Chapter

12

Foreign Military Sales Financial Management

Introduction

The execution of the Foreign Military Sales (FMS) program involves the management of substantial amounts of funds. The fact that FMS operates under a legislatively mandated "no-loss" concept and an administratively mandated "no-gain" policy, enforces the requirement for effective financial planning and accountability and has caused the creation of data collecting and reporting systems peculiar to FMS. Financial management is far-reaching and must be considered by all functional disciplines in the security cooperation (SC) community throughout the life-cycle of an FMS case. This chapter will discuss processes and procedures of US Government (USG) personnel, based on established Department of Defense (DOD) fiduciary requirements. Management at all levels of the DOD must ensure these processes and procedures are adhered to upon implementation and execution of FMS cases. References in this chapter refer to DOD 7000.14-R, Volume 15*, Financial Management Regulation* (FMR), DOD 5105.38-M *Security Assistance Management Manual* (SAMM), and DOD 5105.65-M *Reconciliation and Closure Manual* (RCM).

Financial Management Responsibilities

Under Secretary of Defense (Comptroller)

It is the responsibility of the Under Secretary of Defense (Comptroller) to establish policies and procedures involving financial management, fiscal matters, accounting, pricing, auditing, and the international balance of payments as these matters relate to SC. Specifically, these policies and procedures are published and maintained in the DOD 7000.14-R, FMR, Volume 15, entitled *Security Assistance Policy and Procedures*.

Defense Finance and Accounting Service, Headquarters

Defense Finance and Accounting Service (DFAS), located in Indianapolis, IN, is the organization responsible for the implementation of all accounting and finance activities within the DOD [FMR 020102C].

Defense Finance and Accounting Service–Indianapolis, Security Cooperation Accounting

Defense Finance and Accounting Service–Indianapolis (DFAS–IN), Security Cooperation Accounting has the following financial responsibilities as they relate to the SC programs within DOD:

- Account for the daily operations and fund transfers to and from the FMS trust fund
- Provide obligation and expenditure authority to DOD components for the financial execution of the FMS program
- Operate the Defense Integrated Financial System (DIFS) for centralized DOD-wide FMS delivery reporting, collecting, forecasting, and billing
- Perform continuing cash analysis to assure sufficient customer cash is available to pay DOD and military departments (MILDEPs)

- Prepare, review, and dispatch all FMS billing and holding account statements
- Perform final accounting actions to close cases and render final accounting statements
- Provide assistance to, and interact with, DOD components regarding FMS logistical and financial systems, projects, policies, and procedures
- Participate with MILDEPs, as required, in FMS reviews within and outside the US

Defense Security Cooperation Agency

The primary functions of Defense Security Cooperation Agency (DSCA), as prescribed by DOD Directive 5105.38, are discussed in chapter 4 of this text, "Security Cooperation Organizations Overseas." The financial elements of those duties include the financial oversight of all FMS programs to include management of the FMS trust fund. The DSCA supervises the financial implementation of all FMS cases and countersigns those Letters of Offer and Acceptance (LOAs) requiring countersignature. DSCA is also responsible for managing the Foreign Military Financing Program (FMFP), the International Military Education and Training (IMET) program, and the FMS administrative fund. In addition, DSCA also has waiver authority for most of the FMS related costs described in this chapter.

Financial Management Review Program

DSCA is also responsible for monitoring the requirements for and the availability of funds to support FMS programs. The financial management review program constitutes a country-level review of an FMS customer's total program, taking into account current and projected requirements and anticipated resources, including FMFP grants, Military Assistance Program (MAP) grants, and budgeted purchaser funds. Each quarter, DSCA selects up to four FMS customer programs for review and requests selected financial data in the form of a case worksheet and tasking letter to the applicable implementing agencies (IAs). Following consolidation and analysis of the data, DSCA meets or corresponds with IAs, as appropriate, to follow-up on recommended actions [SAMM C9.14].

Case Writing Division

The mission of the DSCA's Case Writing Division (CWD) is to review all Letters of Offer and Acceptance (LOA) for consistent policy application. As such, the responsibility for providing accurate data in developing line prices and payment schedules on an FMS case is the responsibility of the IAs. The CWD has the responsibility of reviewing the price and payment schedule data for correct application of policy, waivers, and cost recovery rates in regard to the FMR and SAMM.

Implementing Agencies and Military Departments

A discussion of each IA and MILDEP organization for FMS is included in other chapters of this text. The following types of organizational components have a financial role in FMS:

- Service headquarters review, and in some instances, prepares the LOA, issue implementing directives/letters, and provide service-wide policy and oversight
- Systems/logistics/training commands prepare the LOA data, and acquire defense and services upon implementation of the LOA
- International Logistics Control Offices (ILCOs) maintain the detailed case records for accounting and logistics reporting

In the past, the MILDEPs and DOD agencies utilized a variety of automated systems to compute LOA prices and payment schedules. Currently, all MILDEPs and DOD agencies utilize the Defense Security Assistance Management System (DSAMS) for this purpose.

Funds Management for Foreign Military Sales

Foreign Military Sales Trust Fund

The FMS trust fund is a US Treasury account credited with receipts, earmarked by law and held in a fiduciary capacity by the USG, to carry out specific purposes and programs. The FMS trust fund (accounting classification 97-8242) represents the aggregation of cash received from purchaser countries and international organizations. DSCA is responsible for management of the trust fund. DFAS–IN is responsible for accountability of the trust fund.

FMS customer cash deposits for defense articles and services sold under Sections 21 and 22, Arms Export Control Act (AECA), are made in advance of delivery of material or performance of services and for making progress payments to contractors. These cash deposits are identified and accounted for at the FMS case level. DFAS–IN exercises stringent controls over the FMS trust fund to ensure proper visibility and accountability are maintained for all payments made by a customer for every FMS case. The integrity of customer country monies must be strictly observed and certain established principles guide the management of the trust fund. All cash disbursements for a foreign country or international organization are identified by FMS case and should not exceed the customer's total cash deposits. A specific case may be in a deficit cash position with the deficit being funded by the customer's cash advances on other cases. However, the cash deposited by one country will not be used to liquidate obligations incurred on behalf of another country. A reportable adverse financial condition exists when the country level cash summary accounts are in a deficit position. Ultimately, dollars placed in the FMS trust fund are subject to US Treasury accounting system controls from the date of receipt to the date of expenditure or refund [FMR chapter 4 and SAMM C9.3.5 and C9.11.1].

Holding Accounts

As a convenience to the FMS purchaser, DFAS–IN maintains purchasers' holding accounts within the FMS trust fund. The holding accounts are subaccounts of monies from FMS cases where the customer has not provided instruction on disposition of the funds. In other words, holding accounts are funds not identified to a specific FMS case. These funds could be a result of excess funds left when an FMS case is closed, or a result of a quarterly payment by an FMS customer that does not identify to which case the payment should be applied. Normally, funds on deposit in a purchaser's holding account are not removed without the consent of the purchaser, but the FMS customer may request DFAS–IN to "draw upon" its holding accounts for transfers to specific cases as needs arise. The holding account balances are not included in the totals of the DD Form 645. A separate statement is provided to the country showing deposits and withdrawals to each holding account and is considered an attachment to the DD Form 645.

Purchasers have at least one, but may have numerous holding accounts for different purposes. Holding account identification is a three digit alpha-numeric code. The first digit, a numeric code, describes the type of funds in the holding account as follows:

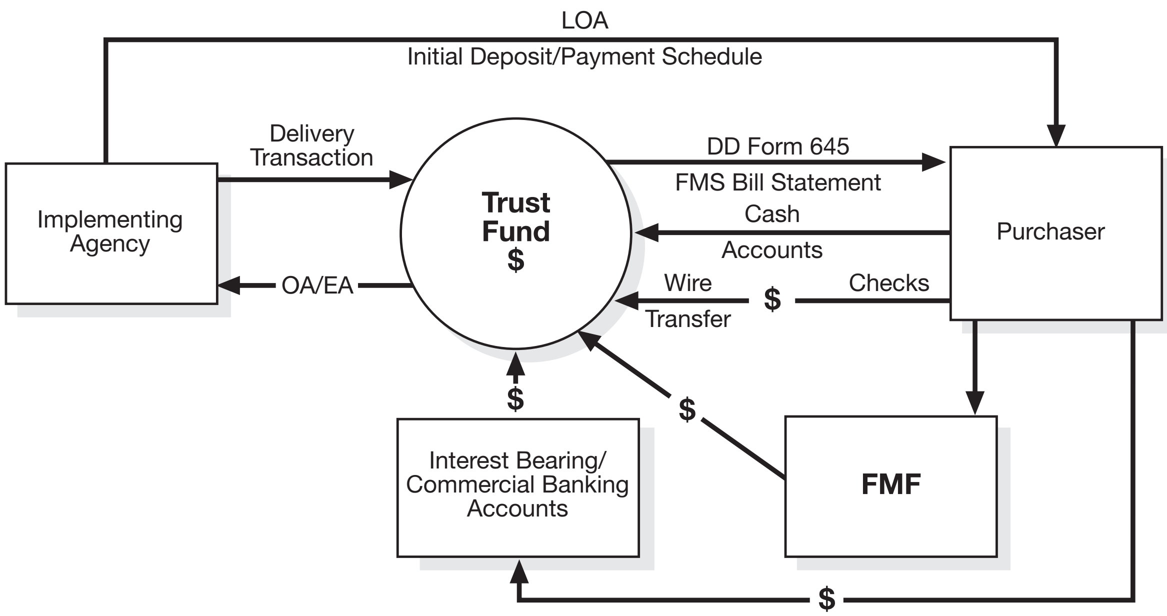
Numeric Code	Type of Funds
0	Interest bearing account
1	Regular FMS payments by purchaser
2	MAP funds (nonrefundable to FMS customer)
3	Third country recoupments
4	Buybacks
5	FMS credit funds (nonrefundable to FMS customer)
6	Worldwide Warehouse Redistributions Services (WWRS)
7	Unliquidated obligation (ULO) accelerated case closure procedures (ACCP) participants (refundable to customer)
8	Supply Discrepancy Report (SDR) transportation reimbursement

The second digit, an alpha code, identifies the US IA, and the third digit, also an alpha code, identifies the purchaser's in-country service. For example, a Bandarian Army Regular FMS Payment by Purchaser account with the US Army would appear as 1BB. In some instances, the alpha codes could be labeled with the letter "Q" indicating that the customer has decided to consolidate all holding account funds at the country level.

Flow of Funds

As a ready reference, figure 12-1 depicts a block diagram, providing the "big picture" relating to the flow of funds. Details and interfaces are omitted to emphasize concepts. The following is a brief explanation of how to interpret the flow diagram.

Figure 12-1
Flow of Funds



Financial Requirements

The funds flow process starts with the USG placing financial requirements on the foreign purchaser. These requirements are generally of two forms:

- The initial deposit requirement, if applicable, which is reflected in the LOA.
- Quarterly payment requirements, which are contained in the estimated payment schedule of the LOA and subsequently incorporated in the quarterly DD Form 645, issued by DFAS–IN.

Purchaser Sources of Funds

Based on USG financial requirements, the purchaser must respond by providing the funds requested. The purchaser normally has two sources of financing: cash and USG credit (i.e., grants or loans). From a USG perspective, cash payments by the purchaser means the absence of USG grants or loans [SAMM C9.7].

Purchasers may pay DFAS–IN directly by wire transfer or by check. Direct cash payments are mailed or wire transferred to DFAS–IN in accordance with instructions provided in the LOA and the quarterly billing statement.

Interest Bearing Accounts

In response to the initial deposit and quarterly billing requirements, a purchaser may also make payments, if authorized, to a separate interest bearing account (IBA). DFAS–IN is authorized to then withdraw funds from the IBA for transfer into the FMS trust fund.

Federal Reserve Bank (FRB) Accounts

Some countries may establish an account with the FRB New York, for their FMS deposits. An agreement between the FMS purchaser's defense organization, the purchaser's central bank, FRB New York and DSCA identifies the terms, conditions, and mechanics of the account's operation. Except as authorized by law and/or DSCA policy, FRB accounts do not include FMFP funds.

Commercial Banking Account (CBA)

Some countries may establish an account with a commercial bank for FMS deposits. Commercial accounts do not include FMFP funds. Two agreements are required:

- An agreement between the FMS purchaser and the participating commercial bank
- An agreement between the FMS purchaser and DSCA

These accounts operate in a very similar fashion to the FRB interest bearing accounts [DSCA Policy Memo 04-02].

DOD Financial Controls

In addition to preparation of the LOA package and required DSCA, DFAS–IN documents, the IA should provide budget authority data to DFAS–IN for incorporation into the DIFS. The following discussion concerns the creation of budget authority, obligation authority (OA), methods of funding, and automated financial control systems.

Budget Authority

FMS budget authority is created through the IAs preparation and processing of five forms, as applicable:

- LOAs
- LOA modifications
- LOA amendments
- DD Form 2060 *FMS Obligation Authority* [FMR 0201] (or Automated Equivalent)
- DD Form 2061 *FMS Planning Directive* [FMR 0202] (or Automated Equivalent)

Budgetary control of an FMS agreement begins after acceptance of the sales offer by the purchaser. After the purchaser has forwarded a signed copy of the accepted LOA (with any required initial deposit), DFAS–IN records acceptance of the LOA and then releases to the IA specific values of OA as requested by the IA. The IA must account for, control, and report all obligations and expenditures (disbursements) incurred against the authority received.

Methods of Funding

At the time the initial DD Forms 2061 and 2060 (or Automated Equivalents) are prepared, it is necessary to determine the planned funding source. The two funding authorities identified on DD Forms 2061 and 2060 (or Automated Equivalents) are direct cite and reimbursable.

Direct cite method involves entering and maintaining an FMS trust fund accounting citation on documents relating to FMS transactions. For example, the trust fund accounting data is shown on a DOD contract and is the funding source for a USG paying office to make payment to a contractor. In accordance with DOD 7000.14-R, Volume 15, new procurement actions should be accomplished to the maximum extent feasible and appropriate through direct citation [FMR 010303].

Reimbursable method is used when the MILDEP or DOD agency cites its performing appropriation as the funding source (for example, the US Army's missiles procurement appropriation). The DOD component's performing appropriation is subsequently reimbursed by DFAS–IN from case funds [FMR 010302].

Flow to Department of Defense Components

The DOD component having implementation responsibility for a given FMS case will request OA and expenditure authority (EA) from DFAS–IN at the appropriate times in the life of an FMS case.

Obligation Authority

Obligation Authority (OA) is a financial authority, which allows legally binding work orders to be incurred in an amount not to exceed the value of the materials and services requirements on a FMS case. Once the purchaser has accepted an LOA and provided funds to DFAS–IN, and the IA has received OA issued by DFAS–IN, then the case can be implemented and obligations can be recorded. The term "obligation" relates to orders placed, contracts awarded, requisitions submitted, services performed, and similar transactions during a given period that will require payments during the same or future period.

Expenditure Authority

Expenditure Authority (EA) is unique to FMS accounting and was established in order to ensure compliance with the AECA requirement that DOD funds not be used to provide interim financing of FMS requirements. EA is an FMS country level authority, which allows expenditures to be incurred against obligations previously recorded against a country's trust fund account. As a result, before expenditures can be made, the dollars must first be on deposit in the trust fund. In the most basic sense, the term "expenditure" may be thought of as a cash disbursement, such as a payment to a contractor or a reimbursement to IA. Thus, EA may be requested and accounted for by one of two methods:

- Reimbursement
- Direct Cite

Foreign Military Financing Program

FMFP facilitates the purchase of US military equipment, spare parts, and training by many allies and friendly countries. The following discussion identifies the various terms used in financing programs and briefly discusses policies and procedures [SAMM C9.7].

Department of State Role

The Secretary of State, under section 2, AECA, is responsible for the continuous supervision and general direction of sales and exports of defense articles and services. In accordance with this AECA authority, and by executive order, the Secretary of State determines which countries will receive grants/loans, unless Congress has enacted specific country/amount determinations (i.e., earmarks), prohibitions, or ceilings into law.

Defense Security Cooperation Agency Role

The President has delegated to the Secretary of Defense the authority to issue and guarantee loans to eligible recipients. The Secretary of Defense has delegated to the Director of DSCA the authority to administer the credit program while ensuring that such funds are used only to buy authorized materiel and services (DOS must first approve their use).

General Policies and Procedures

FMFP credit financing will normally be extended when it has been determined that purchases of defense items cannot be financed reasonably by other means, taking into account any US military and economic assistance that such countries may be receiving, and indigenous private financing. In addition to being evaluated for consistency with US foreign policy interests (including human rights), proposed arms purchases by the country and the suitability of items being purchased will be taken into account. Of particular attention are the level of weapons sophistication and the capability of the country to maintain, support, and employ the items effectively. FMFP credit assistance will not be extended solely to consummate a sale.

DSCA does not generally make approved loan or grant agreement funds directly available to the borrowing country. Rather, the country must submit invoice documentation (i.e., an LOA requiring an initial deposit or a DD Form 645 requesting payment, or a commercial invoice) to DFAS–IN, along with a request for advance of funds. Once DFAS–IN certifies/approves the request, funds are disbursed as appropriate. For direct commercial sales (DCS), the borrowing country must submit to DFAS–IN copies of contracts or purchase orders relating to the commercial purchase and a request for advance of funds.

Foreign Military Financing Program for Direct Commercial Contracts

Prohibitions contained in the annual foreign operations appropriations act limit the use of FMFP funds for commercial procurements to only those countries for which FMFP assistance was justified in the fiscal year (FY) 1989 *Congressional Presentation Document for Foreign Operations:*

Egypt	Greece	Israel	Jordan	Morocco
Pakistan	Portugal	Tunisia	Turkey	Yemen

To employ FMFP credit financing for purchases directly from US commercial suppliers, the purchaser must make a formal request through DSCA. A copy of the proposed contract must accompany the request. Materiel and services purchased must be of US origin and the contract must be between the purchaser and a US firm incorporated and actively doing business in the US. Prior to disbursement of FMFP loan funds, the contractor must certify those items and/or services supplied are US source products. DSCA policy precludes the use of FMFP credit funds for direct commercial purchases of less than $100,000.00 [SAMM C9.7.4].

Terms of Sale

Terms of sale and related types of assistance codes indicate whether the sale of an article or service on an LOA is from DOD stock or new procurement and the applicable AECA statutory authority. Terms of sale also indicate when payments are to be made and whether the agreement has been or is to be financed on a cash, FMS credit (repayable or non-repayable), or Military Assistance Program (MAP) funding basis. The value of an FMS case may influence the term of sale [SAMM C9.T10]. The IA enters the appropriate term(s) of sale on page one of the LOA. If an LOA involves more than one term of sale, the IA will cite on the LOA all of the applicable terms [SAMM C9.T8].

Foreign Military Sales Credit (Non-Repayable)

This term of sale currently applies to payment for an FMS case in whole or in part from FMFP credits (i.e., repayable loans or non-repayable grants extended by DOD under section 23, AECA). Currently, non-repayable loans/credits are provided in the form of a grant agreement. Repayable credits currently are in the form of direct, market interest rate loans. The amount of the initial deposit for cases financed with foreign military financing (FMF) grant funds will normally be equal to the estimated total costs of the LOA.

Military Assistance Program (MAP) Merger

This term applies to FMS cases financed with MAP Merger funds (under section 503 FAA).

Excess Defense Article (EDA) Grant

This term applies to FMS cases that provide EDA as non-reimbursable grant transfers (under section 516 FAA).

Cash with Acceptance

This term applies when the initial cash deposit equals the "Total Estimated Cost" line on the LOA.

Payment on Delivery

Under this term of sale, the USG bills the purchaser at the time of delivery of defense articles or the rendering of defense services from DOD resources. Section 21(d), AECA, advises that if the President determines it to be in the national interest, billings may be dated and issued upon delivery and interest shall be charged on any net amount due and payable which is not paid within 60 days after the date of such billing. The President may extend the 60-day period to 120 days if he determines an emergency exists. The IA may use this term only pursuant to a written statutory determination by the Director of DSCA that it is in the national interest to do so.

Cash Prior to Delivery

Under this term, the USG expects the purchaser to pay as required or on demand in advance of delivery of defense articles and rendering of defense services from DOD inventory. Therefore, the total case value need not be collected with acceptance and an estimated payment schedule is developed to ensure the purchaser does pay as required.

Dependable Undertaking

Under this term, the USG collects cash in advance of procurement payment requirements. Sections 22(a) and 29, AECA apply. Section 22(a) allows the President to enter into contracts for the procurement of defense articles or defense services for sale to a country or international organization after the USG is provided with a dependable undertaking. Section 29 authorizes the President to enter into contracts for the procurement of design and construction services for sale to eligible foreign countries or international organizations if such country or organization provides the USG with a dependable undertaking. A dependable undertaking is a firm commitment by the purchaser to pay the full amount of a contract, which assures the USG against any loss on the contract. The purchaser agrees to make funds available in such amounts and at such times to meet the payments required by the contract and any damages and costs that may accrue from the cancellation of such contract, in advance of the time such payments, damages or costs are due. Just as with the term of sale Cash Prior to Delivery, the total case value need not be collected with acceptance and an estimated payment schedule is developed to ensure the purchaser does pay as required.

Type of Assistance Codes

Type of Assistance (TA) codes indicate the applicable section of the AECA and the source of supply, and they are reflected on the LOA in column (5), SC/MOS/TA, or note, along with planned Source of Supply codes (SC). TA codes are also a part of the document number for requisitions and performance reporting [SAMM C5.F4 and FMR 080402].

Financial Forecasting

It is DOD policy that FMS purchasers' payments are based on the amounts shown in the LOA estimated payment schedule, except in those instances where potential cash disbursements are anticipated to exceed the current payment schedule. Implementing DOD components are expected to continually monitor case level cash advances and validate the accuracy of payment schedules. The estimated payment schedule normally includes specific dates when each payment is due and consists of two financial categories:

- An initial deposit
- Estimated quarterly payments

The initial deposit relates to the costs anticipated to be incurred from case acceptance until the first DD Form 645 is rendered and monies collected. With respect to estimated quarterly payments, the payment schedule should reflect amounts due and payable as of the fifteenth day of the last month of each calendar quarter. For instance, an FMS case having an estimated total cost of $150,000 reflected on line thirteen (13) of the LOA might have a payment schedule as follows:

Payment Date	Quarterly	Cumulative
Initial Deposit	$45,000	$45,000
15 March 2012	$40,000	$85,000
15 June 2012	$35,000	$120,000
15 September 2012	$30,000	$150,000

Payment Schedule Content

Payment schedules, to include initial deposits, are built upon assumptions such as source of supply, lead-time, delivery schedules, period of performance, progress payment schedules, etc. Payment schedules for all cases with two or more lines will be calculated at the line level and then rolled up to build the case payment schedule. In the event an amendment or modification of the basic LOA is processed, the previous payment schedule assumptions must be revalidated and customer collections to trust fund disbursements should be compared. Then, the payment schedule must be adjusted as appropriate in the amendment or modification.

The initial deposit is a financial requirement collected from the customer at the time they accept the LOA. The initial deposit is required to implement the case and is used to cover the outlays and/or deliveries anticipated between the offer expiration date on the LOA and the first payment due date reflected on the payment schedule. SAMM C9.T9 defines the initial deposit time frame based on offer expiration dates. Any quarterly payments thereafter should be sufficient to cover all costs and contingencies anticipated to be incurred by the IA on the FMS purchaser's behalf during the quarter immediately following the payment due date. For example, a purchaser's payment due on 15 March should provide funds for costs expected to be incurred for the period 1 April through 30 June [FMR 0402 and SAMM C9.9.1]. The list below describes types of cost that can make up the initial deposit and any estimated quarterly payment:

- Anticipated materiel deliveries/services from procurement
- Anticipated materiel deliveries/services from stock
- Progress payments to defense contractors
- Authorized surcharges
- Termination liability (TL) reserve
- Contractor holdback
    - ◊ Note: The initial deposit will also include 50 percent of the total administrative charge

Some of the terms used above deserve special comment:

- Progress payments are made to contractors or DOD industrial fund activities as work progresses under a contract, based on costs incurred or percentage of completion, or a particular stage of completion, accomplished prior to actual delivery and acceptance of contract items.
- Contractor hold back is the amount earned by contractors or suppliers during the period but held back to ensure future performance of the contractor.
- TL is the potential cost that the USG would be liable for if a particular FMS case is terminated prior to completion. It applies to any FMS case that has procurement contracts. TL reserve is the amount collected from a purchaser and held in escrow in anticipation of any liability that would accrue to the USG should a purchaser terminate a particular case or program prior to the normal completion of the contract. The reserve is not a constant amount and must be adjusted regularly as contracts are awarded, work progresses, payment are received, and deliveries are made. When a standby letter of credit applies, the payment schedule will be developed without TL.

Standby Letter of Credit

The standby letter of credit (SBLC) is in lieu of the TL prepayment requirements under the FMS program. Instead of TL prepayments being deposited into the FMS purchaser's FRB account or the FMS trust fund, an equivalent amount is guaranteed under the SBLC. Other financial requirements owed the USG are not covered by this arrangement. DSCA is the beneficiary of the SBLC in the event of FMS case termination and DFAS–IN will record the deposit of funds from the issuing or confirming bank(s). The FMS purchaser may initiate a request for participation in the SBLC for a FMS program. All requests must be sent to the DSCA comptroller in writing and signed by an official authorized to accept the SBLC documents on behalf of the purchaser's government or organization. The SBLC is binding when issued. The LOA terms and conditions agreement is considered implemented when all parties sign all copies of the documents and the corresponding SBLC is issued [SAMM C9.9.1.5.4].

Annual Case Reviews

SAMM chapter 6.5.2 requires that all FMS cases be reviewed at least annually using one of the following:

- The anniversary of basic case implementation
- In preparation for a formal review with the FMS customer
- Where there is a ten percent or more change in case value

DSCA policy memo 01-22, attachment 2B, provides the minimum review items that, taken together, constitute a full review of an FMS case. The IAs should have developed checklists that incorporate the attachment 2B case review items, and issue detailed procedural guidance that provides supplementary information unique to each IA. Each checklist shall be signed and dated by the case manager conducting the review, and shall become an official document within the applicable case file.

Payment Schedule Reviews

The SAMM C9.9.3 requires the review of the case payment schedule as part of the annual case review. These reviews are necessary to assess the impact that revisions to delivery schedules, scope changes, pricing updates, actual contract award dates, contractor payment milestone revisions, etc., may have had on the payment schedule forecast. Payment schedules are evaluated for possible changes when a modification or amendment is processed. If the contract award date slips, the payment schedule is adjusted by a modification within thirty days of contract award. A new payment schedule should be furnished whenever there is a substantive change in payment requirements.

Antideficiency Act Violations and Adverse Financial Conditions Reports

The FMR vol. 15, chapter 2 paragraph 0211 states that for purposes of the Antideficiency Act, appropriated funds are not limited to those funds specifically appropriated by the Congress to federal agencies from the general fund of the US Treasury. Rather, funds available to agencies are considered appropriated, regardless of their source, if made available for collection and expenditure pursuant to specific statutory authority. Accordingly, in applying the Antideficiency Act, the FMS Trust Fund is considered to be, and is to be treated as, appropriated funds. Transactions that involve the FMS Trust Fund may constitute violations of the Antideficiency Act.

Potential Types of Violations. Potential violations can occur under the FMS trust fund when:

- Issuing OA and/or awarding an FMS contract without a signed LOA
- Obligating and/or expending FMS case funds for an unauthorized purpose, including purposes not provided for by law
- Other violations may occur related to apportionments or indemnity clauses

Identifying and Reporting Violations on the Antideficiency Act. Detailed guidance for identifying and reporting violations under the Antideficiency Act is contained in DOD Directive 7200.1, *Administrative Control of Appropriations*, and FMR volume 14, *Administrative Control of Funds and Antideficiency Act Violations*. Due to the complexities of provisions in the AECA, it is important to consult with appropriate legal counsel and comptroller officials on potential violations of the Antideficiency Act for FMS.

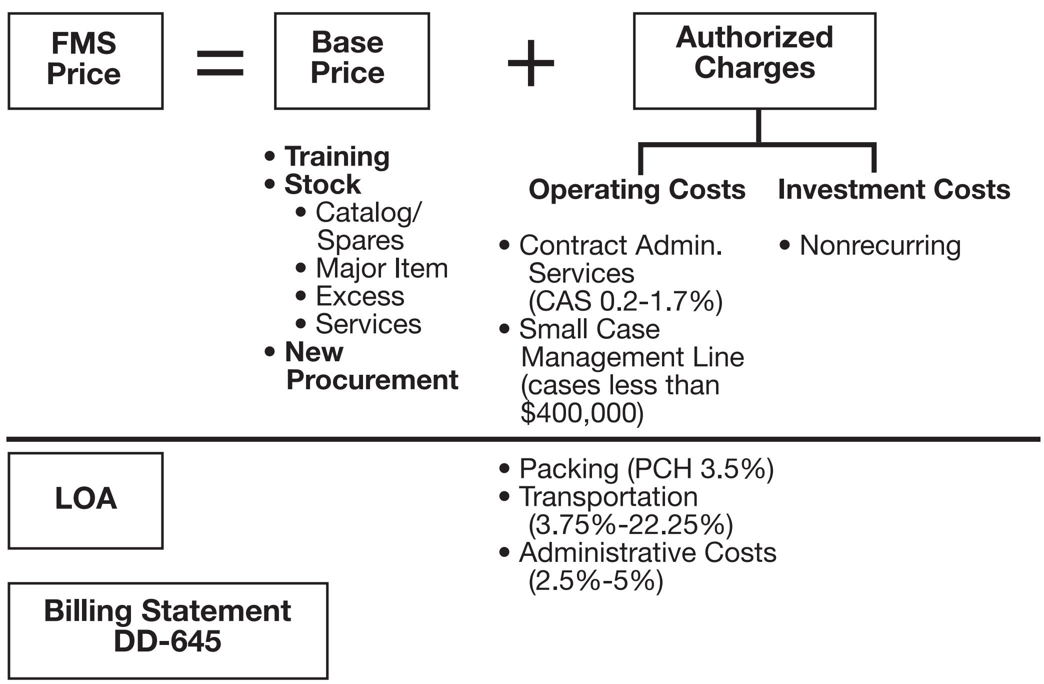
Foreign Military Sales Pricing

The methodology employed in developing an FMS price depends upon whether that price is placed on a LOA as a cost estimate or, whether it is the price later reported in the billing system as the result of the constructive delivery of an article or service. The prices entered on an LOA are estimates of the expected costs of articles and services to be delivered sometime in the future. The objective of these estimates, developed using cost analysis techniques, is to provide the FMS purchaser with an accurate prediction of a future cost. Prices entered into the billing system represent the actual prices of the article at the time it is dropped from inventory or the wage or salary rate at the time the service is performed. In the case of articles coming from new procurement, the prices reported will be those incurred for progress payments made to defense contractors on behalf of the purchaser. However, the exact final cost of major procurements may not be determined until all the contracts for all systems obtained under such procurements are complete. Consequently, estimates are entered into the billing system to be replaced by the actual costs when they are determined. The important thing to remember is that the components of an FMS price should be the same whether entered on an LOA or entered into the billing system. The price on the LOA is an estimate of what the USG believes its cost will be. The price reported in the billing system is the reporting of the actual cost incurred.

Foreign Military Sales Pricing Elements

Figure 12-2 illustrates the basic pricing concept used to structure and compute an FMS price. The elements of an FMS price can be combined into two major component categories: base price and authorized charges. The base price generally refers to the cost of the item or service, i.e., contract price, inventory price, replacement price, etc. The authorized charges, on the other hand, relate to the application of a cost (often on a percentage or pro rata basis) that is dependent to some degree on the value of a base price(s) or other pricing combinations. In the following discussion, both of these categories will be addressed.

Figure 12-2
Foreign Military Sales Pricing Formula



Base Price Computation

Training Pricing. The Foreign Assistance Act and AECA prescribe a multi-tier pricing structure for training provided under the US SC program. The present pricing structure for SC training provides for five separate tuition rates as noted in FMR Volume 15, table 7-3, “Tuition Rate Pricing Structure.”

- National Funds
  - ◊ Rate A – FMS Non- North Atlantic Treaty Organization (NATO)
  - ◊ Rate B – FMS North Atlantic Treaty Organization (NATO)
  - ◊ Rate C – FMS Incremental (Countries concurrently in receipt of IMET that elect to purchase training using national funds receive this rate. Countries designated as high-income countries also receive this rate.)

- US Appropriated Funds

    ◊ Rate D – FMF (This rate applies to courses provided to countries that use US appropriated dollars as their source of funding (except IMET). If the training is not wholly funded with US appropriated funds (e.g., 100 percent MAP Merger, 100 percent non-repayable FMF), then the training must be re-priced to include military salaries and benefits.)

    ◊ Rate E – IMET

Rates for the same course differ because various cost elements have been authorized by law to be excluded from some rates and others are charged only on an incremental cost basis. Because of the shortage of available training quotas and the difficulty experienced by the MILDEPs in adjusting to changes in student input, DOD has instituted a penalty charge for no-shows and for late-notice cancellations [FMR 071001.E.1].

Personnel Services. Many FMS cases contain personnel support costs such as engineering services, configuration data management services, technical services, and training team members. These services must be priced to recover all USG costs and will be included as separate, well-defined lines on the FMS case. DOD personnel providing services on FMS cases are to receive identical payments and entitlements as DOD personnel working on direct DOD mission assignments at similar locations. Thus, personnel services lines must be priced to recover not only the appropriate wages, but also all appropriate entitlements. The base pricing for both civilians and military personnel performing these services include wages, acceleration factors, temporary duty/permanent change of station costs, and personnel support costs [FMR 0702 and figures 7-1 and 7-2].

US military pay and entitlements (other than Coast Guard) are excluded from all services lines on cases wholly financed by MAP or FMFP. This exclusion includes training, design and construction services, and all other case funded services [FMR 07101.B.2].

As of 1 August 2006, DSCA published policy memo 06-14. The policy memo laid out how all services paid for by an FMS case must be well defined above the Standard Level of Service (SLS). Program management lines were also eliminated from new LOAs. SAMM C5.4.9 and C5.T6 details SLS and ultimately the determination of how manpower on FMS cases should be funded and priced.

Materiel Funded from the Defense Working Capital Fund. Typically, the DOD, through a revolving cost account, purchases most secondary items in DOD inventories. The goal of this revolving cost account, or the Defense Working Capital Fund (DWCF), is to recoup the full retail costs of obtaining an item and maintaining it in the DOD inventory. Thus, the base cost of a non-major inventory item should be the same for a FMS or USG domestic customer. This means that packaging, crating, and handling (PC&H), and transportation to the continental US pickup points of the FMS customer's freight forwarder are included in the item price and not added onto the basic cost of FMS materiel funded through the DWCFs [FMR 070302.B].

There are four main funds. Each MILDEP operates its own DWCF and the Defense Logistics Agency (DLA) operates a DOD-wide DWCF. A small percentage of secondary items are not included in the DWCFs, for example:

Munitions	Cryptology items	Classified items
Publications	Maps and charts	Tanks
Racks	Adaptors	Pylons

Major and Principal Items from Inventory. The FMS base price established for a major item (e.g., ship, aircraft, tank, etc.) or a principal item (e.g., component of a major item, such as an aircraft engine) depends upon whether the item is to be replaced or not, and if replaced, whether it will be "in kind" or with an "improved" item. The computation for an item not to be replaced is based on the most recent procurement cost plus any modifications. Reductions in price can be made for the item's age or condition. The computation for an item to be replaced is determined by whether the item will be replaced "in kind" or replaced with an "improved" item, as these prices will be different. As above, reductions in price can be made for the sale item's age or condition [FMR 070302.C and figures 7-3].

Excess Materiel. Excess defense articles (EDA) which are excess to the approved force acquisition level and approved force retention stock requirements of all DOD components. A determination of "excess" is made either by the MILDEP system manager or by the item manager. EDA are sold in an "as is, where is" condition. The cost of excess items is determined by computing and then using the highest of market value as hardware, scrap value, or fair value. Military articles are not sold for less than scrap value. If the item is repaired, rehabilitated, or modified for transfer, this extra cost will be also applied to indicate the final price of the item. Fair value is based on the condition codes shown below [FMR table 7-2]:

Federal Condition Code*	Applicable Percentage
A1 (serviceable, unused – good)	50
A4 (serviceable, used – good)	40
A2, A5, B1, C1, D1, B4, C4, D4 (serviceable with qualification, materiel is either unused in fair condition; if used, in good condition)	30
B2, C2, D2, B5, C5, D7, E7, F7, G7 (serviceable with qualification, if unused in fair condition; if used, in good condition) (Also included unserviceable items that are in good condition but required minor repairs)	20
A3, B3, C3, D3, A6, B6, C6, H7, F8 (serviceable, in poor condition; unserviceable, in poor condition; or serviceable because item requires minor repairs)	10
D8, H8, H9, FX, GS, HS, HX (unserviceable, requiring major repairs)	5

*See *DOD Operating Manual* 4160.21-M for specific definitions.
[FMR 070304 and FMR Table 7-3.]

New Procurement. Defense articles procured for direct delivery are priced to recover full contract cost plus applicable surcharges. Revised costs may need to be reflected from time-to-time in order to indicate increases due to escalation of labor-materiel and/or to reflect other changes in procurement costs. The cost principles utilized, in general, are the same as those used in pricing defense contracts covering items for DOD use. The LOA total cost, column (4)(b), for a line item from new procurement may be composed of the contract cost plus applicable charges for nonrecurring production and research, development, test, and evaluation (RDT&E), government furnished materiel, contract administration, and other special considerations such as the cost of implementing an offset program [FMR 0704 and table 7-10].

Authorized Charges

Nonrecurring Costs. DOD policy since the early 1960s has required that non-USG purchasers pay a fair price for the value of the DOD nonrecurring cost (NC) investment in the development and production of defense articles and/or the development of related technology. In accordance with DODD 2140.2, recoupment of these costs is required on all cash sales unless a specific waiver has been authorized. These charges are not applicable to FMS cases that are wholly financed with MAP grant and/or non-repayable FMS credit funds. NC on major defense equipment for DCS is not recouped. NC are currently applicable to FMS of significant military equipment having a nonrecurring RDT&E cost of more than $50 million or a total production cost of more than $200 million regardless of the source of supply of the item. For a current listing equipment, and approved per unit charges, see SAMM appendix 1. When the price of an item being sold is reduced because of age, condition or supply status, the same percentage reduction shall be applied to the NC. NC are not itemized or listed separately on either the LOA or the customer billing [SAMM C9.T2, C9.6.3, and FMR 070305].

Contract Administration Services. Contract administration services (CAS) is a cost incurred by contract administration offices in accomplishing contract administration, quality control, and contract audit, before and after a procurement contract is awarded. The CAS surcharge is added to the LOA blocks (4)(a) and (4)(b) unit and extended costs for all articles and services from procurement. For pricing the LOA, the surcharge is based on the estimated contract cost; at billing, the surcharge will be applied to the actual contract cost. The contract administration surcharge is subject to waiver in whole or in part [SAMM C9.T2, C9.6.2, C9.T3, C9.T4, and C9.T5 and FMR 070405].

The DOD comptroller determines the applicable contract administration surcharge by dividing the cost of conducting contract administration for FMS by anticipated disbursements to contractors, which will be reported to DFAS–IN. Current charges are:

Contract Administration Services (CAS)	Applicable Percentage
Quality Assurance and Inspection	0.65%
Contract Administration/Management	0.65%
Contract Audits	0.20%
Overseas CAS	0.20%

Administrative Charges. Administrative charges are collected on all FMS cases to recover expenses of sales negotiations, case implementation, program control, computer programming, accounting and budgeting, and general administrative support of the FMS program. This charge also includes the SLS on every FMS case [SAMM C5.T6]. Administrative charges do not include the administration of FMS training cases at the installation level, since such charges are included in tuition rates. The estimated administrative expenses are on Line (10) of the LOA. [SAMM C9.T2 and FMR 0706]

The standard administrative charges are:

- Cooperative Logistics Supply Support Arrangement (CLSSA). Five percent of the basic sales of initial "on-hand" items Foreign Military Sales Order I.
- Nonstandard Articles. The administrative fee for nonstandard support has been reduced to 3.8 percent of the basic sales price as of 1 August 2006. A nonstandard article is one that DOD does not actively manage, either because it has been retired from inventory, or was never purchased for DOD components.
- All Other Foreign Military Sales Orders. 3.8 percent of the cost or price (including training) for the procurement of new items or sales from stock. The charge was 2.5 percent for cases implemented between June 1999 and 31 July 2006, and 3 percent on cases implemented prior to June 1999. As lines on these cases are amended or modified, the rate remains the same. If new lines are added to the case, the new line rate will be 3.8 percent. If the administrative charge is waived, the administrative fee is funded from the current operation and maintenance appropriation of the applicable IA.
- Small Case Management Line. Effective 1 August 2006 a minimum administrative surcharge of $15,000 per case is collected to ensure costs to prepare and implement the case are recovered. This charge will be reflected by the addition of a line to the case with a generic code of R9C [SAMM C9.4.7].

Accessorial Costs. Accessorial costs represent expenses incident to issues, sales, and transfers of materiel that are not included in the standard price or contract cost of materiel. It is important to note at this point that there have been several changes to the application of these accessorial costs to DWCF items. The base price computation of DWCF materiel section of this chapter has more detailed information on the application of surcharges. Two primary accessorial costs are PC&H and transportation.

PC&H costs are those costs at DOD facilities for labor, materials, and services to take articles from storage, prepare them for shipment, and process the documentation. The PC&H charge of 3.5 percent for the first $50,000 of the unit cost and 1.0 percent for the remainder of the unit cost will be applied to all items supplied from DOD inventory. However, PC&H costs are not applicable to items released from DOD stocks funded through a DWCF. Further, PC&H costs do not apply to sales from procurement unless the item is processed through a DOD depot/distribution center. The PC&H charges are shown on Line (9) of the LOA [SAMM C9.T2 and FMR 070502].

Transportation costs are the costs of DOD provided or financed transportation (land, air, inland and coastal waterways) in the US (for non-DWCF items) and outside the US and overseas transportation by vessel or air (including parcel post via surface or air). LOAs, which require use of the Defense Transportation System (DTS), will use look-up table rates for those items included in the table; otherwise, percentage surcharge rates as shown in figure 12-3 will be applicable.

Figure 12-3
Defense Transportation System Percentage Rates

Rate Area		DOD Movement to Destination						
		DTC 4 Point of Origin TBC D, K, L	DTC 3[3] and 5 CONUS Port of Exit TBC A, B, E	DTC 8 CONUS Aboard Vessel TBC H, U	Port to Port Discharged TBC J	DTC 6[3] Overseas Port TBC F, X	DTC 9 Overseas Port Discharged TBC C, V	DTC 7 Overseas Inland Destination TBC G, Y
1	Central America[1], Europe, Mediterranean	0.00%	3.75% 0.00%	6.25% 2.50%	7.50%	10.25% 6.50%	11.25% 7.50%	14.25% 10.50%
2	South America[2], Newfoundland, Labrador, Thule, Iceland, Far East, Africa, Near East			6.25% 2.50%	9.50%	12.25% 8.50%	19.25% 15.50%	22.25% 18.50%

Notes:

1 "Central America" includes east and west coasts of Central America, all Caribbean Islands, ocean ports of Venezuela, Guyana, Suriname, French Guiana, and Colombia.

2 "South America" includes all ports on the east and west coasts of South America, island possessions of South American countries, and ocean ports south of French Guiana to Cape Horn.

3 Delivery Term Code (DTC) 3 and DTC 6 are no longer used in compliance with Defense Transportation Regulation (DTR), Part II, Appendix "E" issued December 2009. They are shown in figure 12-3 for reference purposes.

In general, the applicable transportation percentage will be applied to the first $10,000 of the unit cost and 1/4 of the applicable percentage will be applied for the remainder of the unit cost on all items supplied from DOD inventory. In addition, percentage based transportation rates are assessed when the DTS provides transportation for FMS materiel, when items are shipped on a government bill of lading, and when packages are shipped prepaid through the US Postal Service (excluding DWCF materiel). The transportation costs are shown on Line (11) of the LOA [SAMM C9.T2 and FMR 070503].

When costs using standard transportation percentages in figure 12-3 are significantly different from actual charges, the MILDEPs have established “estimate actual costs.” These estimated actual costs have been determined over time by the MILDEPS on based historical costs of shipping identified items and are published in the Transportation Cost Look-Up Table, published by DSCA [SAMM appendix 2]. Figure 12-4 provides a sample of the cost look-up table.

Figure 12-4
Sample Transportation Cost Look-Up Table

NSN	ITEM	CODE 8 ESTIMATED ACTUAL TOTAL	CODE 9 ESTIMATED ACTUAL TOTAL
APACHE			
1615-01-252-6376	TRANSMISSION	$1,018	$18,903
1615-01-306-6948	HEAD, ROTARY WING	$1,104	$27,955
1615-01-310-4978	BLADE, ROTARY WING	$1,027	$10,447
1650-01-273-7608	SERVOCYLINDER	$834	$1,731
2835-01-172-6200	ENGINE, GAS TURBINE	$970	$4,587
ATACMS			
1427-01-274-3904	GUIDED MSL AND LAUNCH POD ASSEMBLY, M39	$1,410	$48,567
1427-01-445-3758	GUIDED MSL AND LAUNCH POD ASSEMBLY	$1,417	$51,499
1427-01-494-1457	GUIDED MSL AND LAUNCH POD ASSMEBLY, M39A1	$1,410	$46,849
BLACKHAWK			
1615-01-096-5427	HUB ASSEMBLY	$958	$4,153
1615-01-106-1903	MAIN ROTOR BLADE MODULE	$1,027	$11,577
1615-01-145-3928	GEAR BOX, MAIN	$1,016	$16,561
1615-01-168-2983	GEAR BOX, MAIN	$1,016	$16,561
1615-01-230-6218	GEAR BOX ASSEMBLY INPUT	$951	$3,319
1615-01-284-6419	MAIN GEAR BOX	$1,010	$16,548
2840-01-070-1003	ENGINE A/C TURBO SHAFT	$933	$8,205
2840-01-284-4011	ENGINE, 701C	$992	$8,206

Other Cost Recovery Charges

The SAMM C7.19.3 allows for the recovery of additional transportation services associated with delays in shipment caused by others. These costs will be charged to the FMS case line associated with the shipment. If multiple FMS cases/lines are involved, the charges must be prorated to the applicable lines according to the purchase cost of the individual shipments. Cases may need to be modified to identify the additional costs. These additional transportation costs must not be paid from the FMS Transportation Surcharge Account. Case managers must notify and obtain the approval of DSCA (Business Operations Directorate) before processing billings in excess of $50,000 or 10 percent of the case value. An e-mail message, facsimile, or hard copy request from the service provider is sufficient for the notification to the designated point of contact (POC) at the International Logistics control Organization (ILCO), in order to identify the case manager responsible for processing the bill [DTR 4500.9-R part II, attachment V7, table V7-2 TAC POC]. The carrier is responsible for providing sufficient documentation to the case manager to process the bill. Generally these charges are defined as detention and demurrage.

A detention charge is caused when a carrier conveyance is held by or for a consignor or consignee beyond the allowable free time for loading or unloading, awaiting forwarding directions or for any other purpose authorized and documented by the consignor or consignee. Charges for detention are in addition to all other lawful transportation charges.

A demurrage is a charge against a consignor or consignee for holding carrier equipment beyond the allowable free time for loading and unloading, for forwarding directions, or for any other purpose authorized and documented by the consignor or consignee. It may also be a charge to shippers accruing from the time the container is discharged from the vessel. Charges for demurrage are in addition to all other transportation charges. Demurrage charges typically are associated with rail and water port operations.

Logistic Support Charges

Effective 1 October 2007, the 3.1 percent logistic support charge (LSC) was eliminated. This includes both application to a new LOA and items delivery reported after that date even if they were originally priced to include the charge. You may have to reconcile or have other issues particularly with older cases containing LSC [SAMM table C9.T2].

Foreign Military Sales Billing

Sections 21 and 22 of the AECA, provide the legal basis for FMS billing policies and procedures. FMS case billing involves many actions, but can be viewed as one of two processes. First, the agency providing a commodity or service, from either organic or contractual sources, bills the FMS customer's trust fund account managed by DFAS–IN via the FMS delivery transaction. Second, DFAS–IN sends the international purchaser the DD Form 645.

Foreign Military Sales Delivery Transaction

IAs must report the performance and execution (e.g., deliveries from stock, progress payments, etc.) of the FMS program to DFAS–IN within thirty days of physical delivery of material or physical completion of services via an FMS delivery transaction. The delivery transaction prompts liquidation of customer funds collected in advance and maintained in the FMS trust fund. The delivery transaction equates to an eighty-position document [FMR 0804 and table 8-11].

Among other things, the delivery transaction reflects:

- *Military Standard Requisitioning and Issue Procedures* (MILSTRIP) Document Number
- Stock or Part Number
- Quantity
- Mode of Shipment
- Delivery Source Code
- Transportation Bill Code
- Dollar Value

Hundreds of delivery transactions are submitted by the IAs and are received by DFAS–IN on a monthly basis. The delivery transaction provides data enabling DFAS–IN, via DIFS, to compute and bill FMS customers for accrued expenditures including the application of various charges, such as administration, contract administration, PC&H, and transportation.

The delivery transaction is the basic source document for the detailed entries which appear in the FMS delivery listing. Attachment 12-1 provides additional information regarding the delivery transaction and an example of the format.

Foreign Military Sales Billing Cycle

Billing Cycle

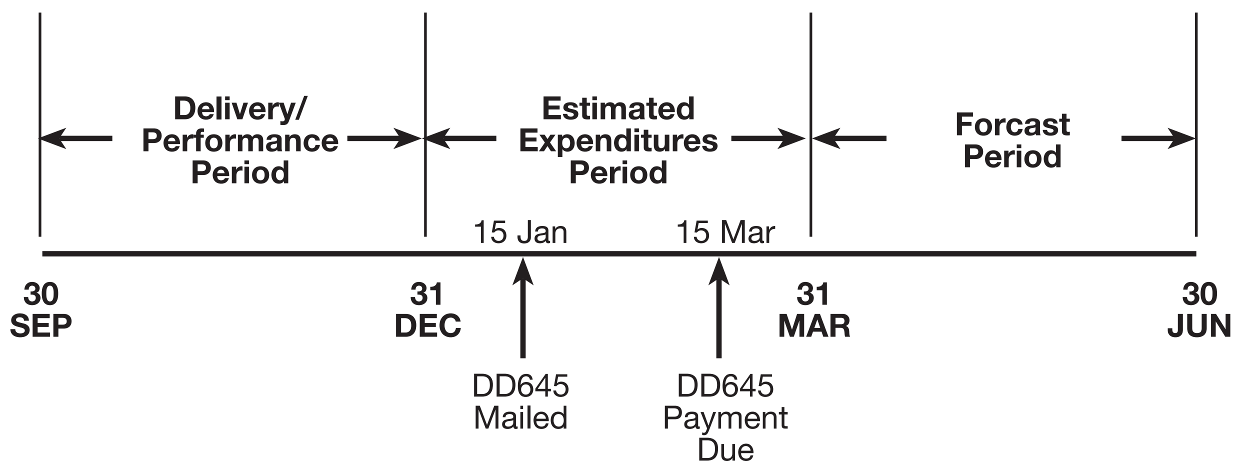
DFAS–IN issues a DD Form 645 to FMS customers based on the LOA payment schedule prepared by the applicable IA. DFAS–IN bills the customer for costs related to defense articles, services, and training that have been sold pursuant to the AECA. After the FMS customer accepts the offer and provides DFAS–IN with signed copies of the LOA and the applicable initial deposit, DFAS–IN updates DIFS with applicable LOA data. The FMS case is implemented in DIFS and is then prepared to receive

IA delivery transactions. The initial deposit accompanying most FMS cases provides sufficient cash to cover disbursements from the time the case is implemented until the first billing payment due date. Billing statements are prepared and forwarded to the FMS purchaser on a quarterly basis (i.e., for quarters ending March, June, September, and December) and correspond to the estimated payment schedule on the LOA. A sample billing cycle is shown below.

Previous Period/Quarter	Projected Mailing Date	Payment Due to DFAS–IN	Forecast Quarter
JAN-MAR	15 APR	15 JUN	JUL-SEP
APR-JUN	15 JUL	15 SEP	OCT-DEC
JUL-SEP	15 OCT	15 DEC	JAN-MAR
OCT-DEC	15 JAN	15 MAR	APR-JUN

Figure 12-5 is the diagram of an FMS billing cycle. This cycle must be taken into consideration during the computation of the initial deposit period and any quarterly payments thereafter.

Figure 12-5
Foreign Military Sales Billing Cycle



Determining the earliest quarterly payment date is based on the anticipated offer expiration date. If the anticipated offer expiration date falls between 11 September–10 December, the initial deposit should cover the forecast of expenditures from the date of acceptance through 31 March. As a result, the first quarterly payment date (after the initial deposit) should be scheduled for 15 March in order to cover costs that are expected to be incurred in April–June. If the anticipated offer expiration date falls between 11 December–10 March, the initial deposit coverage period is from the date of acceptance through 30 June. In this case, the first quarterly payment date (after the initial deposit) should be scheduled for 15 June to cover costs that are expected to be incurred in July–September.

The DD Form 645, not only indentifies payments for costs to be incurred in the upcoming quarter, it also provides information on the deliveries and performance against an FMS case for the prior quarter. For example, the DD Form 645 for the period ending 31 December would contain delivery transaction data provided to DFAS–IN in October, November, and December and a forecasted financial requirement for April, May and June. The payment due date (of 15 March in the above example) shown in the DD Form 645 is the payment date as contained in the estimated payment schedule of the LOA.

Foreign Military Sales Billing Statement

The FMS Billing Statement, DD Form 645, figure 12-6, prepared by DFAS–IN represents the official claim for payment by the USG referred to in LOA. It also furnishes an accounting to the FMS purchaser for costs incurred under each agreement. In addition to identifying deliveries (or performance of services) made on the FMS purchaser's case, the DD Form 645 also reflects the forecasted costs which relate to the next quarter's financial requirements on that same FMS case. These forecasted costs may include anticipated progress payments, contractor holdback, TL reserve, accrued and future deliveries, NC, contract administration services costs, and administrative/accessorial costs [FMR 080203 and tables 8-1 through 8-4].

Figure 12-6
DD Form 645

FOREIGN MILITARY SALES BILLING STATEMENT				UNITED STATES OF AMERICA DEPARTMENT OF DEFENSE/ARMY				
1. TO: BANDARIA ARMY		2. THIS IS A BILLING STATEMENT BASED ON CASH REQUIREMENTS. PAYMENT IS DUE BY: 09 MAR 15		3. STATEMENT NUMBER: 08-12NA		4. FOR PERIOD ENDED: 08 DEC 31		5. DATE PREPARED: 09 JAN 15
CASE IDENTIFICATION AND DELIVERY STATUS				FINANCIAL STATUS				
6. CASE & ITM NBR	7. TOTAL VALUE ORDERED	8. CUMULATIVE DELIVERY COSTS END PRIOR PERIOD	9. CURRENT PERIOD DELIVERY COSTS (ATTACHMENT 1)	10. CUMULATIVE DELIVERY COSTS & WORK IN PROCESS	11. FORECASTED REQUIREMENTS (NOTE A)	12. TOTAL FINANCIAL REQUIREMENTS	13. CUMULATIVE PAYMENTS RECEIVED	14. AMOUNT DUE AND PAYABLE
URK								
001	60,000.00	14,900.00	15,100.00	30,000.00				
	ARMAMENT SYS							
002	10,000.00	3,844.50	1,155.50	5,000.00				
	SUPP EQP							
003	12,340.00	12,340.00		12,340.00				
	SMALL CASE SPT EXPENSES							
L6A	2,660.00	712.29	617.71	1,330.00				
	ADMINISTRATIVE FEE							
L00	625.00	270.47	150.70	421.17				
	ACCESSORIAL COSTS							
WIP	WORK IN PROCESS			13,978.83				
CASE TOTAL	85,625.00	32,067.26	17,023.91	63,070.00	8,550.00	71,620.00	63,070.00	8,550.00

DD FORM 645 (NOV 87) PREVIOUS EDITIONS ARE OBSOLETE(Q)

DD Form 645 Supporting Documentation

In addition to the DD Form 645, the purchaser is provided certain attachments, as applicable, which contain more detailed information. Attached to the DD Form 645 are the following supporting documents: (1) FMS delivery listing, (2) reply listing, (3) financial forecast, (4) holding account statement, and (5) suspense account statement. Each of these documents is explained in greater detail in the following pages.

Foreign Military Sales Delivery Listing

The delivery listing, figure 12-7, is detailed information of the performance reporting of articles, services, supply discrepancy reports (SDR), and notices of actions taken or to be taken, which have been reported to DFAS–IN by the IAs, supporting column 9 of the DD Form 645. It provides delivery information at DSC level by case and line number regarding articles/services transactions, administrative/accessorial transactions, and a summary of delivery costs for each item number [FMR 080204 and table 8-5].

Figure 12-7
Foreign Military Sales Delivery Listing

PCN: UH028A150 — FMS DELIVERY LISTING — PAGE: 1

FOR PERIOD ENDED: 08 DEC 31
DATE PREPARED: 09 JAN 15

COUNTRY: BANDARIA — STATEMENT NUMBER: 08-12NA
SERVICE: ARMY — CASE: URK ITM NBR: 002 — U.S. DEPT/AGENCY: ARMY

ARTICLE/SERVICES TRANSACTIONS

DOC ID	RIC	PRC CD	STOCK NUMBER	UNIT ISSUE	QUAN SHIP	DOCUMENT NUMBER	DOC SFX	SUPL ADRS	M S	ARC	ACTG DATE	TBC	DSC	DATE SHIP	UNIT PRICE	EXTENDED VALUE
FKB	B14	A	C0001BDURK	EA	5CR	BBNC5471009004		BZ2URK	G	CB	0810	A	AB	8140	70.00	350.00 CR
FKA	B14	E	493000926123400	EA	10	BBNC5480359001		BZ2URK	Q		0810	G	AB	8250	120.55	1,205.50
FKA	S9J	A	473000016267800	EA	2	BBNC5481299009		BZ2URK	G		0811	A	AB	8280	50.00	100.00
													ITM NBR/DSC SUBTOTAL:			955.50
FKA	B14	A	CONTRACT ADM	XX	1	BBN00000005330		URK			0811	D	BD	8330	2.96	2.96
													ITM NBR/DSC SUBTOTAL:			2.96
FKA	B14	A	493000928111100	EA	1	BBNC5481009010		BZ2URK	B		0811	D	DC	8281	197.04	197.04
													ITM NBR/DSC SUBTOTAL:			197.04

ADMINISTRATIVE/ACCESSORIAL TRANSACTIONS

DOC ID	GENERIC CODE	COST DESCRIPTION	DOCUMENT NUMBER	ARC	ACTG DATE	TYPE OF COST	PERCENT FACTOR	TOTAL VALUE APPLIED	ADMIN/ACSRL COST
FKC	L6A	ADMIN COSTS	BBN		0810	COMPUTED	3.80	1,205.50	45.81
FKC	L6A	ADMIN COSTS	BBN		0811	COMPUTED	3.80	300.00	11.40
FKD	L6A	ADMIN COSTS	BBN		0810	COMPUTED	3.80	350.00 CR	13.30 CR
FKE	L1C	AIR TRANS	BBN		0810	COMPUTED	6.00	1,205.50	72.33
FKE	L1F	OS INLAND	BBN		0810	COMPUTED	3.00	1,205.50	36.17
FKE	L2B	CONUS PORT	BBN		0810	COMPUTED	2.50	1,205.50	30.14
FKE	L2C	OS PORT	BBN		0810	COMPUTED	1.00	1,205.50	12.06

PCN: UH028A150 — FMS DELIVERY LISTING — PAGE: 2

FOR PERIOD ENDED: 08 DEC 31
DATE PREPARED: 09 JAN 15

COUNTRY: BANDARIA — STATEMENT NUMBER: 08-12NA
SERVICE: ARMY — CASE: URK ITM NBR: 002 — U.S. DEPT/AGENCY: ARMY

SUMMARY OF DELIVERY COSTS

	ACTUAL COSTS	COMPUTED COSTS	
FKA ARTICLES/SERVICE COSTS			1,505.50
FKB ARTICLES/SERVICE COSTS			350.00 CR
NET TOTAL OF ARTICLES/SERVICES COSTS			1,155.50
FKC ADMINISTRATIVE COSTS	0.00	57.21	57.21
FKD ADMINISTRATIVE COSTS	0.00	13.30 CR	13.30 CR
NET TOTAL OF ADMINISTRATIVE COSTS	0.00	43.91	43.91
FKE ACCESSORAL COSTS			
L1C AIR TRANS	0.00	72.33	72.33
L1F OS INLAND	0.00	36.17	36.17
L2B CONUS PORT	0.00	30.14	30.14
L2C OS PORT	0.00	12.06	12.06
NET TOTAL OF ACCESSORIAL COSTS			150.70
TOTAL DELIVERY COSTS			1,350.11

Foreign Military Sales Reply Listing to Customer Requests for Adjustments

The reply listing, figure 12-8, reflects transactions relating to the final disposition/action taken with respect to SDRs. All responses to SDRs are listed separately for each country, service, case, and item number. The reply listing is prepared in the same basic sequence as the billing statement and FMS delivery listing. All SDRs appearing on the reply listing are included in the FMS delivery listing [FMR 0803 and table 8-10].

Figure 12-8
Foreign Military Sales Reply Listing to Customer Requests for Adjustments

PCN: UH028A150 — FMS REPLY LISTING TO CUSTOMER REQUEST FOR ADJUSTMENTS — PAGE: 1
FOR PERIOD ENDED: 08 DEC 31
DATE PREPARED: 09 JAN 15
COUNTRY: BANDARIA
SERVICE: ARMY — STATEMENT NUMBER: 08-12NA — U.S. DEPT/AGENCY: ARMY

DOC ID	RIC	PRC CD	ROID SERIAL * NUMBER	UNIT ISSUE	QUAN SHIP	DOCUMENT ** NUMBER	DOC SFX	SUPL ADRS	M S	ARC ***	ACTG DATE	TBC	DSC	UNIT PRICE	EXTENDED VALUE
						CASE: URK ITM NBR: 002									
FKB	B14	A	C0001BDURK	EA	5CR	BBNC5471009004		BZ2URK	G	CB	0810	A	AB	70.00	350.00 CR

NOTES:

* EXTRACTED FROM THE STOCK NUMBER DATA FIELD OF THE RELATED FKA/FKB TRANSACTION IN THE FMS DELIVERY LISTING.

** THE DOCUMENT NUMBER IN THE FMS REPLY LISITNG AND THE FMS DELIVERY LISTING ARE IDENTICAL AND CAN BE IDENTIFIED BACK TO THE ORIGINAL REQUIREMENT.

*** ARC MAY BE THE RESULT OF NON-RSDRADJUSTMENTS. FMS CUSTOMERS SHOULD REVIEW THE LINE ENTRY IN ITS ENTIRETY TO DETERMINE IF A REPLY (ARC) IS BEING PROVIDED WITHOUT IDENTIFICATION BY SDR SERIAL NUMBER.

Foreign Military Sales Financial Forecast

The financial forecast, figure 12-9, reflects forecast amounts of payments due, by quarter, for up to nineteen quarters of an FMS case. It essentially portrays the same information as the LOA estimated payment schedule.

Figure 12-9
Foreign Military Sales Financial Forecast

PCN: UH028A150 — FMS FINANCIAL FORECAST
U.S. DEPT/AGENCY: ARMY — STATEMENT NUMBER: 08-12NA — FOR PERIOD ENDED: 08 DEC 31
COUNTRY: BANDARIA — DATE PREPARED: 09 JAN 15
SERVICE: ARMY

CASE	FORECAST BY QUARTER							
		1ST	2ND	3RD	4TH	5TH	6TH	7TH
		8TH	9TH	10TH	11TH	12TH	13TH	14TH
		15TH	16TH	17TH	18TH	19TH		
CXY		12000	0	0	0	0	0	0
		0	0	0	0	0	0	0
		0	0	0	0	0		
URK		7000	5000	1725	0	0	0	0
		0	0	0	0	0	0	0
		0	0	0	0	0		
TOTAL STATEMENT		19000	5000	1725	0	0	0	0
		0	0	0	0	0	0	0
		0	0	0	0	0		

Holding Account Statement

Discussed earlier in this chapter as a convenience to the FMS purchaser, DFAS–IN maintains a purchaser holding account. The FMS customer may request DFAS–IN to draw upon its country holding account for transfers to specific cases as a need arises. The holding account balances are not included in the totals of the DD Form 645. A separate holding account statement, figure 12-10, is provided to the country showing deposits and withdrawals to the holding account and is considered an off-line billing statement.

Figure 12-10
Holding Account Statement

BANDARIA HOLDING ACCOUNT: BN-B-1BB FOR QUARTER ENDING: DECEMBER 31, 2008 CASH ACCOUNT FOR SALES TO BANDARIA ARMY				
DATE	**DETAIL**	**DEPOSITS**	**WITHDRAWALS**	**BALANCE**
30-Sep-08	BALANCE BROUGHT FORWARD			$3,000.00
25-Oct-08	Funds transferred to BN-B-1BD Holding Account		$200.00	
14-Nov-08	Excess funds from closed case P-JAC	$90.00		
29-Dec-08	Cross-leveling transactions per letter, Embassy of Bandaria, 15 SEP 06 from cases:			
	B-KAA	$50.00		
	D-KAB	$75.00		
29-Dec-08	Cross-leveling transactions per letter, Embassy of Bandaria, 15 SEP 06 to cases:			
	D-KBU		$100.00	
	D-KAW		$25.00	
31-Dec-08	ENDING BALANCE			$2,890.00

The FMS customer must advise DFAS–IN of its desires relative to the controls over holding account transactions. For example, DFAS–IN needs to know if the customer desires automatic refunds, or if the customer wants to request refunds on a case-by-case basis.

Suspense Account Statement

For those countries participating in accelerated case closure procedures, a statement of the country's suspense account, figure 12-11, will be provided with each quarterly bill. This account statement is similar to the holding account statement in that it summarizes activity, by case, for the current quarter. The statement also shows the previous and current quarter balances for the account.

Figure 12-11
Accelerated Case Closure Suspense Account Statement

DEFENSE FINANCE & ACCOUNTING SERVICE - INDIANAPOLIS
DEPUTATE FOR SECURITY ASSISTANCE (DFAS-IN/JAX)

ACCELERATED CASE CLOSURE SUSPENSE ACCOUNT
FOR QUARTER ENDING DEC 2008

DATE: 01/15/2009
PAGE: 1

CLSR TYPE	CC	IA	CASE	STATUS CHG	DT-CLSR DT-FNLZ	ORIG ULO VALUE COL A	CUM PREV ACTIVITY COL B	CUR QTR ACTIVITY COL C	CUR QTR BAL COL A-B-C
CC - BN									
ICS - B									
2	BN	B	IAF		03142	75,241.84	2,567.45	0.00	72,674.39
2	BN	B	UWF		08016	61,733.24	-2,929.15	-4.64	64,667.03
2	BN	B	UWY		05171	23,970.18	0.00	0.00	23,970.18
SUBTOTAL BY TYPE						160,945.26	-361.70	-4.64	161,311.60
SUBTOTAL BY ICS						160,945.26	-361.70	-4.64	161,311.60
				** TOTAL RECORDS IN THE CATEGORY (ICS - B) = 3					
ICS - D									
2	BN	D	GZW		06219	137.12	0.00	0.00	137.12
2	BN	D	KBG		04257	80.00	0.00	0.00	80.00
2	BN	D	RBC		03323	38.09	-1.21	0.00	39.30
SUBTOTAL BY TYPE						255.21	-1.21	0.00	256.42
SUBTOTAL BY ICS						255.21	-1.21	0.00	256.42
				** TOTAL RECORDS IN THE CATEGORY (ICS - D) = 3					
ICS - P									
2	BN	P	GMS		04034	55,589.00	0.00	0.00	55,589.00
SUBTOTAL BY TYPE						55,589.00	0.00	0.00	55,589.00
SUBTOTAL BY ICS						55,589.00	0.00	0.00	55,589.00
SUBTOTAL BY CC						216,789.47			
				** TOTAL RECORDS IN THE CATEGORY (ICS - D) = 3					
				** TOTAL RECORDS IN THE CATEGORY (CC - BN) = 7					

NOTE: ASTERISK (*) IN STATUS CHANGE COLUMN MEANS THE CASE CLOSED THIS QUARTER OR CHANGED CLOSURE TYPE.
NOTE: FOR THE CURRENT QUARTER, POSITIVE AMOUNTS REPRESENT RESERVE FOR FUTURE DISBURSEMENTS; NEGATIVE AMOUNTS REPRESENT UNDERESTIMATED ULO FOR THIS CASE.

Cross-Leveling

Cross-leveling is an accounting technique by which DFAS–IN transfers funds from one FMS case to another for the same country. This transfer permits the FMS purchaser to minimize payments due on a billing by fully utilizing all funds previously paid on FMS cases. There are two methods through which cross leveling may be accomplished. In the first method, the customer conducts a cash analysis and, in a letter (usually with a payment), requests DFAS–IN make specific cash transfers among designated FMS cases. The second method authorizes automatic cross-leveling between cases based upon case needs. In this method, there must be a written agreement between DFAS–IN and the FMS customer. In order to provide the FMS customer with a complete record of cross-leveling transactions, the transfer of excess cash is processed to the country holding account and then withdrawn from the holding account to be applied to a case requiring payment. A sample of this transaction documentation can be seen in figure 12-10.

Special Billing

In much the same manner as cross-leveling, customers may be able to minimize cash flow using collections for all cases and average cash flows on a country (vice case) basis via a process known as special billing. Since requirements and procedures are unique to each country, they are normally established in an agreement between the customer country, DSCA, and the appropriate banking institutions in the US and the purchaser's country. As noted, since each agreement is unique, the DSCA should be contacted if additional information is desired [SAMM C9.10.2].

DFAS–IN Performance/Delivery Reporting Feedback to Implementing Agencies

In accordance with DOD 7000.14-R, vol. 15, IA earned reimbursements are to be paid by DFAS–IN within twenty working days from the date of receipt at DFAS–IN. DFAS–IN provides several products to the IAs to assist in reconciling their accounts. The following is a list of selected DFAS–IN products and some of the data provided by each product. DFAS–IN normally provides these products on electronic media to the IAs upon request.

Foreign Military Sales Command Pay List

This report identifies the total amount of deliveries charged to FMS cases excluding accounts payable (i.e., country account in a deficit position) and IA delivery reports rejected by DFAS–IN. The report also includes the additional charges that were mechanically computed by DFAS–IN. The FMS command pay list summarizes deliveries reported by case and country for each reporting activity. The last line of the list, total reimbursable to this payee, should equal the amount the payee receives by check.

Foreign Military Sales Implementing Agency Performance Report Transaction Register

This computer printout is available for IAs to use in reconciling their reported deliveries to the deliveries processed by DFAS–IN. The register contains transactions submitted by the IA that could not be processed by DFAS–IN because of invalid data and/or suspected problem areas. DFAS–IN also provides information on transactions input by DFAS–IN on the IA's behalf, transactions modified by DFAS–IN, and transactions deleted by DFAS–IN.

Foreign Military Sales Accounts Payable List

This report indicates transactions delivery reported by the IAs, but not paid to the reporting activity because the purchaser's funds were frozen or the purchaser did not have enough cash available, or the amount of credit deliveries outweighed the debits. The list contains a total of all transactions that are reimbursable and non-reimbursable to the reporting activity.

Case Reconciliation and Closure

Case reconciliation is not a single action. Rather, it is a series of actions identifying and resolving discrepancies among logistics and financial transactions throughout the life of an FMS case. Reconciliation commences with the implementation of an FMS case and concludes when the case is closed.

Foreign Military Sales Case Reconciliation and Closure Manual (RCM)

DOD 5105.65-M, FMS RCM, published in August 2004, is the authoritative FMS policy source concerning case review, reconciliation, and closure procedures. It consolidates reconciliation and closure policies into a single policy reference. This manual complements and expands on DOD 7000.14-R, FMR, and DOD 5105.38-M, SAMM. It is intended to identify all policies and procedures, and ease actions by simplifying efforts to research the associated business rules. Every effort is made to ensure this document is user-friendly, comprehensive, relevant, and concise.

Case Reconciliation

Several important reconciliation actions facilitate case closure. These include:

- Continuous, periodic reconciliation of essential financial data to allow for error detection, correction, and future actions at the earliest possible point in the case life cycle.
- Establishing a comprehensive file of all transactions pertaining to the case. For some cases, this file could be quite large, filling several rooms if the files are maintained in their original form. However, large files may be reduced by the use of electronic media. The data files must also be filed and accessible to case managers and those responsible for final case reconciliation.
- Recording case data with objective evidence. This simply means that every financial transaction, every cost, must be recorded. The recording of financial data in source documents will provide an audit trail which can ensure the safeguarding of customer and USG funds.
- Ensuring case identifiers are recorded in all financial transactions when the DOD accepts an FMS case it also accepts a fiduciary responsibility, which is, completed once final reconciliation is effected. Those cases where reconciliation cannot be achieved should be referred to the DSCA case closure executive committee.

Case Closure

An FMS case becomes a candidate for closure when:

- Ordered items have been physically delivered
- Ordered services have been performed (and all warranties are expired)
- SDRs have been submitted and resolved
- Financial requirements are reconciled
- Records maintained by the IA and DFAS–IN are in agreement

IAs then perform final case reconciliation actions and submit closure certificates to DFAS–IN where an audit is accomplished and final statements of account are issued.

Accelerated Case Closure

One of the major hindrances to case closure, under the above procedures, is the final settlement of long-running contracts in which the FMS case is a part. An alternative process to close FMS cases is called Accelerated Case Closure. This procedure allows these cases to be closed in the customer's records in advance of final contract settlement, and as a result, FMS customers electing to participate in the process will have their cases closed more expeditiously, with a goal of closing a case within two years of supply/services completion. While these cases are closed as far as the customers are concerned, as evidenced by the customer receipt of a final statement of account, the cases continue to be accounted for in both the MILDEP and DFAS–IN records. Final closure in DOD records only occurs when all contracts or other unliquidated obligations are completely settled. The closure certificate process under these accelerated procedures will be in two phases. For those cases closed with unliquidated obligations, an interim closure certificate is submitted. Based on this interim certificate, DFAS–IN will issue a final statement of account to the FMS customer. Subsequently, a final closure certificate is submitted by the IA when all contract issues are finalized and all obligations liquidated.

Summary

Proper FMS funds management requires the FMS manager to acquire an understanding of a myriad of policies and procedures. Each LOA must reflect easily understood payment terminology. This is accomplished using terms of sale and the payment schedule. For a case to be implemented, IAs must request OA, and the OA, in turn, must be passed from DFAS–IN to the applicable IA. OA allows the IA to prepare and process funding documents on behalf of the FMS purchaser. Expenditure authority must be requested by the IA from DFAS–IN in order to pay bills as a result of material delivered and services rendered.

The methodology employed in determining an FMS price depends on whether the price is to be developed before the fact as an estimate on the LOA, or after the fact as the reporting of a cost in the billing system. In either case DOD personnel responsible for pricing and reporting costs must refer to current policy and procedures. The basic methodology involves the determination of a base cost (e.g., stock, inventory, procurement) plus other associated costs (e.g., administrative charge, accessorial charges etc.). Although the pricing methodology is relatively simple, estimating the cost elements for allocation to an FMS price can be difficult.

FMS billing provides a mechanism for complying with the requirements of the AECA in that FMS is to be conducted in a "no loss" manner to the USG and that payments are to be made in advance of USG expenditures on the purchaser's behalf. IAs report the cost of DOD services, inventory, and new procurement sales to DFAS–IN using the "Delivery Transaction." The basic FMS billing document is the DD Form 645, which is prepared at the end of each calendar quarter. The DD Form 645 serves as both a billing document and a statement of account. Numerous attachments, as applicable, accompany the DD Form 645, to include the "FMS Delivery Listing," the "FMS Reply Listing to Customer Request for Adjustments," the "FMS Financial Forecast," and the "Holding Account Statement."

References

Department of Defense Manual 5105.38-M, *Security Assistance Management Manual* (SAMM). 3 October 2003.

Financial Management Regulation 7000.14-R, Volume 15, "Security Assistance Policy and Procedures." 7 September 2011.

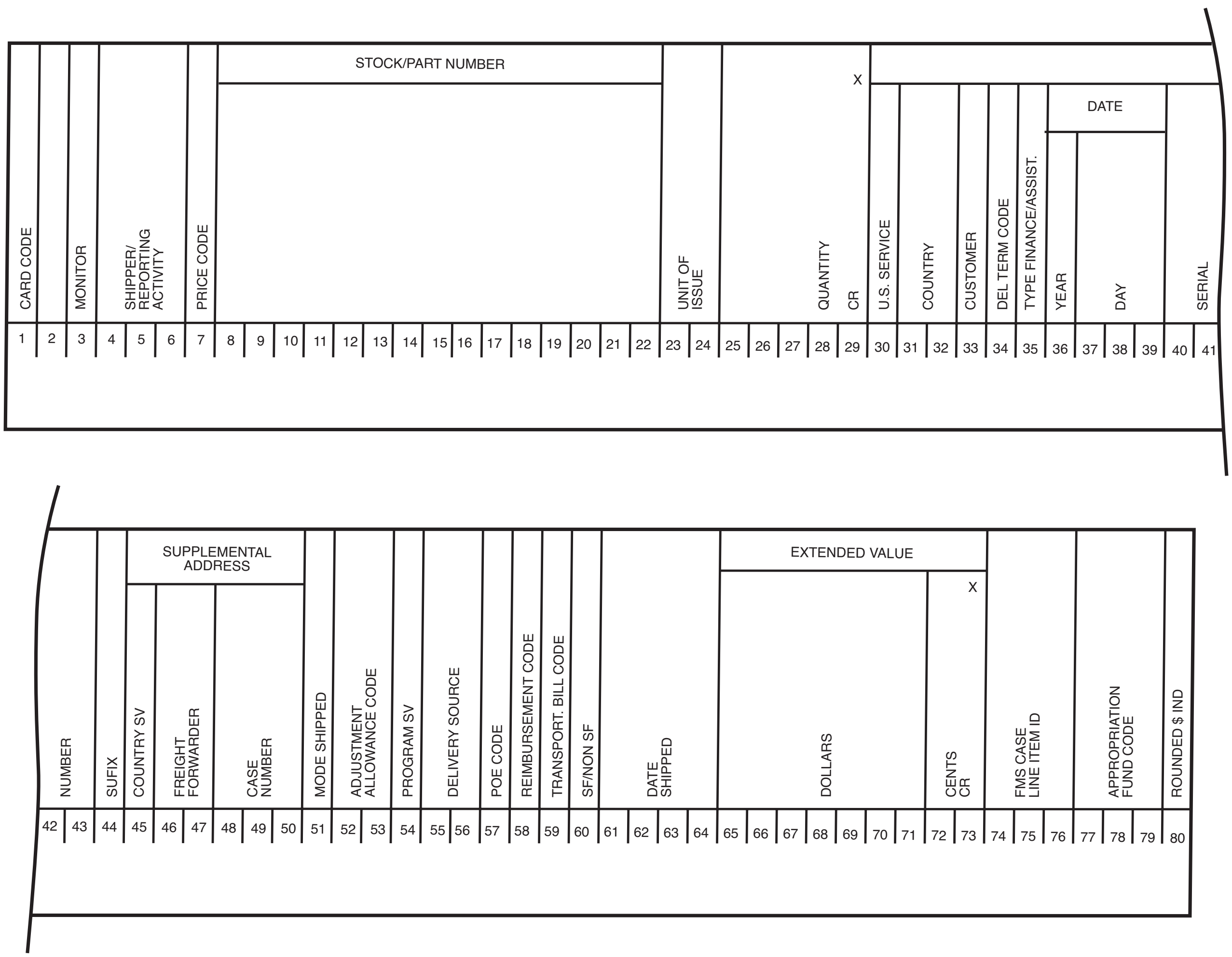
Department of Defense Manual 5105.65-M. *Foreign Military Sales Case Reconciliation and Closure Manual (RCM)*. August 2004.

Attachment 12-1

Foreign Military Sales Delivery Transaction

The FMS delivery transaction identifies accrued MILDEP/IA FMS expenditures (work in process) and physical deliveries of inventory/new procurement articles and services. Based on the data contained in the delivery transaction, DFAS–IN will compute applicable surcharges and report the transactions to the purchaser through the FMS delivery listing attachment to the DD Form 645 FMS [A Delivery Transaction Report example is shown in Figure 12-1-1].

Figure 12-1-1
Foreign Military Sales Delivery Transaction



Accurate and timely performance reporting is essential to FMS financial management. For example, transaction position 3, Monitor Code and positions 4-6, Routing Identifier Code identify the activity to which the case is assigned for action and which is to be reimbursed as well as the shipping depot or activity performing the service delivery. An “E” in transaction position 7, Price Code advises the customer that delivery is at an estimated price and “A”, actual costs, will be reported at a later date.

Transaction position 34 delivery term code (DTC) indicates the responsibility, DOD or purchaser, for transportation of FMS articles. For example, DTC “8” advises the purchaser that the DOD planned to transport the article(s) to a continental US (CONUS) port of exit and provide loading, handling, and storage aboard a vessel at the port of exit. Transaction position 35, type of assistance identifies the supply source, type of sale or type of assistance, such as sale of DOD inventory or services, a cash sale from procurement, a shipment from a customer’s supply support arrangement.

Transaction positions 55 and 56 Delivery Service Code (DSC) provide an audit trail between performance and the pricing of the LOA. The DSC is also used by DFAS–IN to recognize:

- IA earnings for administration of a case
- PC&H
- Contract administration services
- Certain transportation charges

For example, a DSC beginning with the alpha "A" indicates delivery from DOD inventory and a DSC beginning with the alpha "D" indicates work in process on FMS customer procurements and deliveries from procurement. The second alpha of a DSC beginning with a "D" identifies government furnished materiel, nonrecurring charges, a requirement for DFAS–IN to collect for contract administration, etc. [See attachment 12-2 for a listing of DSC, and attachment 12-3 for the applicable charge matrix based upon the delivery source code].

Transaction position 59 transportation bill code (TBC) is a very important code. It is used by DFAS–IN to recognize DOD earnings for transportation of materiel. If this position is left blank, DFAS–IN will compute transportation costs using the DTC previously discussed. However, at present, DTCs do not identify small package shipments (parcel post and United Parcel Service) and DFAS–IN computer is not programmed to consult the mode of shipment code for MILDEP deliveries. Consequently, without a TBC identifying DOD small package shipments the customer is not billed for costs and the MILDEP is not reimbursed.

Transaction position 60 (Stock Fund/Non-Stock Fund) identifies the DOD financing appropriation or stock fund. The reporting activity may use transaction positions 77-79, appropriation/fund budget code, to identify its appropriation/fund to be reimbursed, if applicable.

Transaction positions 65-73 (Extended Value) represent the total dollar value of the delivery transaction report. DFAS–IN will divide this value by the quantity shown in transaction positions 25-29 to determine the unit price as reported in the FMS delivery listing to the purchaser.

Under the positive transaction control performance reporting process, additional data fields are added to the basic 80-column format to provide tracking and suspense monitor. One of the data fields added is an element called the transaction control number, a unique 13-position code assigned by the MILDEP financial integrated control system (FICS) to each transaction submitted. The transaction can then be tracked until its final disposition posting to the DIFS performance reporting subsystem or deletion from the financial records. If there are several transactions against one single document number, each one can be monitored separately. In-depth explanation of all transaction positions may be found in DOD 7000.14-R, Volume 15. As can readily be seen, errors in any codes can, and do, cause serious difficulties in the proper billing of purchasers and reimbursement of costs. Delays in submission of delivery transaction reports by the MILDEPs/IAs result in late reporting of transactions to purchasers, and the erroneous appearance of excessively large purchaser trust fund balances as well as other related problems.

Attachment 12-2
Delivery Source Codes

	DSC 1st Position	DSC 2nd Position
Sale of DOD Articles under Section 21, AECA		
DWCFs non-excess items, including technical data packages and publications, from inventory		
1. Matured FMSO	A	A
2. Other than matured FMSO	A	B
DWCFs non-excess items diverted from procurement initiated to maintain stock fund inventory		
1. Matured FMSO	A	C
2. Other than matured FMSO	A	D
Procurement funded item (including technical data packages and publications) from inventory that requires replacement.	A	E
Procurement funded item (including technical data packages and publications) from inventory that do not require replacement.	A	G
Excess Working Capital Funds Item		
1. Matured FMSO	A	H
2. Other than matured FMSO	A	J
Excess Procurement Funded Item from inventory PC&H computed on original acquisition cost of item and submitted by IA.	A	K
Any item other than DWCF Items sold from inventory that are not subject to normal PC&H charge. This code shall only be used when the case contains a transportation line or a packing, crating and handling line, or a pricing exception has been granted by the Office of the Under Secretary of Defense (Comptroller).	A	L
Performance of DOD Services under Section 21 or 22, AECA		
Training Course		
1. DOD	B	A
2. Contractor	B	B
Repair or replace customer equipment. IAs shall include actual PC&H and transportation for materiel consumed in overhaul in reported costs.	B	C
Other DOD services. Does not include “above-the-line” transportation or “above-the-line” PCH&T associated with the repair or modification of customer-owned equipment that is included in repair cost reported using code “BC.”	B	D
Storage charge (for other than FMSO cases)	B	E
Leases		
1. Depreciation	B	F
2. LOA sales of articles and services in connection with lease, prior to, during, or after lease period (includes transportation, PC&H, refurbishment)	B	G
Actual PC&H charge. This report must accompany delivery transactions for items sold from inventory with DSCs AK and AL	B	H

	DSC 1st Position	DSC 2nd Position
"Above-the-line" transportation to FMS customers that is included in management line(s). Code includes "high-flight" or special airlift. Code does not include "above-the-line" transportation cost that is included in the selling price of an item or service.	B	T
Unique FMSO Charges		
FMSO I materiel used to support system obsolete to DOD use (buy out of unique repair parts to support obsolete end-items).	C	A
Annual inventory maintenance and storage cost. Charge annually on current FMSO II case. The FMSO I case manager shall input the FMS detail delivery transaction. There is no annual charge for DWCF items for CLSSAs, as the DWCF standard stabilized price recoups all costs.	C	B
Normal inventory loss on procurement appropriation funded secondary items (physical inventory gain or loss, expiring shelf life, and damage of stored parts). Charge assessed annually on current FMSO II case. The FMSO I case manager shall input the delivery transactions.	C	C
Cash advances for on-hand portion of FMSO I.	C	D
Procurement for FMS Customers under Sec. 22, AECA		
Codes DE through DL represent work-in-process (WIP) transactions. The break-down of these charges provides audit trail visibility for pricing purposes. The DFAS–IN shall treat them as progress payments and report them as such to the FMS customer. These charges shall be liquidated by one of the contract delivery codes DA through DD in combination with reimbursement code "N".		
1. Contractor services (other than training)	D	A
2. DWCF item, TDP, or publications from contractor	D	B
3. Procurement appropriation funded secondary item from contractor	D	C
4. Procurement funded principal or major item from contractor	D	D
5. Progress payment to contractor	D	E
6. DOD services in support of procurement. (This code was applied to actual CAS hours prior to establishment of the charge. It now applies to other than CAS services).	D	F
7. Nonrecurring Cost Recoupment Charge (R&D and production).	D	G
8. Government-furnished materiel (GFM)		
a. Shipped from inventory	D	J
b. Shipped from another contractor	D	K
c. PC&H&T applicable to procurement funded GFM	D	L

Attachment 12-2 (Continued)
Delivery Source Codes

	DSC 1st Position	DSC 2nd Position
9. Contractor effort in overseas locations which is supported by an FMS management line rather than through normal CAS effort.	D	X
Miscellaneous Charges		
1. Royalty charge (USG TDP)	E	E
2. Other federal agency shipment		
a. From stock	E	F
b. From contractor	E	G
3. NATO POL	E	H
4. Redistributable MAP property	E	J
5. Collection on nonrecurring production charge or license fee on behalf of a third country	E	K
6. Prepositioning costs	E	L
7. Interest on arrearage computed in accordance with volume 6, chapter 12, DOD 7000.14-R, Volume 15. “Collecting and Reporting of Foreign Indebtedness Within the Department of Defense.” Restricted to use by the DFAS–IN	E	M
8. Nonrecurring cost recoupment charges	E	N
Special Defense Acquisition Fund (SDAF)		
The SDAF shall use DSCs as follows:		
This code shall be used for SDAF sales of items originally purchased from DOD DWCF inventories.	S	A
This code shall be used for SDAF sales of items originally purchased from DOD inventories other than defense business operations fund.	S	B
This code shall be used for SDAF sales of items procured from contractors for the fund.	S	D
This code shall be used for SDAF sales of items procured from contractors and shipped directly from the contractor to the FMS customer, providing there is no requirement for any special PC&H.	S	E

Attachment 12-3

Delivery Source Code Matrix

Accessorial Computation Matrix [N = No; Y = Yes]

Delivery Source Code	Contract Administration[1]	PC&H[2]	Administration[4]	Transportation Parcel Post[5,6]
AA	N	N	Y	Y
AB	N	N	Y	Y
AC	N	N	Y	Y
AD	N	N	Y	Y
AE	N	Y	Y	Y
AG	N	Y	Y	Y
AH	N	N	Y	Y
AJ	N	N	Y	Y
AK	N	N	Y	Y
AL	N	N	Y	Y
BA	N	N	Y	N
BB	N	N	Y	N
BC	N	N[3]	Y	N[3]
BD	N	N	Y	N
BE	N	N	N	N
BF	N	N	N	N
BG	N	N	Y	N
BH	N	N	Y	N
BT	N	N	Y	N
CA	N	N	N	Y
CB	N	N	Y	N
CC	N	N	Y	N
CD	N	N	N	N
DA	Y	N	Y	N
DB	Y	N	Y	Y
DC	Y	N	Y	Y
DD	Y	N	Y	Y
DE	Y	N	Y	N
DF	N	N	Y	N
DG	N	N	Y	N
DJ	N	N	Y	N
DK	Y	N	Y	N
DL	N	N	Y	N
DX	N	N	Y	N
EE	N	N	Y	N
EF	N	N	Y	Y
EG	N	N	Y	Y
EH	N	N	Y	N
EJ	N	Y	Y	Y

Delivery Source Code	Contract Administration[1]	PC&H[2]	Administration[4]	Transportation Parcel Post[5,6]
EK	N	N	Y	N
EL	N	N	N	N
EM	N	N	N	N
EN	N	N	Y	N
SA	N	N	Y	Y
SB	N	Y	Y	Y
SD	N	Y	Y	Y
SE	N	N	Y	Y

Notes:

1. DFAS–IN will compute CAS (unless statutory waiver of contract administration has been made) if price code is "N" and reimbursement code is other than "N."
2. PC&H does not apply to stock fund or DWCF items with ship dates after 1 October 1990.
3. Included in actual or estimated actual repair cost.
4. Administrative costs will be computed unless administrative costs have been waived pursuant to statute.
5. Transportation costs will be computed using the transportation bill code in position 59 of the delivery transaction. However, if this position is blank, transportation costs will be computed using the DTC (position 34).
6. The inland CONUS transportation charge of 3.75 percent does not apply to DWCF shipments with shipping dates subsequent to 1 October 1990. Computation for generic codes L1D and L1E for DWCF items was discontinued on items with shipping dates from October 1991. See DOD 7000.14-R for additional information regarding transportation charges.