

April 1995

FINANCIAL
MANAGEMENT

Theater Missile
Defense Cooperation
Account



**National Security and
International Affairs Division**

B-260350

April 3, 1995

Congressional Committees

Section 242 of the National Defense Authorization Act for Fiscal Year 1994 established a Theater Missile Defense Cooperation Account in the U.S. Treasury. Specifically, the account was created for contributions for the Department of Defense's (DOD) use in theater missile defense programs. Contributions the Secretary of Defense accepts from any allied foreign government or any international organization for theater missile defense programs are to be deposited in the account.

We are required to annually audit the money accepted by the Secretary of Defense under section 242 and submit the results of the audit to the Congress.¹ This report summarizes the results of that audit.

Our specific objectives were to determine (1) whether the Theater Missile Defense Cooperation Account was established, (2) how much money has been contributed, (3) what actions the Secretary of Defense has taken to obtain contributions in support of theater missile defense, (4) whether adequate regulations to carry out the requirements of the law have been established, and (5) whether financial transactions were carried out in accordance with the law.

Results in Brief

In response to the law, DOD established a Theater Missile Defense Cooperation Account in the U.S. Treasury. DOD notified U.S. allies about the account, but has not received any contributions as of the end of February 1995. Thus, there were no financial transactions for us to assess.

Beyond informing allies about the account, DOD has made no further efforts to obtain contributions. Instead of seeking cash contributions, DOD has pursued the cooperative development of several theater missile defense systems with U.S. allies. According to DOD officials, the allies have an incentive to participate in joint development programs where a portion of the work will be performed in their countries.

The Theater Missile Defense Cooperation Account had a \$0.00 balance as of the end of February 1995. DOD does not expect any cash contributions. Therefore, it has not issued applicable regulations governing the Theater

¹Title 10 U.S.C. section 2609(f).

Missile Defense Cooperation Account because it believes they are a low priority.

Cooperative Theater Missile Defense Funding and Development Programs

Responding to the law, in March 1994, DOD established a Theater Missile Defense Cooperation Account in the U.S. Treasury. In meetings on the coordination of U.S. and allied missile development programs, DOD notified the allies about the account. However, there have not been any contributions. At this time, DOD officials do not anticipate any contributions to the Theater Missile Defense Cooperation Account. Instead, DOD and U.S. allies continue to pursue long-standing cooperative missile development programs.

In 1985, the United States began to encourage the cooperation of U.S. allies in missile defense research and development programs related to the Strategic Defense Initiative. In the National Defense Authorization Act for Fiscal Year 1994, the Congress mandated cooperation with our allies in planning theater missile defenses.

Facing an imminent threat, Israel, with the cooperation of the United States, has pursued a ballistic missile defense program centered around the Arrow missile. Iraq's actions in the 1991 Persian Gulf War heightened concerns about ballistic missile threats. In Asia, the proliferation of ballistic missiles has prompted the Japanese government to enter into bilateral discussions with the United States on missile defense. The United Kingdom, France, and Germany are also currently evaluating their ballistic missile defense requirements.

The National Defense Authorization Act for Fiscal Year 1994 directed the Secretary of Defense to develop a plan to coordinate U.S. and allied theater missile defense program development and implementation, with the goal of increasing interoperability and reducing costs. On May 5, 1994, the Secretary of Defense provided the Congress with a report on the plan, as required by the law.

A working group of eight nations (the United States, the United Kingdom, Germany, Norway, France, Canada, the Netherlands, and Italy) has been established under the North Atlantic Treaty Organization (NATO) Conference of National Armaments Directors. This group has been chartered to deal exclusively with finding ways to cooperate in theater missile defense programs.

The National Defense Authorization Act for Fiscal Year 1994, section 242, required the President to certify in writing to the Congress that U.S. representatives have formally submitted to each of the member nations of NATO and to Japan, Israel, and South Korea a proposal regarding cooperation on development of theater missile defenses. Until the certification was delivered, DOD's Ballistic Missile Defense Organization (BMDO) was restricted to obligating no more than 80 percent of its appropriated funds for theater ballistic missile defense.

On April 4, 1994, the Director of BMDO and his staff presented briefings to representatives from 13 of 19 invited nations concerning current programs and future plans for theater missile defense cooperation. The representatives also received a letter from the BMDO Director emphasizing the desire of the U.S. government to conduct cooperative theater missile defense development. The nations that were invited but did not attend the presentation were each sent a similar letter and a copy of the briefing materials. On May 16, 1994, the President issued a determination that DOD had complied with the law and could so notify the Congress. In May 1994, BMDO notified the Congress of its compliance with the law, and the restricted funds were subsequently obligated.

Regulations Not Issued

DOD did not establish regulations to carry out the law. DOD officials told us that they had advised U.S. allies about the Theater Missile Defense Cooperation Account. However, DOD did not establish procedures for soliciting contributions. In addition, procedures on operating the Theater Missile Defense Cooperation Account were not established. According to DOD officials, they had not expected contributions, so establishing operating procedures and issuing regulations was a low priority.

Matters for Consideration by the Congress

Since there are no funds for us to audit, we believe the Congress may wish to amend the law and eliminate the requirement that we perform an annual audit of the Theater Missile Defense Cooperation Account.

Scope and Methodology

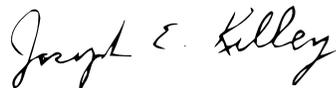
We reviewed DOD information and reports on the Theater Missile Defense Cooperation Account and theater missile defense programs. We reviewed DOD's financial reports on the Theater Missile Defense Cooperation Account. We discussed these matters with officials from the Comptroller's Office in the Office of the Secretary of Defense, the BMDO, and the Defense

Finance and Accounting Service. Our work was performed in Washington, D.C.

We conducted our review in December 1994 and January 1995 in accordance with generally accepted government auditing standards. We obtained oral comments of DOD officials on a draft of this report and have included their comments where appropriate.

We are sending copies of this report to interested congressional committees; the Secretary of Defense; and the Director, Office of Management and Budget. Copies will be made available to others on request.

If you or your staff have any questions, I can be reached on (202) 512-4128. Major contributors to this report were Charles A. Schuler and John A. Butcher.



Joseph E. Kelley
Director-in-Charge
International Affairs Issues

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