on adequate documentation or a comparison with potential U.S. costs for execution of a similar mission or activity.
- The Deputy Secretary of Defense notifies Congress of the intent to reimburse the country with CSF.
- DoD reimburses the country 15 days after the congressional defense committees are notified.

The Department seeks to improve its CSF reimbursement process, reviews it regularly, and has issued revised guidelines that implements recommendations from the GAO and DoD OIG.

Consequently, the Office of the Under Secretary of Defense for Policy, the Office of the Under Secretary of Defense for Comptroller, CENTCOM, and the Office of the Defense Representative, Pakistan (ODRP) agreed last year to request greater documentation from Pakistan. As a result, ODRP increased its oversight of the claims and recommended that a significant number of Pakistani requests for reimbursement be deferred pending receipt of additional documentation, or denied altogether. To ensure a completely impartial and thorough assessment of these changes, the Under Secretary of

Defense for Policy – with the strong concurrence of the U.S. Ambassador to Pakistan – asked the DoD IG to conduct a management review of the CSF program in April. We will continue to work closely with the DoD OIG and others to address their recommendations and suggestions on how to improve this important program.

Importance of Pakistan to U.S. National Security Interests

Since 2002 Congress has appropriated $7.3B for the entire CSF program and Pakistan has been the largest single recipient, receiving approximately $6B in reimbursements following a $373M reimbursement this week. CSF reimbursements to Pakistan have been a significant factor in Pakistan's ability to assist U.S. operations in the WOT. The key question that Congress has raised over the last several months is, "What are the U.S. taxpayers getting from Pakistan for this $6B?"

Pakistan is a key partner in the WOT and plays a major role in our long-term efforts to build a stable Afghanistan. Without CSF reimbursements Pakistan could not afford to deploy and maintain 100,000 military and paramilitary forces in the Federally Administered Tribal Areas (FATA). Since 2001, the Pakistan Army has conducted 91 major and countless small operations in support of the WOT, and it has captured or killed more Al Qaeda and Taliban than any other coalition partner. Following Pakistan's decision in July 2007 to remove by force a group of religious extremists that had taken over the Red Mosque in Islamabad, the number of retaliatory suicide bombings and ambushes of Pakistani military and police personnel increased dramatically. Since September 11, 2001, has taken efforts to combat extremists in the FATA, resulting in the

death or capture of a number of Taliban leaders in the past year. In the past five years, Pakistani soldiers have sustained more than 1,400 combat deaths—700 just since July 2007—and more than 2,400 wounded in action.

The Federally Administered Tribal Areas (FATA)

On a final note, the security of the border between Afghanistan and Pakistan has been the subject of increasing interest and concern to the Administration, Congress, and the International Community, including the governments of Afghanistan and Pakistan. The FATA border region with Afghanistan is now and has historically been a largely ungoverned space. This area—approximately the size of Maryland—was identified in the July 2007 National Intelligence Estimate (NIE) on the Terrorist Threat to the U.S. Homeland and the Country Reports on Terrorism 2007 as a safe haven where Taliban and Al Qaeda forces recruit, train and equip fighters and infiltrate them into Afghanistan. The FATA has always had a special constitutional status in Pakistan. Normal federal or provincial laws do not apply, and the area is only loosely governed under the provisions of the century-old Frontier Crimes Regulations. Operating there is challenging even for the non-Pashtun Pakistanis who are generally considered to be outsiders and interlopers by the fiercely independent Pashtun tribesman. The tribes of the FATA have a long history of military resistance and success in preventing foreign armies from entering and conquering their tribal areas.

It is only by working with Pakistani military and security elements, such as the Frontier Corps and the Special Services Group (SSG), that security is possible in the FATA and NWFP. Neither the Government of Pakistan (GoP) nor a large majority of

Pakistan's population support a U.S. troop presence in the country. The U.S. cannot afford to lose the hearts and minds of the Pakistani people. The United States is committed to stopping Al Qaeda, the Taliban, and other terrorist groups that threaten the stability and development of the FATA and the NWFP as well as Pakistanis' freedom and the open, democratic, and economically prosperous society that Pakistan is working to achieve. Consequently, the U.S. is assisting Pakistan with equipping and training of the Frontier Corps and supporting the government's frontier development strategy.

The U.S. is deeply concerned about reports of ceasefire negotiations and other agreements in South Waziristan and other locations in the FATA and North West Frontier Province (NWFP). Previous attempts by the GoP to negotiate ceasefires and other agreements with the tribes in the FATA and NWFP were deeply flawed. After similar agreements were signed in 2005 and 2006, cross-border operations by extremist groups against U.S. and NATO forces increased substantially, due in part, we believe, to the provisions of the agreements. The United States recognizes that there is no purely military solution to insurgency, but we have made it clear to the GoP that any agreement should be enforceable and backed up by the credible threat of force. Also, any agreement should include a commitment to deny a safe haven to foreign terrorists and prevent attacks against U.S., Coalition, Afghan, or Pakistani forces in either Afghanistan or Pakistan. Finally, it is equally important that Pakistani military forces remain in the FATA and NWFP in order to enforce agreements. This message has been delivered to all levels of Pakistan's government over the past two months and the Government of

Pakistan has told us it will not approve any agreement that does not contain all of these conditions.

In conclusion, there are no easy answers or easy solutions in the FATA and the NWFP. We will need all the tools available to us to be successful. CSF is one of the most useful tools we have in this effort. It enables the United States to reimburse the logistic costs of Pakistan's enormous military deployment and operations in this key region. The new civilian government in Islamabad is currently struggling to balance the requirement to alleviate poverty and illiteracy; deal with nationwide shortages of food, fuel, and energy; contain the spread of religious extremism, and maintain large military forces along the Pakistan-Afghanistan border. CSF, therefore, is critical to our eventual success in Afghanistan and the WOT. Thank you. I look forward to your comments.

Mr. TIERNEY. Thank you very much, General.
Mr. Roth, are you going to give a statement?
Mr. ROTH. No, sir.
Mr. TIERNEY. Thank you, sir.
Ambassador, if you would?

STATEMENT OF AMBASSADOR STEPHEN D. MULL

Ambassador MULL. Yes, sir. Thank you very much, Mr. Chairman. it is a pleasure to be here with your subcommittee this afternoon to specifically focus on the role of the State Department in overseeing the Coalition Support Funds program for Pakistan.

The Bureau of Political-Military Affairs, which I lead, serves as the principal liaison between the Department of State and the Department of Defense on policy issues, including security assistance, and on coordination of U.S. military activities that have U.S. foreign policy implications. As such, the Bureau of Political-Military Affairs manages the process to obtain the Secretary of State's concurrence on programs like the Coalition Support Funds.

We understand the fundamental purpose of this concurrence is to ensure that payments made under this program are supportive of and consistent with U.S. foreign policy objectives for the recipient country and that they will not adversely affect the balance of power in the region.

There are three steps in this clearance process before it comes to the State Department. The government of Pakistan, one, submits a request for reimbursement for costs incurred in the global war on terrorism; to the Office of the Defense Representative at the U.S. Embassy in Islamabad, which is responsible for verifying that the claim is based on quantifiable information provided by the government of Pakistan.

From there it goes to the second step, the Central Command, which is responsible for verifying that Pakistan's claims support the objectives of the global war on terror and U.S. military operations, and the costs would not have otherwise been incurred by Pakistan.

Third, following CENTCOM's verification, the Department of Defense Comptroller evaluates CSF claims for credibility and reasonableness.

Once these actions have been completed, the Department of Defense sends the CSF reimbursement request to the Department of State for the Secretary of State's concurrence. Acting on the Secretary's behalf, my bureau, the Political-Military Affairs Bureau, coordinates with the Bureau of South and Central Asian Affairs and the Office of the Director of Foreign Assistance in the State Department to ensure that CSF payments are consistent with foreign policy objectives for Pakistan and the region.

For Pakistan, these objectives include establishing stability throughout the country, particularly on the border with Afghanistan, and improving Pakistan's capability to provide border security and to conduct counterinsurgency and counterterrorism operations. We also evaluate whether the payments will de-stabilize regional security.

After agreement among us within the State Department, the Political-Military Bureau transmits Department of State concurrence

on the CSF reimbursements back to the Department of Defense. We maintain a very close relationship between both departments, and we ensure that any concerns that we identify during the review process are dealt with effectively through our normal interagency channels.

Pakistan is on the front lines of the war on terrorism, and it has incurred serious losses in the struggle, including, as General Wilkes said, the deaths of more than 1,400 of its security forces since 2001. More than ever, America's security is linked to the success, security, and stability of a democratic Pakistan. The SCS program is a key tool for enabling the government of Pakistan's contribution to our common struggle against violent extremists, particularly in Pakistan's frontier areas.

That is all for my formal remarks. I look forward to answering your questions, sir.

[The prepared statement of Ambassador Mull follows:]

Acting Assistant Secretary Mull's Written Testimony for the House Oversight and Government Reform Subcommittee on National Security and Foreign Affairs June 24, 2008, 2pm, Rayburn Building Room 2154

Mr. Chairman, distinguished members of the Subcommittee, thank you for asking me to testify today on the role the State Department plays in the "Oversight of Coalition Support Funds to Pakistan." I will focus my remarks on the procedures and standards that guide the Department in providing the Secretary of State's concurrence to the Department of Defense so that key cooperating nations in the War on Terror can be reimbursed through the Coalition Support Funds (CSF) program. In addition to providing support to 26 other nations, this program is an essential tool in enabling Pakistan to support War on Terror objectives and U.S. military operations.

The Bureau of Political-Military Affairs (PM), which I lead, serves as the principal liaison with the Department of Defense on policy issues, including security assistance, and on coordination of U.S. military-related activities with U.S. foreign policy implications. As such, the PM Bureau coordinates State Department positions and clearances for numerous Department of Defense programs that require the concurrence of the Secretary of State. Along with CSF, these programs include, but are not

limited to, the Iraqi Security Forces Funds, the Afghan Security Forces Fund, and section 1206 train and equip programs.

The Department of State recognizes that CSF is not a foreign assistance program; rather, serves to reimburse cooperating countries for the support they provide to U.S. military operations. The legislation governing the use of CSF requires that the Department of Defense obtain the Secretary of State's concurrence prior to providing reimbursement. We understand the fundamental purpose of this concurrence is to ensure that payments made under this program are supportive of, and consistent with, U.S. foreign policy objectives for the recipient country, and that they will not adversely affect the balance of power in the region.

There are three initial steps in the clearance process:

1) The Government of Pakistan submits requests for reimbursement for costs incurred in the Global War on Terror to the Office of the Defense Representative at the U.S. Embassy in Islamabad, which is responsible for verifying that the claim is based on quantifiable information provided by the Government of Pakistan;

2) CENTCOM is responsible for verifying that Pakistan's claims support the objectives of the Global War on Terror and U.S. military

operations, and that costs would not have otherwise been incurred by Pakistan;

3) Following CENTCOM's verification, the Department of Defense Comptroller evaluates CSF claims for credibility and reasonableness.

Once these actions have been completed, the Department of Defense sends the CSF reimbursement request to the Department of State for the Secretary of State concurrence. Acting on the Secretary's behalf, the Bureau of Political-Military Affairs coordinates with the Bureau of South and Central Asian Affairs (SCA) and the Office of the Director of U.S. Foreign Assistance (F) to ensure that CSF payments are consistent with foreign policy objectives for Pakistan and the region. For Pakistan, these objectives include establishing stability throughout the country, particularly on the border with Afghanistan, and improving Pakistan's capability to provide border security and conduct counterinsurgency and counterterrorism operations.

Regional objectives include bolstering institutions that provide security; countering extremism; combating the drug trade; and improving peace and stability by building the political and popular will against terrorism. After SCA and F Bureaus provide clearance, PM Bureau

transmits Department of State concurrence on the CSF reimbursements to the Department of Defense. The Department of State maintains a close relationship with the Department of Defense, and we ensure that any concerns identified during our review process are dealt with effectively through the interagency coordination process.

Pakistan is on the front lines in the Global War on Terror. More than ever, our national security is linked to the success, security, and stability of a democratic Pakistan. The CSF program is a key tool for enabling the Government of Pakistan's contribution to our common struggle against violent extremists, particularly in Pakistan's frontier areas. The Department is supportive of the CSF program, which helps to ensure that Pakistan and other nations have the capacity to conduct the sort of long-term, aggressive, and comprehensive campaigns required to guarantee the safety of American lives.

This concludes my formal remarks. Thank you for your time and attention. I would be happy to take any questions you might have.

Mr. TIERNEY. Thank you, Ambassador. We appreciate that.

Mr. Johnson, if you would, please.

STATEMENT OF CHARLES MICHAEL JOHNSON, JR.

Mr. JOHNSON. Thank you, Mr. Chairman and members of the subcommittee, for the opportunity to discuss the findings in our report released today on the Department of Defense's oversight of Coalition Support Funds provided to Pakistan.

First, I will briefly describe the Department of Defense's oversight authority. Second, I will address the extent to which defense has consistently applied its guidance to validate Pakistani reimbursement claims. Third, I will discuss how the Office of Defense Representative to Pakistan's—that is ODRP's—role has changed over time.

Before I discuss findings, I would like to note that Pakistan is the largest recipient of CSF, receiving over 80 percent of CSF reimbursements that have been provided to 27 partner nations since the attacks of September 11th.

Defense officials state that CSF plays a key role in supporting the U.S. national security goals of combating terrorism in Pakistan's federally administered tribal areas, as well as other regions.

With respect to the Department of Defense's oversight authority, in 2002 Congress granted the Secretary of Defense very broad authority to make CSF payments in such amounts as he may determine to be sufficiently documented, the Secretary's determination as being final and conclusive. Defense is, however, required to provide a 15-day notification to Congress of upcoming CSF reimbursements.

Subsequent legislation required Defense to also provide quarterly reports on the use of CSF to the House and Senate appropriations and Armed Services Committees.

Recent legislation required Defense to provide an itemized description of support provided by Pakistan for which the United States would reimburse through CSF.

Concerning the consistency with which has applied its CSF oversight guidance, Defense generally conducted macro level analytical reviews called for in its guidance. These reviews involved determining whether the cost of services Pakistan is requesting reimbursement for is less than that which would be incurred by the United States.

For a large number of reimbursement claims, however, Defense did not consistently apply its guidance. For example, as was noted earlier, Defense did not obtain detailed documentation to verify that claimed costs were incremental—that is, above and beyond normal operating costs; did not obtain sufficient information to validate claims; and did not adequately document the basis for their decisions to allow or disallow claims.

As the figure being displayed illustrates, we also found inconsistencies in Defense's payments that were not explained. This figure shows inconsistencies in U.S. payments to Pakistan for Navy boats. The shaded columns represent amounts paid, and the unshaded amount disallowed, so, as you can see, there have been some inconsistencies in paying those particular claims.

We estimate that Defense has paid over $2 billion in Pakistani reimbursement claims for the months of January 2004, through June 2007, which was the focus of our review, without obtaining detailed information that would enable a third party to recalculate these costs. Defense may have reimbursed costs that were not incremental, were not based on actual activity, and were potentially duplicative.

We also found areas in which Defense's oversight guidance could be enhanced. For example, there was no guidance requiring verification of exchange rates used by Pakistan, which, if performed, could potentially prevent over-billing. The figure being displayed shows that, had the exchange rate been used, the United States was likely to be billed less than it was billed in terms of U.S. dollars. The solid line represents what the claim amount was would have been had they applied the exchange rate. The dotted line is actually what the claims were in U.S. dollars.

With respect to the Office of Defense Representative's role, we found that Defense's guidance did not specifically task ODRP with attempting to verify CSF claims. As such, from the period of January 2004 through August 2006 ODRP did not attempt to verify Pakistani CSF claims. Beginning in September 2006, without any formal guidance or directive to do so, ODRP began an effort to validate Pakistani claims.

As you will see from the figure displayed, ODRP's increased verification efforts contributed to an increase in the amount of Pakistani CSF claims disallowed or deferred. Prior to ODRP's efforts, the average Pakistani claims disallowed or deferred for the period January through August 2006, which is the unshaded area, was a little over 2 percent. In comparison, the average percentage of Pakistani claims disallowed or deferred for the period September 2006 through February 2006 was about 6 percent, and the most recent spike shows an increase in disallows or defers of up to 22 percent.

In summary, the Secretary of Defense has the authority to make CSF payments in such amounts as the Secretary may determine in his discretion based on documentation determined by the Secretary to be sufficient. Defense has not consistently applied its existing CSF oversight guidance, and opportunities exist to further enhance the guidance.

Although ODRP's increased efforts contributed to greater oversight of Pakistani government claims, ODRP's increased effort may not continue unless this role is formalized.

To improve CSF oversight, we recommend in our report released today that Defense consistently apply its oversight guidance, formalize the role and responsibilities of ODRP, and implement additional controls, including working with the Pakistani government to develop procedures to allow greater oversight of CSF. It is our understanding that Defense has taken some action in this area, and we look forward to reviewing the revised guidance.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Johnson follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform, House of Representatives

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COMBATING TERRORISM

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

Statement of Charles Michael Johnson Jr.
Director, International Affairs and Trade

GAO-08-932T

June 24, 2008

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Highlights

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

COMBATING TERRORISM

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

Why GAO Did This Study

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

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

What GAO Recommends

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

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

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.

Mr. Chairman and Members of the Subcommittee:

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

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

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

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

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

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

Summary

In summary, we found the following:

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

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

[4]Defense guidance defines incremental costs as those costs that are above and beyond the partner country's normal operating costs.

calculated as called for by the Comptroller's CSF guidance. For example, as of May 2008, Defense paid over $2 billion in Pakistani reimbursement claims for military activities covering January 2004 through June 2007 without obtaining detailed information that would enable a third party to recalculate these costs.[5] 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;[6]
- approximately $30 million for army road construction and $15 million for bunker construction without evidence that the roads and bunkers had been built; and
- an average of more than $19,000 per vehicle per month for Pakistani navy reimbursement claims that appeared to contain duplicative charges for a fleet of fewer than 20 passenger vehicles.

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

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

[5]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.

[6]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.

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

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

Background

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

their logistical and military support of U.S. military operations.[7] This funding became known as Coalition Support Funds.

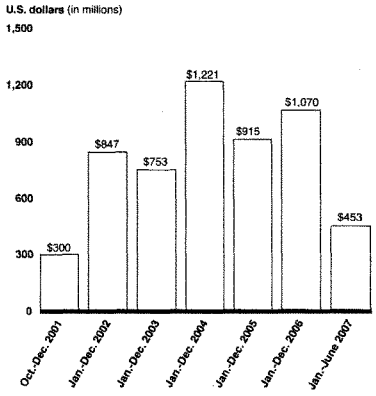
To provide Defense with maximum flexibility, Congress passed the Defense Appropriations Act for Fiscal Year 2002 granting the Secretary of Defense the authority to make CSF payments notwithstanding any other provision of law in such amounts as the Secretary may determine in his discretion, based on documentation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

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

[7]P.L. 107-117, sec 301, Jan. 10, 2002.

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

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



Source: GAO analysis of Defense oversight documentation.

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

Evolution of the CSF Oversight Process

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

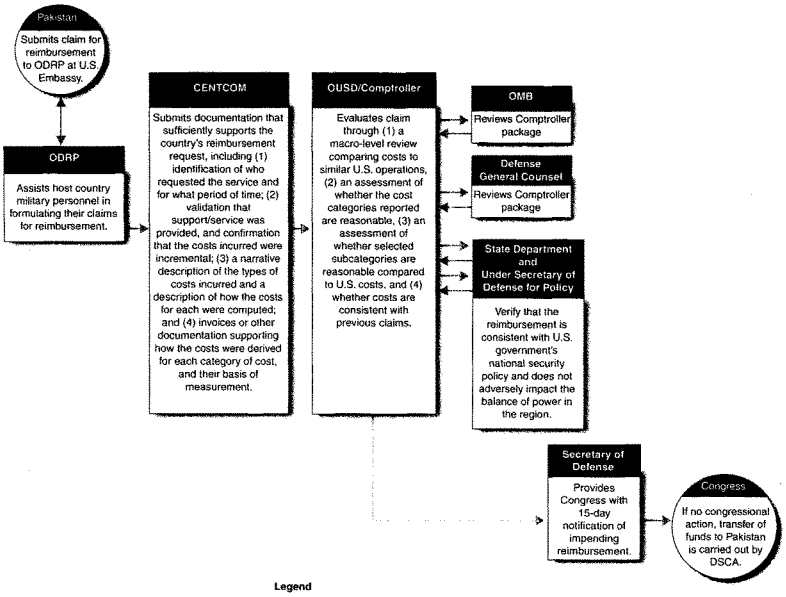
In response, the Comptroller published guidance in December 2003 to clarify the roles and responsibilities of the Comptroller, CENTCOM (and other regional combatant commanders), and ODRP in the CSF process. The 2003 guidance notes that Congress provided the Secretary of Defense with the authority to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

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

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

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

Figure 2: CSF Reimbursement Process



Legend
CENTCOM = United States Central Command
Defense = Department of Defense
DSCA = Defense Security Cooperation Agency
ODRP = Office of the Defense Representative to Pakistan
OMB = Office of Management and Budget
OUSD/Comptroller = Office of the Under Secretary of Defense for Comptroller

Source: GAO analysis of Defense documentation and discussions with OUSD/Comptroller.

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

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

Defense Made Payments without Obtaining Detailed Documentation to Support Pakistani Claims

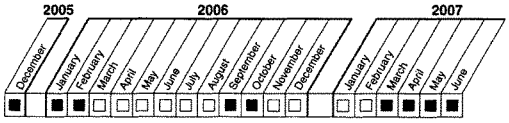
The Comptroller's CSF guidance states that Pakistani claims should include associated invoices. In the absence of such support, CENTCOM officials are to obtain from Pakistan a detailed description of how these costs were computed. For example, claims for fuel should include information such as total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

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

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

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

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



Source: Defense.

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

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

Defense Paid Costs That May Not Have Been Incremental

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

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

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

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

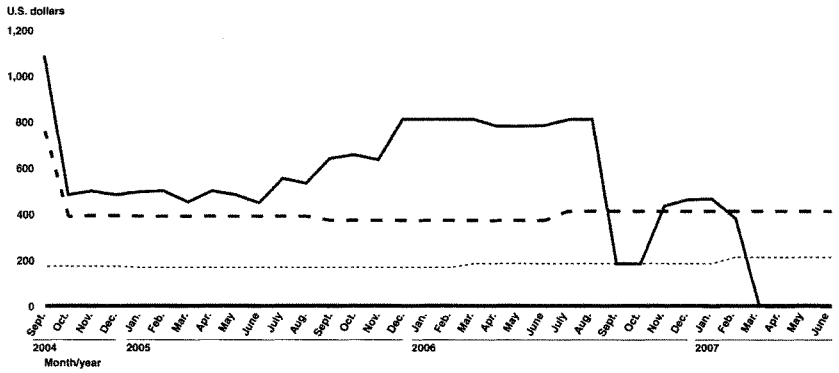
According to the Comptroller's criteria, both the Comptroller and CENTCOM are responsible for validating that claimed costs are associated with actual activities and are based on documentation that adequately accounts for the support provided. However, the documentation we were provided did not provide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

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

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

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

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



Cost per sailor (Pakistan navy)
Cost per airman (Pakistan air force)
Cost per soldier (Pakistan army)

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

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

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

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

paid the Pakistani navy more than $5,700 per vehicle per month in damages compared with the army's average claim of less than $100 per vehicle per month.[13] 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.

Defense Paid Costs That Were Potentially Duplicative

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

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

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

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

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

Opportunities Exist to Enhance CSF Oversight Controls

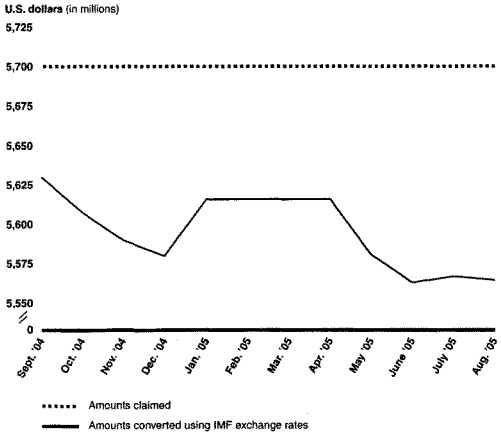
We found deficiencies in the Comptroller's guidance concerning historical comparison of claimed costs and verification of currency conversions. The Comptroller guidance calls for a historical comparison of claimed costs, and such an analysis could identify costs that do not reflect actual activity levels.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

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

[15]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.

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

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



Source: GAO analysis of Pakistani claims and IMF data.

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

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

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

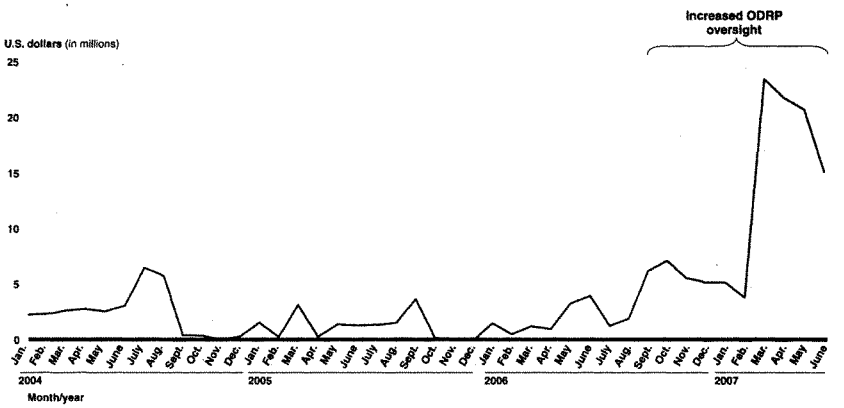
Defense's 2003 guidance did not specifically task ODRP with attempting to verify Pakistani military support and expenses, despite recognition by Defense officials that such verification is best performed by U.S. officials in Pakistan, who have direct access to Pakistani officials and information. Because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

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

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

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

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



Source: Defense.

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

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

No Guidance to Ensure Continued Oversight by ODRP

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

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

Conclusions

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

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

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

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

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

Recommendations for Executive Action

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

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

Agency Comments and Our Evaluation

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

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

GAO Contact and Staff Acknowledgments

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Mr. TIERNEY. Thank you, Mr. Johnson.

I understand also that State has indicated they have taken some of this report and implemented some changes, and we would appreciate GAO's review of that and assessment to us of how far that goes to meeting some of the concerns that were in the report.

It seems to me that we had $6.88 billion as of May 2008 being spent by 27 countries under this CSF program. Of that, $5.56 billion went to Pakistan, 81 percent of it, so the lion's share is going there. It has the appearance that Pakistan was very important after 9/11 in the efforts to go into Afghanistan, and there was an acknowledgement that the small military budget of Pakistan may not be enough to cover what needed to be done to support that effort, and so the United States was looking for a way to help finance some of that to reimburse them, and put this whole program into place. I get that. But I also get the fact that in the beginning, before it was set up and operated very long, it may have been a little loose on some of the followup and accountability.

It is a very, very broad program. The Secretary of Defense has wide discretion. Basically, they need to get documentation adequately accounting for the money to validate that the support was provided, validate that the costs were incurred, validate that the costs were incremental to normal military operations, they exceeded that. But $2 billion in claims without detailed analysis indicating or allowing a third party to recalculate the cost, that went on way too long and in way too sloppy a fashion. If we put that in the favorable light that it was just sloppy and hope that it wasn't more—we have to look at that, as well—but the failure to document the more than $200 million for air defense radar without anybody first raising the question about whether or not the Federally Administered Tribal Areas had a need for radar, and finally the debate about some of it being disallowed.

There was $30 million spent on road construction, $50 million on bunker construction without any evidence that those things were ever done, and $19,000 per vehicle per month spent on the Pakistan's Navy's passenger vehicles, far in excess of what the other military force packages were spending for vehicles that were actually engaged in conflict. So you are talking about 20 vehicles at $19,000 per vehicle per month. Extrapolate that out before anybody sort of gets to the question of whether or not it was duplicative.

Helicopters—on one of our trips there, we were discussing the fact that money was going, some $55 million, for the maintenance of helicopters at the border, only to find out that many of them were still in disrepair after the money had supposedly been spent.

So there are a number of questions that come from this, not the least of which is: is this the right program to be doing this? If we are taking the word of the Pakistani military as to where it went, with bad documentation on that, and then finding out afterwards that the money didn't end up fixing, say, helicopters, or wasn't applicable for food cost, Navy cost, because it goes into the general treasury of Pakistan, and once it goes in there we can't follow where it goes on that. So maybe we have the wrong vehicle. I want at some point to discuss that.

But first, General, just tell me what are you doing to tighten up that accountability procedure so you don't have that $2 billion

hole? And all of it I understand may not be lost or be inappropriately spent, but the question shouldn't be a $2 billion question.

General WILKES. Yes, sir. Thank you. As I mentioned in my remarks here, over the last few years we have had about seven interventions plus two DOD IG reports. Last week we obviously reissued some more guidance to address some of these issues. At our own behalf earlier this year we asked our DOD IG to go out and look at the program, also, and that is the second time they have looked at this.

The program is a reimbursement program, so when that money goes paid to the Pakistan government, they use that to cover the costs that they have already incurred, so the question of being able to follow it into their national treasury, they have already spent those funds.

The issue of the helicopter maintenance and those types of things, yes, I think that what I would say on that is our ODRP folks are the ones that are discovering this, and rightly so. That is part of their job out there.

Mr. TIERNEY. So they weren't engaged in that early on because the guidance didn't even ask them to do it, right?

General WILKES. Well, I would take some issue with that, in that ODRP is an arm of Central Command, and as our combatant commander they have been tasked to implement this program for the Department of Defense.

Mr. TIERNEY. So they just weren't doing it?

General WILKES. Sir——

Mr. TIERNEY. Look, we are just looking at this. It doesn't have to be overly critical. Let's find out where the problems run. From the beginning of the program to probably 2006, ODRP was not doing that on the ground. When they started doing it, all of the sudden we jumped to 22 percent questions from 6 percent.

General WILKES. First off, let me say that we had a visit from DOD out there in the summertime which sparked some of that look from ODRP, and that was our oversight to that. I do take exception to the fact that DOD hasn't been involved in this process. So the ODRP was then doing their job. There may have been some folks out there that weren't properly trained or aware of some of those things, and that was the purpose of that visit was to get those folks up to speed.

But CENTCOM and the OSD, the Comptroller level, have traveled out there and done that, and we have done it again, and we have had our DOD IG again this year, and we have reached guidance and we have a planned trip out here in about August to relook at it again. So there is oversight.

What I was saying is that yes, there is probably some need for more training, more focus on some of these things. Looking at it from the perspective of the helicopters, for instance, how do you build capacity and keep those helicopters operating? That sort of falls under the security assistance role of this, and that is where the money should be funneled, but the parts and pieces are paid for under the CSF piece to make sure that those helicopters that were used in battle——

Mr. TIERNEY. Except did they tell you that they used some helicopters in battle and that they now have a maintenance bill of $55

million? Do you believe that to be the case? You cut them a check for $55 million, it goes into the general treasury of Pakistan. You find out a short while later that those helicopters are still in need of repair. That is a problem.

General WILKES. That is a problem, and we agree.

Mr. TIERNEY. Probably part of the problem is it is very difficult for U.S. officials to get up into the federally administered tribal areas to ever take a look at those helicopters, and so that is one major problem that we are going to have, no matter what it is, in that region, the North West Provinces that have to be physically viewed.

General WILKES. I agree with you, Mr. Chairman. As we work with the security assistance piece of this, we tried to improve their program management to look at their mission capable rates and to make sure that they are putting money back into the helicopters or any other type of equipment they need to be doing, and so we do need to focus on how we can get that piece of it under wraps and make sure they are rebuilding the capacity that they are using out.

Mr. TIERNEY. There was a period of time during the first so-called truces that were put into place out there in the FATA and the North West Province territory where it is said that we were spending about $80 million a month for troops that were at that point in time inactive on that. I mean, that is another issue. Who verifies that the activity is actually taking place if the money is being spent on that? Those are huge numbers and create some real problems and questions in that program.

General WILKES. Yes, sir. As you know, the access to Pakistan is controlled by the government, and not having U.S. troops there or access to some of this stuff—and we don't have access in the FATA—creates an issue for us in looking at it and verifying and validating. A lot of that is dependent upon the Pakistani government to give us those statistics on what they are using out there. We can verify it through other sources as to whether an operation took place.

Let me also remind you that——

Mr. TIERNEY. Let me stop you there for a second. Why didn't we, because we obviously would have kept paying that money even though the operations weren't taking place for that period of time.

General WILKES. Well, we do have a list of the operations that took place that CENTCOM has validated to us and provided it at the OSD level.

Mr. TIERNEY. So CENTCOM is telling us that during the period of that truce period, when we are told that it was a stand-down basically of military activity by the Pakistan forces in that region, that there was still enough activity going on to warrant the same amount of money pre-truce during the truce and after the truce? It was consistent all the way along, even though they changed the mode of operation or whether they were operating at all?

General WILKES. I have followed your question here. I am going to have to check on the data for that for you, because I don't know exactly what was approved or not approved during a particular truce piece of it.

Mr. TIERNEY. I didn't want to cut you short. Did you have something else you wanted to say?

General WILKES. Well, the point that I was going to make is that this gets back to the discussion of incremental costs and do we pay for this. I think getting to your point of is there a consistency of $80 million a month being paid, we have to remember that before 2001 there were no Pakistani forces employed in the FATA region, and they were put there at our request. We couldn't control the level or the numbers of troops that were put in there. That is a Pakistani government call. But the fact that they moved in there is something that they weren't doing before, so therefore should be considered an incremental increase in their normal operating costs.

Mr. TIERNEY. I understand that point. The question is whether or not they were actively engaged and whether or not there was a fluctuation of how much money they were spending because they were doing something versus how much money they were spending because they were sitting there.

General WILKES. Yes, sir. Sitting there, they were not in a garrison force; they were there providing border security. They have check points and——

Mr. TIERNEY. Mr. Johnson, do you have any numbers as to that period of time from your report?

Mr. JOHNSON. The period of time with——

Mr. TIERNEY. During that so-called truce period.

Mr. JOHNSON. We do have I guess the spike figure that was shown that was put up earlier reflected the period of time. We don't reflect the period. We do have that information. We can get with you within that spike there. We can get that to you, Mr. Chairman.

Mr. TIERNEY. All right. We appreciate it.

Mr. JOHNSON. Yes, sir.

Mr. TIERNEY. My initial round time has expired, but we are going to come back to some of these questions. I think it is well worth exploring.

Mr. Shays, you are recognized for 10 minutes.

Mr. SHAYS. Thank you again, Mr. Chairman, for having this hearing and spending so much of your time and focus on Pakistan and Afghanistan.

I want someone first to tell me why Pakistan should get 80 percent of the dollars.

Mr. ROTH. Well, I don't think it is a question, sir, that Pakistan gets 80 percent of the dollars. I think the way the facts have occurred post-9/11 is the Coalition Support Fund was set up to take care of these kinds of events where we did, in fact, get support from certain Coalition partners where they request reimbursement. We then——

Mr. SHAYS. Let me ask this question: Pakistan gets 80 percent of the dollars. Explain to me why they should. Why should 80 percent of the effort be a Pakistani effort? I mean, there is a reason. I am just wanting to know what, in your words, it is.

General WILKES. Well, Congressman——

Mr. SHAYS. In other words, there are 28 countries, give or take, so when one takes such a giant amount, there is a reason why we allow that to happen, and I am just wrestling with why.

General WILKES. Well, Congressman, I would just say it goes back to the border issue that we have there with our commitment in Afghanistan, and, as you know, this safe haven that is created in that area. The Pakistani forces can take this mission on and do it at a far less cost than we could, even if we were allowed to be deployed in there, which we aren't. So they are doing a mission set under the OEF hat that our U.S. forces can't take on or the Coalition forces.

Mr. SHAYS. So tell me what you think we have gotten for $5.6 billion. And that is over what period of time?

General WILKES. That is from 2001, late 2001, 2002, to present, 7 years.

Mr. SHAYS. What have we gotten for that? What did it buy us?

General WILKES. We have a partner in the war on terror that is trying to control the safe havens, that it recognizes that they have an internal insurgency problem, and that are participating with us to stop cross-border activities and to control this insurgency that has grown in that area.

Mr. SHAYS. I am at a disadvantage because I spend all my focus on Iraq, but everything I have read has said that basically Pakistan is pretty much a basket case—I don't mean the central government, but the areas where al Qaeda seems to be—and that we really haven't gotten really anything for it. In other words, things have gotten worse. Sharia law seems to be more important in those regions. It seems to be more lawless. It doesn't seem to me like things have gone in the right direction.

Mr. Roth, maybe you could comment?

Mr. ROTH. Well, sir, in terms of the actual progress being made in Afghanistan, I think I need to defer to the policy folks. As I understand your question, sir, it is more a policy question, what have we gotten for the month.

Mr. SHAYS. Right.

Mr. ROTH. Rather than have we appropriately reimbursed the costs that have been outlined to us.

Mr. SHAYS. I think it is pretty clear that we haven't appropriated the cost. This reminds me of what we did with the Iraqis with their $9 billion. We gave them the $9 billion. It was theirs. They didn't have a tracking system. They paid their soldiers—and who knows how many soldiers they had, so we gave their generals some money and we can't account in a positive way for how the Iraqis spent the money that we gave them that was their money. This just seems to be the same story. The difference is it is our money. It is just like a bad dream for me to be hearing this.

We aren't sure that they actually got the money that they deserved to get. We are pretty sure they overcharged us. But then I want to know, OK, all things that notwithstanding, we allowed that to happen. I think Mr. Gates is changing that. But I don't know what we have. I don't know what we bought with that money. I don't know what it did. It makes me think the program is really kind of seriously flawed.

General WILKES. Sir, if I could add that, besides a key ally on the war on terror, we do have to remember that we have the access through Pakistan, an air transit corridor which allows all of our resupply air through Pakistan unfettered. We have the ground lines

of communication that are there, where we have about probably 80 percent of our effort of ground transportation coming through the port in Karachi up through the two passes in the Frontier provinces. And we have probably about 60—I am going to say 53 to 55 percent of our oil that is our gas that is being resupplied into Afghanistan is initiated out of Pakistan. So there is a great logistical base.

To remind, it is a very difficult resupply environment there if you have to come in through the Central Asian region, Europe through Baku across versus being able to transit Pakistan. That would create quite a difficulty for us, military, to resupply.

Mr. SHAYS. OK. Let me ask you, Mr. Johnson—and welcome back, as well—the United Kingdom newspaper, The Guardian, claimed that as much as 70 percent of the $5.56 billion reimbursed to Pakistan was mis-spent. Was that their reading of what you did and just interpreting it falsely, or do you think 70 percent of these dollars were misspent?

Mr. JOHNSON. We have not specifically looked at the expenditure, but at the oversight process for reimbursing them. We did not have a 70 percent calculation we can share at this time.

Mr. SHAYS. OK. I will end by having any of you tell me why we should maintain this program.

General WILKES. Well, sir, I think, first off, I would say that, because of this key ally, and it is a nation state that is in the central area of the world where this nexus of terrorism is really embedded, we have to continue to support them in order to achieve our aims there. The Pakistani budget has a problem right now. Obviously, we have a lot of work to do in trying to solidify their budget. They are not able to support these operations that are over and above what their normal costs would be for maintaining these forces in garrison focused on the eastern border, and so deployed out of there these are incremental costs that they are going to have to incur if we want them to continue support in the war on terror. They can't afford it, and if we don't it won't happen.

Mr. SHAYS. Thank you, Mr. Chairman.

Mr. TIERNEY. Thank you, Mr. Shays.

Mr. Higgins, you are recognized for 10 minutes.

Mr. HIGGINS. Thank you, Mr. Chairman, and thank you for your leadership, as well, on this very important issue. Pakistan and Afghanistan are critical to the long-term security of our Nation, and obviously making progress in the war on terror is fundamental to progress in Pakistan and Afghanistan.

General Wilkes, you had mentioned that the Coalition Support Funds were critical to the success of our effort there, that $5.6 billion in a 7-year period, in addition $300 million in military assistance. You know, at least a year ago in Pakistan there seemed to be one person in charge, maybe not the ideal person in charge, but there was some line of accountability. Today there is a huge leadership void in Pakistan. Nobody seems to be in charge. There is conflicting information coming from the civilian government. Part of the civilian government has withdrawn from the responsibility altogether.

Now, we have a $5.5 billion commitment to an area. It seems like a lot of those resources have been squandered altogether and have produced a result that is undesirable.

I just want to make reference to the report in response to section 1232(a) of the National Defense Authorization Act. The Department of Defense states, "The war on terror has caused Pakistan to engage in a counterinsurgency struggle for which it is ill suited. The Army has been trained and equipped as a conventional military with a primary focus on fighting a conventional opponent. Pakistan's Frontier Corps has had the responsibility to maintain security in the tribal area, is under-trained and ill-equipped."

The report goes on to suggest that it will take 3 to 5 years before any counterinsurgency training or equipment upgrades are realized in the battlefield.

My question is: what have we been paying for? And the result I think, based on any objective analysis, is wholly unacceptable. Your thoughts?

General WILKES. Thank you, Congressman.

The CSF is a reimbursement for operations with the current force structure, and we do assess that force structure needs training and equipping, and we are looking at that through other venues here other than CSF, and it comes partly in the security assistance part of the House and some 1206 funding.

It gets back to this issue that the chairman made with the helicopters, how are we assuring that those helicopters are going to continue to maintain their fully mission capable rates and how do we funnel the money in there to get that properly done. I think it is through some of these other programs, a strategic development program and security development program that we have. We are interested in trying to outfit the Frontier Corps to a level where they can do their job; in other words, personal equipment type items, vests and weapons, communications equipment. I think that the potential for training the Army in some of these counterinsurgency techniques would be helpful to make them much more effective in the region.

Mr. HIGGINS. All right. I understand that, but, you know, obviously the U.S.'s support for Pakistan is critically important to our strategic interests in the region and for our own national security, and you said in response to Congressman Shays' questioning that we have an insurgency problem. The fact that the American funding that is going to provide significant financial support to the Pakistani government under these Coalition Support Funds in reimbursement, again, doesn't appear to be producing any kind of measurable result that is consistent with our strategic interests in the area.

So again I ask the question: where are we going with this thing?

When you look at the opinion of people in Pakistan about the U.S.'s efforts there, it seems to confirm, to validate the criticism that our strategy thus far has been highly ineffective. Trust for American motives have sunk to new lows. Three-quarters of Pakistanis say that the real purpose of the U.S.-led war on terror is to weaken the Muslim world and dominate Pakistan. Pakistanis see the United States as posing the greatest threat to their own per-

sonal safety. Of Pakistanis, 44 percent think that the United States poses the greatest threat to their personal safety.

So when you look at all this oversight, between the Department of State, the Department of Defense, and others, it would seem to me that the American people should expect a much greater outcome with respect to counterinsurgency efforts in Pakistan and along the Pakistan-Afghanistan border. This is too much money—too much as a percentage of the overall budget to fight terrorism throughout the world—to be seemingly wasted in an area that is so critically important to our national interests.

General WILKES. If I could make a couple of observations.

Mr. HIGGINS. Yes.

General WILKES. One would be that we have gone from President Musharraf to a duly elected government now, and it is going to take a while for that government to get their capacity generated and to be able to govern in the full breadth that we would expect. Prime Minister Gullani is very interested in doing this. He has the right view on a lot of these things. He understands the need to retrain the Army. And they are going to have to, I think, attack the first problem first, which is getting their political house in order, getting the economics squared away, and hopefully, in parallel, try to attack this problem of retraining the Army.

I think it should be a Pakistani initiative to take a look at public perceptions, and we have continued to make trips over there, and our Ambassador and embassies are engaged with the Pakistanis, and we are well aware of the feelings of the population, but that government has to get its feet on the ground and has to attack this in concert with us, and so we are looking for their leadership in those areas.

Mr. HIGGINS. Are you confident that this government has the capacity to do that?

General WILKES. I think this gets back to are we willing to invest there or not. I mean, that is a very basic question that we have to wrestle with. I think that we have to put our trust in them and we have to convince them that we will be there to help them through this and to build those relationships that are necessary to support this fledgling democracy that we asked for, and so we have to nurture it through.

Mr. HIGGINS. OK. I have no more questions, Mr. Chairman. Thank you.

Mr. TIERNEY. Thank you, Mr. Higgins.

You know, I don't say this to be a wise guy or to go after you, General, but you made the comment that the strides to democracy recently in Pakistan, and my first reaction to that was, No thanks to the United States and the failed policies we had there for so long of not backing democracy in Pakistan but backing one individual who was, in fact, with the military on that. We have given the military and the intelligence services in Pakistan a pretty strong position vis-a-vis us, so we have all of the tactical needs that we have of their air space, traveling across their land, of access to what we are doing in Afghanistan, and they have a history now of money without much accountability coming to them.

So it is difficult. If they decide, as it appears they are doing now, that the military are the ones that are trying to draw an agree-

ment with Batullah Massad and others there, sometimes excluding the new government of Pakistan, we have an issue here, and it seems to me that we should start doing now what we hadn't done before, and that is try to support and strengthen the civilian government and strengthen their position vis-a-vis the military so that the military has to go to them for the financial support on that.

So I am thinking that maybe we are not going about this the right way to use Coalition Support Funds as a way to transfer money from the United States to them. Maybe it is too hard to account for in that process. Maybe we ought to set it up through some other kind of assistance where it empowers and strengthens the civilian government, gives them the kind of control a civilian government should have over the military so the military has to look to them and not go off making deals with insurgents and militants unbeknownst to the Pakistani government in some cases and certainly contradictory to what might be a joint interest in playing down militantism. So that is one thing, I think, that we might want to take a look at on that.

Then the question is, If we do give them assistance of some sort, how do we measure the results on that? Obviously, we haven't done well measuring results on this incremental aspect. I would question the incremental aspect on this. Tell me if I am way off base on this. The people that we are talking about being a concern to the United States and the western countries are people that Pakistan should see as an existential threat to their own existence; am I right?

General WILKES. Yes, sir.

Mr. TIERNEY. So I am not sure that this is incremental; that what they are doing in terms of trying to get into FATA, in the North West Provinces to stop people from going from Pakistan into Afghanistan, is just the U.S.'s interest; it is their interest, as well, and Afghanistan's interest. So maybe a program that reimburses them for alleged incremental costs is not the right way to do it, because there aren't incremental costs; they are their costs and their interests. Two, it sends the wrong message—the message that they are just our lackies off doing our work.

Maybe we should structure something, instead of just improving on all the things that Mr. Johnson's team pointed out, we ought to look at a different way of how we send aid entirely in that direction. I would ask both the State Department and the Department of Defense to look at in that perspective and come up with some ideas.

Have either of you or your departments engaged the new government of Pakistan about what their ideas are in terms of having either a new process for assistance there and a new way of determining whether or not it is successful or are there results coming, and if it is not, and you are still talking about the CSF money or whatever, you engage them about what else can be done for transparency and accountability.

I will start with you, Ambassador Mull, and give the general a rest.

Ambassador MULL. Yes, sir, Mr. Chairman. I completely agree with you that it would be a mistake to view our relationship to Pakistan just through the lens of providing military assistance.

I might just say right at the outset that we don't view—and I don't think the law views, either—the Coalition Support Funds as a type of assistance. This is really a reimbursement for military operating expenses that, first and foremost, benefit the United States and, as General Wilkes said, allow us to get money in and out of there.

Mr. TIERNEY. Except that it has turned out to be some sort of assistance because we can't tell whether or not they used the money for incremental purposes or not, and the perception of American people and the rest of the people, after reading Mr. Johnson's report, are going to be, hey, we gave them money, it went to the general treasury, something went somewhere, and other things that we thought we would get done weren't done.

Ambassador MULL. Right. I certainly agree with you. I think all of us as taxpayers have an interest in common to make sure that the money is accounted for, and I think we have all come a long way. We probably have a bit further to go. But I personally know Ann Patterson, our Ambassador in Pakistan, cares very deeply about this and has applied a very sharp eye to it, and she will continue to do that.

Our strategic objectives as to Pakistan aren't just developing a base for ourselves——

Mr. TIERNEY. I am going to interrupt you a second. We are going to get into that in a second on that, but, with respect to whether or not you have consulted the government of Pakistan, have you had conversations and consultations with them?

Ambassador MULL. Yes, sir. We have regular conversations not only with Ambassador Hakani here in town, but Ambassador Patterson in Islamabad has regular contact. Interestingly, on the security assistance side of things, the new, democratically elected government has pretty much affirmed the previous government's request. They have really asked for continued amounts of the kind of security assistance that we have been providing for the past several years now. They also want more to help. We have been working carefully with the Congress to come up with economic opportunity zones in Pakistan. We are looking to expand our assistance in education, health care, and all the other things that will diminish the terrorist threat.

Mr. TIERNEY. I can understand why they are asking for continuation. I am going to share this with you a little bit. When we were there and talked to folks over there, they hadn't even been read in on what these programs were. Because of our concentration on General Musharraf and the military, to almost the complete exclusion of any adequate attention to the rest of the democratic process, either the core system or the legislature, when those elections happened not only did we not have good contacts and good relationships with folks; they had never been read in on the security programs over there. So of course they are going to ask for it. They want the same money, at least. They don't want money to dry up, and they want to have options on that.

So if you said to them, do you want us to continue the money, yes, of course we want you to continue the money. Don't punish us because finally democracy worked and stop giving us money that the other people may or may not have misused. But I wonder if you

have had conversations with them about what the options are, that resources can be provided if we work together on what the strategic goals are in this region, and maybe do something differently than Coalition Support Funds, and we can have the objectives reached in some other way.

I would hope that you would have that conversation with Ambassador Hakani and with the other folks over there, the Prime Minister and others, on that. Because I think, from what our conversations were, they are so glued in it is like, hey, don't take money away from us. We haven't been the ones that have spent it on that.

General, what do you think? Have you had conversations with the folks, as well?

General WILKES. Yes, sir. Our folks, ODRP, CENTCOM, even as we travel back and forth—and I was there 2 weeks ago—the discussion is largely on, first off, what are they doing now with Coalition Support Funds, how do we improve that process, but then how do we build the capacity to give them what we think they will need to focus on this counterterrorism mission set.

We have, I think, some pretty good thought on that mission, the security development plan, and that is a way to help focus, but that is lower down the line of the security assistance and billing capacity line. You are still going to have to have some sort of a format to help reimburse them for their operation and maintaining costs when they are actually doing the fight in the FATA, because I don't think their budget is going to be able to sustain it for a while.

Mr. TIERNEY. Perhaps, and perhaps only if they are only doing any fighting in FATA or whatever, and therein lies the rub.

General WILKES. Yes, sir.

Mr. TIERNEY. Right now it is the military running the show over there. They are the ones that are deciding whether they are going to fight or not fight. They are the ones who are going to decide whether they are engaging in some sort of so-called truce or pause or whatever, and they are not really clueing in even their own government, let alone ours, so that is why, if you keep under this Coalition Support Funding mechanism, they say they spent money on helicopters, they say they spent money on food for Navy, Air Force, and Army. They say they fixed vehicles. They say they had all of this logistical stuff. You sent them a check, and we never know if it gets there.

Maybe we ought to look at some funding that says, OK, we want the flow of traffic from the Pakistani side to the Afghani side to slow and stop eventually, or whatever. We will measure what assistance is going to go over by the performance of that happening. We don't care if you do it by truce or you do it by fighting or you do it by some other mechanism, or whatever, but that is how we are going to judge it, not on a reimbursement formula where you can tool us around, but on a benchmark where you say, all right, this stops, or certainly slowed and moving to stopping on that.

I think that is essential, because it does come in to a strategic situation here and we don't have a strategy over there. We got distracted in Iraq. We have been jamming around over there. We took forces and we took intelligence and we took equipment that we needed and everything out of this region of the world, and now we are scrambling to get back.

The question is: if we get back, are we going to continue just to tactically hit somebody every time they stick their head up? There is whack-a-mole, I think is the game. Is that the way we are going to go about this, or are we going to have a strategic view? What is our strategy that we are still waiting for those objectives to be done?

I would think our strategy is to stop the al Qaeda types of those militant types in their trans-national campaign, which their campaign is to stop integration of the Islamic world into today's international order. So how are we going to do that? You are not going to get any further along by just fighting the individual fights. They can do that all day long. They have the territorial control, they have the logistics, they have people coming from other areas. We have to have some idea long-range what we are going to do. If we are going to give assistance to Pakistan and Afghanistan, it probably should be training their people to take on the mission, their military, their police, to get the work done. And we can do the training. International forces can help do the training, do the equipping, and do all of those things and have some measure as to how the rest of that is working on that basis.

But I would think that would be the way we would be looking at it here, and I think—tell me again if I am wrong—we are not engaging Iran, Russia, China, the former Russian, now individual countries along the northern and eastern area, in getting them to understand what the stake is here, getting them to understand that we are not going in there to try to have some sort of U.S. hedge money in this area and take advantage, or whatever, but we all have to work to a stabilization. Unless that is part of our strategy incorporating long-term conversations with these people, what are we doing? We are going to be there for the rest of time.

Does that sound reasonable to either you, Ambassador Mull, or General?

General WILKES. Sir, I think it is reasonable. I would comment that we are engaging these other nations that you are talking about.

Mr. TIERNEY. Some of them. You are not engaging Iran on any depth. You are not negotiating with Russia in any depth. You are not engaging China in any particular depth on this. Some of those countries a little bit, some of them none at all, and I really question whether you are really sitting down with a comprehensive, in-depth consultation as to what are the regional interests going to be, what are the roles of Pakistan and Afghanistan going to be in the security of that region that leaves all of them unthreatened, but all the common concerns addressed.

General WILKES. Right.

Mr. TIERNEY. I think we would come up with a funding mechanism on this, gentlemen, that has to take into account all of those things, including police. Some of you were here last week on that. The police situation, the Rule of Law situation doesn't apply just to Afghanistan; it applies to Pakistan.

General WILKES. Absolutely.

Mr. TIERNEY. And our trips there, whether we talk to the business community, whether we talk to political leaders, the media, everybody understood that it is not just the idea of getting the mili-

tary up to snuff, because the rubber hits the road with the police in these communities getting the best intelligence, knowing best how to deal with people whom they know and recognize and are respected by on that area. So I would hope that our strategy takes that into account, as well as the development and all that.

Mr. Platts, would you like to be recognized?

Mr. PLATTS. Thank you, Mr. Chairman. I appreciate your hosting this important oversight hearing and working with the ranking member. I would echo my support for what I would call your performance-based approach for the investment that we are making. I think some wise counsel there.

I do want to followup, and I apologize with being back and forth. My fifth hearing today, five different subcommittees, so I apologize if I am repetitive. I am going to try not to be.

First, on a followup on the issue of the increased oversight that has occurred since early 2006 and ODRP started, I would say, more closely scrutinizing the submissions from the government of Pakistan, General Wilkes, it seems like that was just an informal change, not something that was formalized. Is there anything today that has formalized that additional oversight, that we are more closely scrutinizing everything submitted to us, or is it still kind of an informal approach of the person in that position?

General WILKES. No, Congressman. We have had seven different interventions plus two DOD IG audits since the 2001 timeframe in this. The late summer of 2006 we actually had a team with our Comptroller and CENTCOM go out to the ODRP, sit down and talk with those. That is what precipitated them looking at this. It wasn't something that just sprung up on an independent—I am sorry. Go ahead, sir.

Mr. PLATTS. I understand it has come about because of more focus on the issue, but is there a process today that will ensure that if the personnel changes in Pakistan and ODRP, that whoever follows on is going to approach it in the same fashion.

General WILKES. Yes, sir, there is. Let me ask Mr. Roth to give you some more details on that.

Mr. PLATTS. OK.

Mr. ROTH. And again, sir, our feeling was, in fact, that ODRP had worked closely with us in terms of some of their increased assessment and some of their increased reviews. That all said, we have just recently published some additional guidance to the field that will more institutionalize, if you will, the relationship that we have with ODRP. We have indicated, I think, what there is a need for, and the GAO report has actually been somewhat helpful there. Perhaps some additional training would be appropriate in this area, as well.

So we are committed to clarifying the guidance. We already have clarified some guidance just here in the last week or so. And we are also committed to providing more training. The General alluded earlier, our plan is some time late this summer that we are actually going to send a team into the theater there to try to work with the personnel there in the theater.

Mr. PLATTS. Great.

Mr. ROTH. Try to improve that.

Mr. PLATTS. Yes. I have had the chance, with Mr. Higgins and with Mr. Lynch, in traveling to the theater, actually a number of times with Mr. Lynch, and the importance of this partnership. If the investment we are making is truly having a positive outcome, it is in our best interest to continue it. I guess the concern is what are we getting for this investment.

On the same side of formalizing our approach to scrutinizing what is submitted, where do we stand as far as getting more cooperation, agreement of greater transparency from the government of Pakistan for what they submit so that we can better verify that we know what we are paying for, in essence? What type of dialog is ongoing or has already occurred to achieve that greater transparency?

Mr. ROTH. Again, here, too, and in particular in response to some of the findings by GAO, we have made a commitment to work with the Pakistanis to see if, in fact, there is some additional documentation, some additional detail that they could provide us.

Let me say, that said, I think it is important for us to note we do, in fact, today, we feel, get a significant amount of detailed documentations from the Pakistanis. They provide to us reports, 18 to 20-page claims that provide details into 15 or 20 different categories that we take a fair amount of time to assess. There is a multi-layered review beginning at the Embassy in Pakistan, continuing on through the Combattant Commander and CENTCOM, and then on to our staff here and the Comptroller's staff at the Pentagon to review and assess the documentation that the Pakistanis do, in fact, provide us.

But, that said, again, you can always get more information. More information is better than less, and so we have, in fact, concurred with the GAO finding and we will look to see if we can engage with the government of Pakistan to see if there is additional information that can be provided.

Mr. PLATTS. Under the more robust review that is ongoing since 2006, and looking at the 2007 numbers, where a 22 percent rate of rejection, or at least further, can you classify what would be the most common team or type of grounds for rejecting a claim that was submitted? Was there something that jumped out?

Mr. ROTH. Particularly this most recent claim—and I think the GAO report goes into that, as well—there is an issue here with the radar support. We have deferred payment on the radar support. We are taking a look at that. There is not a consensus right now in terms of what the radar support provides in terms of the U.S. operations or not. So we are looking at that and we are trying to do an assessment of that. We are working with our policy folks and with the Combattant Commander to see exactly what role the radars are.

Over time, though, over the 7-years we have deferred or disallowed approximately 8 percent as an average. As GAO has indicated, there was actually a spike in the beginning before the review period of 2004 where we were disallowing approximately 14 or 15 percent of the claims, and there was a period of time where it was about 2 to 3 or 4 percent, and then recently here there has been an increase in the amount of claims that have been deferred.

The kinds of things that we have not allowed, we have received from Pakistan a total of approximately $6.5 billion in claims. We have paid $5.9. That is where the number comes from in terms of approximately 8 percent that have not been allowed. The kinds of things over time we have not allowed is, for example, training. We do not consider training to be an incremental cost of supporting the U.S. operations.

There was a period of time when Pakistan repeatedly asked for landing fees at airfields. They asked to be reimbursed for landing fees. We did not, in fact, approve the landing fees.

There was some issue with Navy port services. We have not reimbursed for Navy port services.

There is an issue with the boats. That is still something of a contentious issue. We are working through that. We have, in fact, allowed payments on the boats and we have disallowed payments on the boats. That is a good point that GAO has indicated we haven't been as consistent as perhaps we should be in that area. We will try to improve that to make sure that we are more consistent.

There was, for example, a contingency fee that the Air Force had asked us for, a 10 percent contingency fee for a few years, and we did not allow those.

Those are examples.

Mr. PLATTS. Those things that you have identified as not, I assume that we have given the government of Pakistan saying we will not pay these.

Mr. ROTH. Yes.

Mr. PLATTS. They are not acceptable. Is there an effort to still submit those types of claims, or once they get the message do they accept that, or do they submit them hoping they will just slide through?

Mr. ROTH. I don't know if it is a question of whether or not they hope they will slide through. All the things that we have disallowed the government of Pakistan has accepted our judgment on that. In the case, for example, of the landing fees, to be honest, they asked for them repeatedly over a number of months or perhaps even over a year or two, so they kept asking for them and we kept saying no. I am told now in the last year or two they no longer ask for those landing fees to be reimbursed.

Mr. PLATTS. On the reference to the percent of denials, 6 or 8 percent, dropped to 2 or 3, back up, is there any correlation between those changes in what was rejected and personnel changes? In other words, a different approach? That kind of comes back to my initial question of formalizing the approach.

Mr. ROTH. Fair point. Not to my knowledge, but you can't take personnel out. Obviously, personnel rotate in the theater. People come, people go. We have actually, to the point the General has made here a couple of times, we have tried to improve our oversight. We have had a number of, as he indicated, interventions. We have had two visits from the Comptroller's staff. Our own staff has visited in 2004 and in 2006. We made visits to the theater to try to educate the folks that were there and also meet with personnel from the government of Pakistan, as well.

So over time we have actually tried to identify. We had our own Inspector General look at the procedures that we had in place, and

we have tried to follow the findings of our own Inspector General. As the General indicated, this past winter we asked our DOD IG once again to review our process and our procedure, and there is a report that will be imminent here within the next few weeks or so from our own Inspector General.

Mr. PLATTS. Mr. Johnson, in your review and your summary you talk about $2 billion that maybe sufficient information wasn't provided, and then other statements about there may have been reimbursements for other activities that weren't performed. In a broad sense, first, it sounds like one is there is clearly a documentation issue here of what we paid for, did we get what we paid for, etc. Did you find any extensive evidence of outright misappropriation of funds, funding of illegal activities, anything that is not documentation related but just clearly wrong?

Mr. JOHNSON. No, we did not find any indication of that.

Mr. PLATTS. OK. One report says that—I think it was in The Guardian newspaper—that as much as 70 percent of the $5-plus billion, that was misappropriated, not spent how we would intend it to be. Anything that you have seen that would seem to verify that huge percentage?

Mr. JOHNSON. Well, again let me emphasize we looked at the time period from January 2004 up to June 2007, and so it was at least $2 billion. It could be more. So our time period did not focus on the period prior to 2004.

Mr. PLATTS. I will conclude here. Thank you, Mr. Chairman.

And about half of that time period was when we had the heightened scrutiny, I guess, or energized scrutiny, as well.

Mr. JOHNSON. The latter part of that time period, and that was a time period where there was a change in the security assistance officer who was put in place at the time, but it was also close to the time period when the Comptroller and others went out and developed additional guidance.

Mr. PLATTS. Thank you. I appreciate each of your testimonies, and also each of you for your work and service to our Nation.

Thank you, Mr. Chairman.

Mr. TIERNEY. You have been hanging around with Mr. Lynch too long.

Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman.

This is primarily for Mr. Sebastian and Mr. Johnson. I am interested in your view as to the general level of corruption since 2001 through Musharraf's rule of the country and the new civilian government that is emerging. Are there promising signs that internal reform is, in fact, taking place? And how would you characterize the level of corruption? Is it sporadic? Is it moderate? Is it pervasive?

Mr. JOHNSON. Well, Congressman Higgins, corruption was not an issue that we focused on in our engagement. We specifically looked at the extent to which Defense was implementing its guidance that they had put in place.

Mr. HIGGINS. Right, but my concern is that level of accountability for how these funds are spent has to do with the integrity of the bureaucracy that is seeking reimbursement for these funds. So I think corruption and lack of accountability is, in fact, very valid

when you are talking about the expenditure of considerable funds in that area for a specific purpose.

Mr. JOHNSON. Yes. We do note in our report the need for the U.S. Government to work closer and work with the Pakistan government to provide additional documentation to support the billings that we have been provided.

Mr. HIGGINS. Mr. Sebastian.

Mr. SEBASTIAN. I would actually have to concur with Mr. Johnson. Again, the focus of our review was simply to validate whether Defense was utilizing its guidance in looking at support coming in from the Pakistani government to reimburse on claims, so the issues that we identified had to do with lack of adequate documentation to support those claims, and that really is as far as our work went.

Mr. HIGGINS. General Wilkes and Mr. Roth, a February 2008 article in the Washington Post quoted a U.S. official familiar with past U.S. payments as saying, "Padding? Sure, let's be honest. We are talking about Pakistan, which has a legacy of corruption." But if they are billing us $5 billion and it is worth only $4 billion, the question is whether it is worth nickel and diming if it is such a top national security objective." Do you agree with these sentiments?

Mr. ROTH. Sir, the only comment I can make and actually echo a little bit the GAO comments. We have no evidence that any of these bills are in any way impacted by any kind of corruption or that type of thing, first of all, in part, because we don't have access either to some of the government of Pakistan documentation and that type of thing, as well. So no, sir, I can't verify or deny the fact of what level of corruption there might be.

Mr. HIGGINS. I have no more questions, Mr. Chairman. Thank you.

Mr. TIERNEY. Thank you, Mr. Higgins.

I would guess that is part of the problem: you don't know if it is corruption, if it is waste, if it is fraud, or if it is money well-spent. That is the issue.

Mr. Shays, I have some final questions. If you want to go, I would be glad to have you proceed.

Mr. SHAYS. I didn't ask the question about corruption because it seems to me almost irrelevant. We have been giving out money to the Pakistanis without their verifying whether or not they have used these funds in a proper way. It just strikes me that we might as well have just given them a block grant and said here's the money, because in essence until very recently we haven't been requiring the kind of adequate verification that we need to require. I mean, that is my impression of what GAO is saying.

Mr. Johnson, if you would want to qualify my words I would welcome it, but that is what I am getting from you.

Mr. JOHNSON. Congressman Shays, you are precisely correct in terms of our message that there is a need for greater oversight and greater detailed documentation from the Pakistani government.

Mr. SHAYS. But what I am also struck with is that our problem has been with, in many cases, with a former Secretary of Defense or his reign and a former leader of the Pakistani government, and now we have a new Secretary of Defense and we have a new government. The irony would be, when I asked the question why we

need this program, General, I was re-reading your opening statement, and I think your opening statement says it pretty clearly. This is a hugely troubled part of the world, to which my chairman has spent a lot of time next door. Both share the same basic problems.

I am just wondering if we just shouldn't design a program for Pakistan and not say that 27 countries get the dollars when it is really so skewed to Pakistan.

Let me ask that question. I mean, would it just be better to recognize that Pakistan has huge problems, it is under-funded, and just give them money in their general fund, and then not get into this issue of the charade of somehow they are justifying something that we ultimately are going to pay, at least under this program?

General WILKES. Well, Congressman, I think we probably ought to go back and look at all different avenues and venues. Why restrict ourselves? This is such an important part of the world that we are going to be involved in for some time, and we are heavily invested in Afghanistan. Perhaps a different way to view it for Pakistan is appropriate, and we would be willing to undertake that review with you and come up with some ideas.

Mr. SHAYS. Is one of your messages that this is a government that is having a hard time paying for its social services, its educational programs, its infrastructure, and its military, and it is in the midst of an area where al Qaeda is certainly very active? Is that one of your messages?

Mr. JOHNSON. Yes, sir. It is a fledgling democracy. It has disconnected in its budget. The foreign direct investment has decreased. It is a high inflation. They previously had probably 7 or 8 percent growth. Inflation is starting to come into it. The growth rate is down to about flatline.

So they are having the difficulties with their government and, of course, they have admitted that they do have an insurgency problem within Pakistan. I think the current government is aware of that and trying to tackle those problems, but they have a lot of steps they have to go through, and they are going to need international support.

Mr. SHAYS. I am struck by the fact that, rather than having them justify how they would—I don't want to say how they would use the dollars, or justify what the dollars can be counted against—that we would ask them for outcomes; in other words, something that says we make this area or you put more pressure on this group, that you start to crack down on certain activities and have that be the basis for their getting dollars.

How do you react to that rather than saying, well, we had an incremental cost here and we put our troops here, and so on? Because you can do all those things, but we may end up with nothing to show for it, rather than to suggest to them that we would like to pay for certain outcomes.

General WILKES. Sir, you would like to be able to measure outcomes and have that tied to a funding stream. I would re-emphasize that it is an independent nation state, and they do have an awful lot of pride, and they want to be able to do this themselves. The investment that would be helpful, I think, would be to help them create a capacity to handle this.

I think some measured success about no cross-border operations into Afghanistan is certainly a viable tenet that we ought to put out there. That is one of the requirements that we see in the tribal agreements that they are trying to negotiate. I think that is at our request to do that, so that certainly is a valid request, I think.

Ambassador MULL. And if I could just add on, I believe, in fact, there are outcomes that are measurable and observable as a result of the CSF program. Certainly 8 years ago there was no deployment of Pakistani security forces in the federally administered tribal areas. Today there are over 100,000 troops. Eight years ago——

Mr. SHAYS. Let me stop you right there. So there are 100,000 troops, and what are they doing and what benefit do we think is occurring from that?

Ambassador MULL. Well, there are a number of benefits.

Mr. SHAYS. First, what are they doing?

Ambassador MULL. First of all, they are supporting and providing security, they are maintaining air bases, they are maintaining facilities for us to use, logistical supply routes into and out of our own war effort in Afghanistan. They are there as a physical security presence to dissuade the area from becoming more of a launching area for terrorist activity. There is already too much terrorist activity going on there. We might disagree with our Pakistani friends about whether or not they have the right force mixture there. We believe it requires a lot of assistance to improve their counterinsurgency capability, which we aim to address not through the CSF program, but through our separate security systems program, through the 1206 program, with our DOD colleagues, as well as other FMF and IMET programs that we are running.

Mr. SHAYS. Mr. Johnson, has GAO conducted a study of the entire CSF program similar to what you are doing in Pakistan?

Mr. JOHNSON. No, we have not, sir.

Mr. SHAYS. This is what I think I am gaining from this: I don't think that there is any doubt that, in my mind, we wanted to get the money out to Pakistan and we have been pretty loose in how we have overseen this program because we think that Pakistan needs the dollars, and I am struck by the fact that you have a program where 80 percent goes to one. It almost makes sense to me to have two programs, to take this program, the CSF program, and have it go to 26 countries, and have a special program for Pakistan.

I am convinced that the kind of traveling that my chairman has done in Pakistan and Afghanistan needs to be increased. Some Members go to Afghanistan. I think you, when you go, you go to Afghanistan and Pakistan both. Maybe some others do. It is really a package deal. That is kind of what I am struck with. And there just needs to be a special program.

We should sit down, I think, with the Pakistanis and say, OK, how can we make this program work for you? Let's get rid of the charade of having to justify incremental costs and all that. You need money. How do we get it to you and make sure it is on outcomes that you want and that we are willing to fund. That is, Mr. Chairman, kind of where I am coming down. I would be interested to know.

So more trips by Members to the area I think would be in order, and I will look forward to joining you on one of those trips.

Mr. TIERNEY. Thank you, Mr. Shays.

Mr. Shays, We are joined by our colleague who sits on the Appropriations Subcommittee, Foreign Affairs, Mr. Moran. I would ask unanimous consent that Mr. Moran from Virginia be allowed to participate in this hearing.

Mr. SHAYS. No problem.

Mr. TIERNEY. Without objection, so ordered.

General, you indicated, I think, during the course of your discussion that you had what you called interventions or guidance. You said there were six of them. We only got in our request for information one from 2003, so I would ask that if there are subsequent other assessments that you would just make them available for our committee to review, including anything that you have done recently in response to Mr. Johnson's team. We would appreciate that, as well. I assume there is a more defined role for the ODRP, and regular conduct by them, and that would be helpful for us in our review.

I talked earlier about needing multi-national support for a legitimate civilian government in Pakistan, a government that can have authority over the military and the ISI and all of that. What are we doing at State and Department of Defense to actually effect that kind of international support for the civilian government so that it can extend its authority over the military and the ISI, as we would like the civilian government to do? Ambassador Mull first, and then I will go to the General.

Ambassador MULL. Yes. I should say that, coming from the Political-Military Bureau I am not a particular expert on our relations with Pakistan, but I can tell you generally that we have tried to develop a very diversified assistance program over the past few years that focuses very heavily on the sources of religious extremism, violent extremism, and that means by opening up educational opportunities for poorer people, for women, for girls, give them educational opportunities, to provide more entrepreneurial support to small businesses to give them the opportunity through micro-lending programs and so forth. We have a lot of food assistance and population and refugee assistance programs that we provide, because there is a real problem there. And we work very carefully with all of our key partners in addressing it.

I recently had the privilege to accompany Secretary Gates to a major conference in Singapore. There he met with 12 of his counterparts from all over the world. In every single one of those meetings Pakistan came up in terms of talking about how we can work together as governments, working with the Singaporeans to get them to invest more money and some social opportunity and economic——

Mr. TIERNEY. Through the civilian government?

Ambassador MULL. Pardon me?

Mr. TIERNEY. Through the Pakistani civilian government, empowering them?

Ambassador MULL. Working with the civilian government. That is right.

Mr. TIERNEY. Thank you.

General, specifically then what are we doing to make sure that we empower them with respect to their military intelligence people?

General WILKES. Sir, we are in conjunction with State Department, there has been a program ongoing. From the State side of the house it is about $750 million that will go through 2009 to invest in USAID projects, etc., especially in the FATA.

Mr. TIERNEY. I am being rude here, I think, but I just want to catch you while I think of it. My mind tends to slip more than yours does. I am familiar with the program, I think as we may be here, but this is one of the programs that the newly elected government had not even a scintilla of information on, shamefully so, when they got elected. So are we now dealing directly with them as opposed to the military, and having them make the decisions with respect to all aspects of that, the security aspect as well as the developmental aspect?

General WILKES. Yes, sir. We are engaging at all levels. First off, our Embassy, Ambassador Patterson, is extremely engaged in all of this. I just got back with our Undersecretary for Policy about 2 weeks ago, and we met with all levels of the Government and different ministers, and so we are engaging at that level.

The chairman followed us shortly thereafter, and he made similar sets of meetings there.

We have also engaged on that trip back with NATO, and with the Security Council there to talk with their folks, encouraging them to begin assistance or to begin making trips in that area, as they go through Afghanistan to also add Pakistan to their trips.

So we are at multi levels focusing on this. On the military side of it we are trying to re-energize the Tripartite Commission between ISEF Commander, bringing in all your NATO Coalition partners at the military level in Pakistan, and we are also doing it at the regional level with efforts there.

Mr. TIERNEY. But with all of that I hope that it is clear that you see the civilian government as being the principal party on that over the military and the intelligence. I have a real concern that unless we do that the military and intelligence are going to continue to undermine what is going on over there. I am not sure that they have that much of a desire to see the militants totally fade away. I still think that they think some day we are packing it up and leaving, and they want to have this group around to cause trouble in Kashmir, cause trouble in Afghanistan if they think India or Afghanistan are coming back somehow. The only way to break that, I think, is that we empower as much as we can the civilian government to have the direction over the military to make sure that they are working with us on joint concerns.

General WILKES. Mr. Chairman, I think we agree with that. It is very important to get the civilian government and their capacity and their ministries up and running in order that they can perform all the efforts that they need to in governance.

Mr. TIERNEY. Thank you.

And then, finally, Ambassador Mull, when you look at the concurrence that is needed by the Department of State on the moneys as they are traveling through on that, you have to make sure that they are consistent with the national security strategy, and that is

a published document. I assume you just take the latest one and you make an assessment whether or not you think it is there. The other is you want to make sure that it does not adversely affect the balance of power in the region. In order to determine that, do you actually have consultations with other countries in the region to get a feeling for what their perception is, not what we think our good intentions are but what their perception is of cooperation between the United States and Pakistan, the United States and Afghanistan, and whether or not that is upsetting the balance from their view?

Ambassador MULL. What we do in the Political-Military Bureau is work carefully with the regional bureau within the State Department that has policy responsibility for that particular region. So within the State Department I work very closely with Ambassador Richard Boucher, our Assistant Secretary for South Central Asia, and in every expense we look at, both within this program as well as our broader security assistance program, we work very carefully through the foreign assistance process to make sure that we are not giving any one country a disproportionate advantage or creating one country to be more of a threat to the other.

Mr. TIERNEY. And do you discuss that fact with those other countries?

Ambassador MULL. Certainly. Well, what we do is rely very carefully on our embassies in the field and their assessment. I go around. I have political military talks with most of our key countries around the world. I am going to India next month, for example. I expect an important part of my conversations there are going to be how do they view our investment in the Pakistani military. I will brief them on what we are doing so that they understand it is not a threat, and if they view it as a threat then we will take that back and factor it into our considerations.

Mr. TIERNEY. Of course, the only problem is the one country that we don't have those kinds of conversations with, or one of the principal countries, would be Iran.

Ambassador MULL. You are absolutely right, sir.

Mr. TIERNEY. Which plays an incredibly important role in that region, so we keep getting back to not being as inclusive as we probably need to be if we really want to get a strategic answer to where we are going forward here and have everybody in the international community supporting the same objectives on that.

Mr. moran, do you have any questions?

Mr. MORAN. I do, Mr. Chairman. Thank you. Thanks again. I mentioned this at the previous hearing that we had, but I thank you for the trip that we took to Afghanistan and Pakistan. It was enlightening. We went with members of this subcommittee, and Ms. Bennett represented the minority staff very well. But what I would like to ask is with regard to the appropriations process, Mr. Chairman.

One of the concerns is that every year now for the last 7 years almost we have funded the Afghanistan war through an emergency supplemental over and above the regular Defense bill. Things are going to change next year, whoever is elected. Senator Obama has made it clear that he feels that we need to conclude the war in Iraq and win the war in Afghanistan. He is committed to an ongoing

commitment to economic development and doing some of the things that you have suggested in Afghanistan. But if that is the case, would not it seem that we should fund the Afghan effort on an ongoing more consistent and predictable basis?

I would like to ask any of you if the way that we do it now, which is kind of spasmodic—we go for 6 to 9 months, then we have another supplemental. The Afghan war tags on the coattails of the Iraq funding supplemental. Then you get it whenever it gets through. This last supplemental has taken several months, and now you are going to get your money. But it is never built into the budget. It seems to me there is some down side to that, and that it is something that needs to change.

I am not sure who to ask, because there are two pieces of it. There is the State Department piece and the DOD piece, but I would like to elicit some comments, because I don't think this is a sustainable—if this is an ongoing financial commitment, then we ought to be funding it in a different manner than the way we fund it today.

Mr. ROTH. Well, since that is an appropriations question I will try to field it, sir. Again, I think we have been fairly consistent in saying that how contingencies are funded is a matter that is worked out at the administration level with the Congress and with the approval of Congress, and to some extent we in the Defense Department can work it both ways. As the normal default position is, a baseline budget funds basically baseline, day-to-day operations. It used to be at a time called a so-called peacetime budget. Then any contingencies over and above that were normally funded with supplementals.

But, having said that, once a contingency continues for a few years there is at least some consideration should that be part of a baseline budget or not. So to your point, sir, I would clearly think that would be something that a new administration could look at and review and reassess. As far as we in the Defense Department, we can make whatever appropriate adjustments are necessary.

Mr. MORAN. I understand that. It just doesn't seem to be the way to win a war that is as complex as this to go every several months and then ask for another piece. It does seem that we ought to be able to plan in a more systematic and predictable manner.

The other thing that concerns me is that it has been acknowledged that we don't get 100 percent of what we pay for. We pay about 100 percent and we get maybe 80 percent of it and 20 percent of it is a hair cut that goes to the bureaucracy and the government leaders. I understand Mr. Higgins asked about that, but if we are going to build it into the budget, it seems to me one of the reasons that I am so pleased that the chairman is having this hearing is he said we have to have hearings on this CSF money because clearly it is not getting the kind of oversight and accountability that it needs. If we are going to build it into the budget, we can't be building in 20 percent corruption fee. That is basically what seems to be happening.

Does anybody want to respond to that?

Mr. ROTH. Sir, my only comment is we obviously don't know that for a fact. We do not build a 20 percent contingency fee into our budget request. We submit the Coalition Support Fund budget

along, as you indicated, with our supplemental budget for review by our oversight committees, and so we are as open and as transparent as we possibly can be with our budget request. We detail the countries that will be the potential recipients and we also provide, before we make any payment, a 15-day notification to our oversight committees. So from where we sit, we try to be as open and transparent with this fund as we possibly can be.

Mr. MORAN. Well, I know that is the official answer, but we have the quote here: "Let's be honest. We are talking about Pakistan, which has a legacy of corruption. If we are billing $5 billion and it is only worth $4 billion, the question is whether it is worth nickel and diming them for a national security objective."

You know, some people would think $1 billion isn't a nickel or a dime, but it is of concern. We saw evidence of that certainly when we were in Afghanistan and Pakistan. It is probably worse in Afghanistan than it is in Pakistan.

I suspect that all the appropriate questions have been asked, but, in fact, your staff, John, suggested that is an area of concern that we haven't gotten into. I think we are going to be very anxious to see how we budget for the long term in Afghanistan, because that implies a long-term commitment. These emergency supplementals, plaintiff really don't know what to expect from 1 month to the next. That is not the way to run a war, let alone win a war.

Thank you, Mr. Chairman.

Mr. TIERNEY. Thank you, Mr. Moran.

If my colleagues have no further questions, I want to thank everybody on the panel. I want to give you an opportunity if any of you want to make a closing statement or feel as though something didn't get said that should be said or something was misconstrued.

[No response.]

Mr. TIERNEY. Otherwise, let me thank you all for service to country and for your time and effort not just today but this morning for Ambassador Mull and previous weeks for all of you helping us do our job. We appreciate that. The meeting is adjourned.

[Whereupon, at 3:55 p.m., the subcommittee was adjourned.]

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