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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Report of Audit

Export Licensing of Chemical and Biological Commodities

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SUMMARY

The September 11, 2001, terrorists' attacks against the United States renewed attention to the importance of U.S. export controls to further our nonproliferation and other national security goals. The Department of State (Department) registers and licenses U.S. companies and universities to participate in the export of defense articles and defense services on the U.S. Munitions List (USML). The Directorate of Defense Trade Controls, Bureau of Political-Military Affairs (PM/DDTC), in accordance with the Arms Export Control Act (AECA)¹ and the International Traffic in Arms Regulations (ITAR),² is charged with controlling the export and temporary import of defense articles and defense services covered by the USML. It has among its primary missions taking final action on license applications for defense trade exports, including chemical and biological commodities and equipment, and handling matters related to defense trade compliance, enforcement, and reporting.

The Office of Inspector General (OIG) conducted an audit of the Department's export licensing process used to help deter the proliferation of chemical and biological weapons of mass destruction (WMD). This audit was initiated in response to Section 1402 of the National Defense Authorization Act (NDAA) for Fiscal Year 2000.³

OIG found that the export licensing process is working as intended and that the Department consistently executed its export licensing responsibilities in regard to chemical and biological commodities in accordance with established policies and procedures.

OIG provided a draft copy of this report to the Bureau of Political-Military Affairs. The bureau reviewed the draft and did not provide any comments.

¹22 U.S.C. 2778-2780.

²22 C.F.R. Parts 120-130.

³Pub. L. No. 106-65.

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BACKGROUND

NDAA requires audits by the Inspectors General of the Departments of Commerce, Defense, Energy, and State, in consultation with the Director of Central Intelligence and the Director of the Federal Bureau of Investigation. The audits focus on the most significant categories of U. S. technologies and technical information with potential military applications.

Nuclear, biological, and chemical WMD in the possession of hostile states and terrorists represent one of the greatest security challenges facing the United States. Sound export controls and licensing operations are essential to preventing the spread of dangerous WMD technologies.

PM/DDTC is responsible for controlling the export and temporary import of defense articles and defense services covered by the USML. PM/DDTC approval of a license application is required before the export of defense articles or services. In FY 2003, the Department received 717 license applications for chemical and biological commodities. These commodities include such items as riot control masks, anthrax biological threat alert test strips, and instantaneous blast grenades.

PM/DDTC reviews the license applications against a number of factors, including:

- applicant eligibility,
- foreign policy objectives,
- stated end-use and end user,
- commodity
- quantity,
- national security interests,
- regional stability,

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- human rights issues and concerns,
- multilateral agreements and nonproliferation regimes, and
- intelligence information.

PM/DDTC refers about 30 percent of the applications to other Department offices as well as other agencies (e.g., Department of Defense) for their comments and recommendations.

The last time that OIG reported on the licensing process was in a June 1999 report, *Export Licensing* (99CI-018). OIG found that, overall, the export licensing process was working as intended and that the Department consistently executed its export licensing responsibilities in accordance with established policies and procedures.

PM/DDTC has had several notable accomplishments since OIG's 1999 review, including an expedited licensing process for coalition forces deployed to Afghanistan and Iraq and a special process for arms transfers to Iraq after the transfer of sovereignty.

OBJECTIVES, SCOPE, AND METHODOLOGY

OIG's objective was to analyze the files of selected chemical and biological commodities to determine if the Department executed licensing responsibilities in accordance with established policies and procedures.

OIG compared the information contained in the applications against PM/DDTC's standard operating procedures for licensing requirements. OIG reviewed a sample of the 717 license applications for chemical and biological commodities that PM/DDTC received during FY 2003. OIG's original sample identified 85 files randomly selected from the universe (717) of license applications. However, OIG was unable to review 30 files contained in the sample because PM/DDTC had retired the files to an off-site location, which prevented their timely retrieval. As a result, OIG reviewed 55 files, with a confidence level of 95 percent (plus or minus 5 percent).

OIG's examination⁴ included a determination as to whether each export request in the files contained the required information necessary to make a licensing decision, including the following:

- license number and expiration date,
- organization requesting the license,
- export item (i.e., pocket grenades),
- dollar value of the order,
- shipping company,
- destination of items,

⁴ Some parts of OIG's examination contained classified and or sensitive information, which is omitted from this report.

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- application review by other bureaus and agencies, and
- final disposition (i.e., approved, denied, etc.).

OIG interviewed PM/DDTC officials and consulted with OIG officials from the Departments of Commerce, Defense, Energy, Homeland Security, and the Central Intelligence Agency. OIG's Office of Audits, Program Reviews Division conducted this audit from August 2004 through January 2005 in the Washington, D.C., area. OIG performed this work according to government auditing standards and included such tests and auditing procedures as were considered necessary under the circumstances.

RESULTS

From the review of 55 cases, OIG found that PM/DDTC adhered to its export licensing process. OIG found that the export licensing process is working as intended and that the Department consistently executed its export licensing responsibilities in regard to chemical and biological commodities in accordance with established policies and procedures.

OIG verified that PM/DDTC had initially screened all license applications to establish that the company submitting the application, commodity involved, the intended user, and the importing country were eligible to receive an export license. OIG also confirmed the eligibility of each shipping company for export control purposes.

OIG confirmed that PM/DDTC tracked interagency and intra-agency referrals to ensure it received their responses in a timely manner. PM/DDTC considered information provided in the referrals in making its licensing decisions and in all cases accepted the respondents' recommendations. In addition, PM/DDTC did not make any licensing decisions before receipt of the requested information.

Finally, the conclusions reached by PM/DDTC personnel were fully supported by file documentation.

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