Chapter

12 Financial Management

Introduction

The execution of the USG Security Cooperation (SC) programs involves the management of substantial amounts of funds. The fact that Foreign Military Sales (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. The Building Partner Capacity (BPC) cases also require attentive financial management and planning due to their expiring and cancelling funds legislative limitations. Financial management is far-reaching and must be considered by all functional disciplines in the security cooperation community throughout the life-cycle of cases and programs. This chapter will discuss processes and procedures of US Government (USG) organizations that are 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 security cooperation cases and programs. The primary financial management references that are highlighted and discussed in this chapter include the *DOD Financial Management Regulation* (FMR) 7000.14-R Volume 15 (Security Cooperation Policy), Defense Security Cooperation Agency (DSCA) *Security Assistance Management Manual* (SAMM) Manual 5105.38-M chapter 9 (Financial Policies and Procedures), chapter 16 (Case Reconciliation and Closure), and the SAMM appendix 7 (Case Reconciliation and Closure Guide (RCG)).

Financial Management Responsibilities

US Congress and State Department (DOS)

The US Congress and Department of State (DOS) are discussed in chapter 3 of this textbook, "United States Government Organizations." The US security cooperation (SC) and security assistance (SA) financial management responsibilities begin with the Congressional enactment of the required SA/SC legislative authorization and appropriation acts. The DOS and DOD coordinate and provide input to Congress in the development and establishment of that legislation. There is extensive financial management involvement and oversight by DOS in fulfillment of that organization's responsibilities for continuous supervision and general direction of economic assistance, military assistance, military education and training, and sales and export programs.

Under Secretary of Defense (Comptroller)

The DOD Under Secretary of Defense (Comptroller) (OUSD[C]) is the principal advisor to the Secretary of Defense on all budgetary and fiscal matters, including the development and execution of the Defense Department's annual budget. As the DOD's Chief Financial Officer, OUSD(C) also oversees the Department's financial management systems, business modernization efforts, and financial policy. The Department of Defense Financial Management Regulation (DOD FMR) is issued by OUSD(C) under the authority of DOD Instruction 7000.14, "DOD Financial Management Policy and Procedures." The DOD FMR applies to the Office of the Secretary of Defense, the Military Departments, the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the DOD, the Defense Agencies, the DOD Field Activities, and all other

organizational entities within the DOD (hereinafter referred to collectively as "DOD Components"). DOD FMR Volume 15 directs statutory and regulatory financial management requirements, systems, and functions for all appropriated and non-appropriated, working capital, revolving, and trust fund activities. The DOD FMR security cooperation policy is documented in Volume 15.

Defense Finance and Accounting Service (DFAS)

Defense Finance and Accounting Service (DFAS) headquarters is located in Indianapolis, Indiana and is the organization responsible for the implementation of all accounting and finance activities within the DOD.

Defense Finance and Accounting Service, Security Cooperation Accounting (DFAS–SCA)

Defense Finance and Accounting Service, Security Cooperation Accounting (DFAS–SCA) is the DFAS organization that 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 security cooperation cases and programs
- Operate the Defense Integrated Financial System (DIFS) computer information system for centralized DOD-wide delivery reporting, collecting, forecasting, and billing for security cooperation cases and programs
- Perform continuing cash analysis to ensure sufficient customer cash is available to pay DOD, military departments (MILDEPs), and DOD procurement vendors.
- Prepare, review, and dispatch all security cooperation billing and holding account statements
- Perform final accounting actions to close cases and render final accounting statements
- Provide assistance to, and interact with, DOD and MILDEPS regarding security cooperation logistical and financial systems, projects, policies, and procedures
- Participate with DOD and MILDEPs as required in security cooperation reviews within and outside the US

Defense Security Cooperation Agency (DSCA)

The primary functions of the Defense Security Cooperation Agency (DSCA) are described in DOD Directive 5105.65 and are discussed in chapter 3 of this textbook. The financial elements of those duties include the management of the FMS trust fund. DSCA is also responsible for the financial management of the Foreign Military Financing Program (FMFP), Security Cooperation Organization (SCO) program management, the International Military Education and Training (IMET) program, the FMS administrative fund, and numerous Building Partner Capacity (BPC) programs. In addition, DSCA schedules and chairs the Financial Management Reviews, supervises the financial implementation of FMS and BPC Letters of Offer and Acceptance (LOAs), and also has waiver authority for most of the FMS-related costs described in this chapter.

Financial Management Review (FMR) Program

The financial management review program constitutes a country-level review of an FMS customer's total program (i.e., all the country's FMS cases), 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 prior to the FMR commencement. The FMR will then be held as scheduled, with representation and participation from DSCA, IAs, the applicable SCOs, and foreign purchaser countries [SAMM C9.14].

Case Writing Division

The mission of DSCA's Case Writing Division (CWD) is to review all LOAs for consistent policy application. When developing payment schedules, the responsibility for providing accurate data in developing line prices and payment schedules on an LOA document 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 textbook. The following types of organizational components have a financial role in security cooperation programs and cases.

- Service headquarters–Review, and in some instances, prepare 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.

All MILDEPs and DOD agencies utilize the Defense Security Assistance Management System (DSAMS) to compute LOA prices and payment schedules. Currently, however, the financial execution and reconciliation is conducted by the MILDEPs and DOD agencies utilizing a variety of computer information systems that are discussed in appendix 1 of this book, "Security Cooperation Automation."

Security Cooperation Organizations (SCOs)

The Security Cooperation Organizations (SCOs) are discussed in chapter 4, "Security Cooperation Organizations Overseas." The SCO financial management responsibilities include:

- Initial point of contact with FMS purchaser for issues and communications
- Support Reviews (e.g., financial, program, reconciliation, etc.)
- International Military Education and Training (IMET)—Budgeting and execution
- Foreign Military Financing (FMF)—Budgeting and execution
- Ensuring that the foreign Government is aware of US policies for use of FMS credit financing. Any requests for exceptions must be fully justified and submitted though the Chief of the US Mission to DSCA for interagency coordination and approval or disapproval [SAMM C9.7.2.7].

Foreign Purchaser

The foreign purchaser also has important financial management responsibilities for several security cooperation programs including:

- Budget funds as required
- Timely payment of bills
- Requesting and coordinating with the USG on any required special financial plans (IBA/CBA, SBLC, SBAs, financial waivers, etc.)
- Support Reviews
- Financial Discrepancy Reporting

Funds Management

Foreign Military Sales Trust Fund

The FMS trust fund is a US Treasury account [FMR Volume 15, chapter 1, section 0102] credited with receipts, earmarked by law and held in a fiduciary capacity by the USG, to carry out specific SC purposes and programs. The complete fund cite, 97-11X8242, is required for consolidated financial statements and reports to the Department of the Treasury and the Office of Management and Budget. The FMS trust fund represents the aggregation of SC cash received from USG, purchaser countries, and international organizations. DSCA is responsible for management of the trust fund. DFAS–SCA is responsible for trust fund accounting.

FMS customer cash deposits for defense articles and services sold under the Arms Export Control Act (AECA) sections 21 and 22, 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–SCA 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 funds 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 temporarily 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 (Accounting Policy and Procedures) and SAMM C9.3.9 and C9.11.1]

Holding Accounts

As a convenience to the FMS purchaser, DFAS–SCA maintains purchaser's holding accounts in the FMS trust fund. The holding accounts are sub-accounts of monies from FMS purchasers 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, a result of a quarterly payment by an FMS customer that does not identify to which case the payment should be applied, etc. 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–SCA to "draw upon" its holding accounts for transfers to specific cases as needed. 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 an attachment to the quarterly 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 Redistribution Services (WWRS)
7	Unliquidated obligation (ULO) accelerated case closure procedures (ACCP) participants
8	Supply Discrepancy Report (SDR) transportation reimbursement

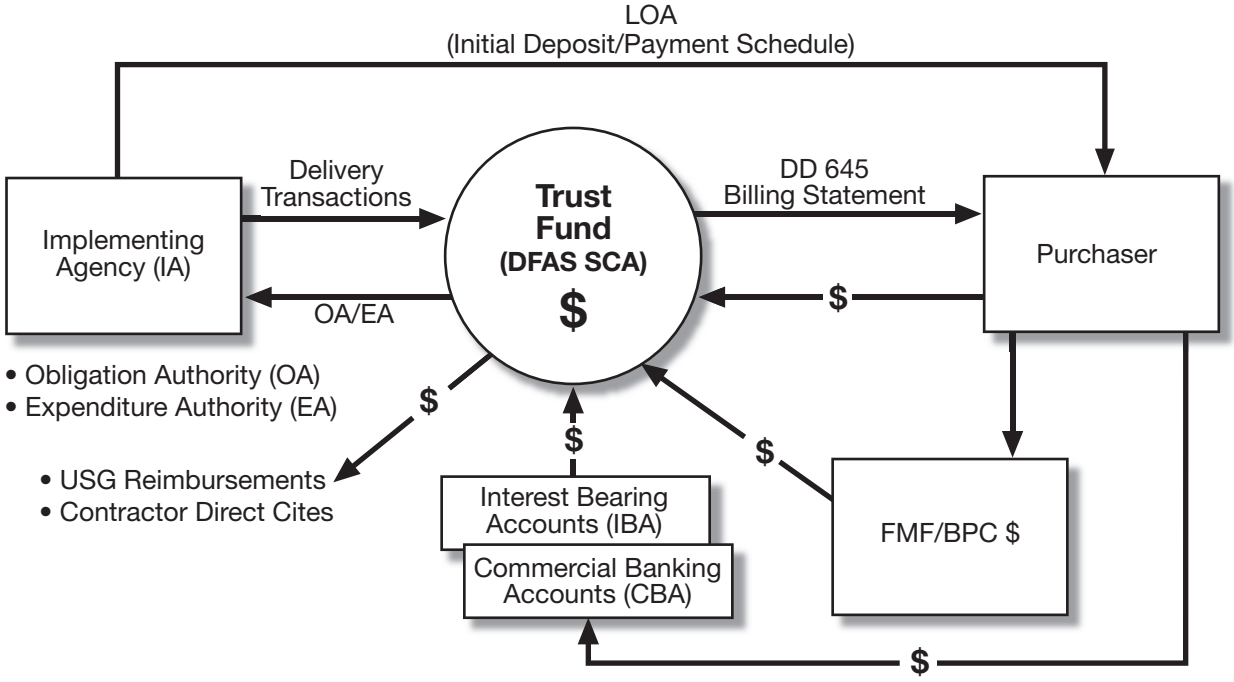
The second digit, an alpha code, identifies the US IA, and the third digit, also an alpha code, identifies the purchaser's in-country service. For example, a holding account for regular FMS payments for US Army-managed cases with the Bandarian Army would be coded as 1BB. In some instances, the alpha 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 FMS funds. Details and interfaces are omitted to emphasize concepts. For BPC cases, there is a similar flow of funds with the "Purchaser" being the USG, and removal of the FMF and IBA/CBA from the diagram. 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 purchaser. These requirements are generally of two forms:

- The initial deposit requirement 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–SCA

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

Interest Bearing Accounts (IBA)

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–SCA is authorized to then withdraw funds from the IBA for transfer into the FMS trust fund. The IBA may be either a Federal Reserve Bank (FRB) account or Commercial Banking Account (CBA) as described below.

Federal Reserve Bank (FRB) Accounts

Some countries, if approved, 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. [FMR Volume 15, chapter 4, section 040102E and SAMM C9.11.2]

Commercial Banking Account (CBA)

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

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

These accounts operate in a very similar fashion to the FRB interest bearing accounts. [FMR Volume 15, chapter 4, section 040102F and SAMM C9.11.3] The DSCA Policy Memorandum 04-02 "FMS Transformation Deliverable: Implementation of Commercial Banking Account (CBA)" documents the guidelines and criteria for countries to participate in CBA arrangements for the purpose of depositing certain funds associated with FMS cases.

DOD Financial Controls

In addition to preparation of the LOA package, budget authority data is provided to DFAS–SCA for incorporation into the DIFS. The following discussion concerns the creation of budget authority, methods of funding, and the flow of obligational authority (OA) and expenditure authority (EA) to the DOD components.

Budget Authority

DOD's budget authority (i.e., USG legal financial authority) is provided by law and it allows the DOD to enter into obligations that will result in immediate or future outlays from federal government accounts. The most basic form of budget authority is appropriations. Security cooperation LOA budget authority is created through the IAs preparation and processing of five forms, as applicable:

- LOAs
- LOA modifications
- LOA amendments
- DD Form 2060 FMS Obligational Authority [FMR Volume 15, chapter 2, section 020202E] (or automated equivalent)
- DD Form 2061 FMS Planning Directive [FMR Volume 15, chapter 2, section 020202D] (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–SCA records acceptance of the LOA and then releases to the IA specific values of Obligational Authority (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

Direct cite method involves entering and maintaining an FMS trust fund accounting citation on documents relating to SC transactions. For example, the trust fund accounting data is shown on a DOD contract and is the direct funding source for a USG paying office to make payment to a contractor. In accordance with the FMR, new procurement actions should be accomplished to the maximum extent feasible and appropriate through direct citation [FMR Volume 15, chapter 1, section 010303].

Reimbursable

Reimbursable method is used when the MILDEP or DOD agency cites its own performing appropriation as the funding source (e.g., the US Army's missiles procurement appropriation). The DOD component's performing appropriation is subsequently reimbursed by DFAS–SCA from case funds held in the FMS trust fund [FMR Volume 15, chapter 1, section 010302].

Flow to Department of Defense Components

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

Obligational Authority

Obligational Authority (OA) is a financial authority, which allows legally binding financial obligations to be incurred in an amount not to exceed the value of the materials and services requirements on a case. Once the purchaser has accepted an LOA and provided funds to DFAS–SCA, and the IA has received OA issued by DFAS–SCA, the case can then 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 an IA. Thus, EA may be requested and accounted for by one of two methods:

- Reimbursement—Reimbursement transactions result in a disbursement for credit to the specific appropriation or fund account
- Direct Cite—Direct Cite transactions result in a disbursement to other than a DOD organization (i.e., a contractor, other federal agency, or employee)

Foreign Military Financing Program (FMFP)

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 (DOS) Role

The Department of State (DOS) in accordance with AECA section 2 is responsible for the continuous supervision and general direction of sales and exports of defense articles and services. In fulfillment of those responsibilities, the DOS determines which countries will receive grants/loans, unless Congress has enacted into law specific country/amount determinations (i.e., earmarks), prohibitions, or ceilings.

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. As such, DOS must first approve the use of loans.

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.

Expenditure of FMF funds is subject to legal and policy restrictions. [SAMM C9.7.2.7] Security Cooperation Organizations (SCOs) must ensure that the foreign government is aware of US policies for the use of FMF. SCOs should generally discourage partner nations from using FMF funding for those items identified in SAMM table C9.T10. However, in certain circumstances these items may be permitted to be purchased with FMF funds if the State Department determines that providing such

items is critical to the mission, the bilateral relationship, or the defense articles or services are in direct support of coalition operations where US forces are present. SCOs should initiate an early discussion of requests to use FMF funds with DSCA (Operations Directorate) and DOS (PM). To facilitate review of these requests, SCOs should submit a detailed justification and rationale for purchasing each item with FMF funds rather than host-nation funds and any other relevant facts in support of the request. This guidance applies to FMF used for standard FMS cases and Direct Commercial Contracts (DCCs).

All items purchased with FMS credit must be transported by US flag vessels when ocean transportation is used. FMS credit agreements may contain provisions for certain waivers that, if approved, permit shipment of up to 50 percent of FMS credit funded cargo on vessels of the borrowing country, and in certain instances such cargo may be transported on vessels of a third country. Such waivers are discussed in SAMM C7.9 (Cargo Preference). FMS credit funds cannot be used to pay the cost of transportation provided by a vessel of non-US registry. FMS credit may also only be used to pay air transportation costs only if US flag aircraft are used.

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–SCA, along with a request for advance of funds. Once DFAS–SCA certifies/approves the request, funds are disbursed as appropriate. If a country is authorized to use FMFP for direct commercial sales (DCS), the borrowing country must submit to DSCA 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

Direct Commercial Contracts (DCCs) are contracts where the purchaser enters into a contract directly with a vendor and the USG is not a party to the contract although FMF is paying for some portion of that contract. The AECA allows the ten countries to use their FMF allocation to finance DCCs. The ten countries eligible are: Israel, Egypt, Jordan, Morocco, Tunisia, Turkey, Portugal, Pakistan, Yemen, and Greece [SAMM C9.7.3]. DSCA (Operations Directorate, Direct Commercial Contracts Division) approves DCCs to be financed with FMF on a contract-by-contract basis. 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 funds, the contractor must certify those items and/or services supplied are US source products. DSCA policy precludes the use of FMFP funds for direct commercial purchases of less than $100,000.00. For further details on the DCC process, contractor eligibility, types of items, and certifications required, see "Guidelines for Foreign Military Financing of Direct Commercial Contracts" posted at the DSCA website http://www.dsca.mil/resources/foreign-military-financing-direct-commercial-contracts-fmf-dcc.

Terms of Sale

Terms of Sale indicate when payments are required and whether the sales agreement is financed with purchaser's national funds (cash), FMS Credit (repayable or non-repayable), MAP Merger, or other funding. Terms of sale and the related LOA types of assistance codes also 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. The Term of Sale is documented on the first page 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 figure C5.F5 provides a list of applicable Type of Assistance codes. SAMM table C9.T11 provides the Terms of Sale (as described in the table on the following page) for use on LOAs [SAMM C9.8].

Table 12-1
Terms of Sale

Term of Sale	Application
Cash with Acceptance	Used when the initial cash deposit equals the amount in the "Estimated Total Costs" line of the LOA. For BPC cases, the Total Case Value (TCV) is entered by the IA during LOA development into the "Due with LOA Acceptance" field per SAMM table C15.T5 Also used for FMSO I even though the initial deposit is less than "Estimated Total Costs" (it must equal the FMSO I Part A value). Used for the procurement of articles and services if the purchaser is not authorized Dependable Undertaking. Used if the purchaser is not authorized Dependable Undertaking and case is solely for procurement, unless specific DSCA approval is obtained.
Cash Prior to Delivery	The USG collects cash in advance of delivery of defense articles and rendering of defense services and design and construction services from DOD resources. AECA, sections 21(b) and 29 (22 U.S.C. 2761(b) and 2769) apply.
Dependable Undertaking	The USG collects cash in advance of procurement contract payment requirements. If AECA, section 22(b) (22 U.S.C. 2762(b)) is applicable based on Presidential action (i.e., payment due up to 60 or 120 days after delivery).
Payment on Delivery	The USG issues bills to the purchaser at the time of delivery of defense articles or rendering of defense services from DOD resources. The first sentence of AECA, section 21(d) (22 U.S.C. 2761(d)) applies. The IA may use this term only pursuant to a written statutory determination by the Director, DSCA, who must find it in the national interest to do so. If AECA, section 21(d) is applicable based on Director or Deputy Director, DSCA action, modify to read "Payment 60 days after Delivery." If AECA, section 21(d) is applicable based on Presidential action, modify to read "Payment 120 days after Delivery."
FMS Credit	This term applies to an FMS case financed with repayable FMF funds, or partly repayable FMF funds, extended or guaranteed by the Department of Defense under AECA, sections 23 (22 U.S.C. 2763) and 24 (22 U.S.C. 2764), or under other legislation.
MAP Merger	Applies to FMS cases financed with Military Assistance Program (MAP) Merger funds (FAA, section 503 (22 U.S.C. 2311)).
FMS Credit (Non-Repayable)	Applies to FMS cases financed with non-repayable FMF funds. If the case is financed wholly with these non-repayable funds, the LOA qualifies for pricing benefits (i.e., exclusion of military salaries and NC of research, development, and production of MDE) as provided in FAA, section 503(a)(3) (22 U.S.C. 2311(a)(3)) and AECA, section 21(e) (22 U.S.C. 2761(e))
EDA Grant	Applies to Excess Defense Article—non-reimbursable grant transfers as provided in FAA section 516 (22 U.S.C. 2312j).

Financial Forecasting

Payment schedules provide forecasted financial requirements for an FMS case and project the timing and/or amounts of purchaser deposits needed to meet the requirements. Payment schedules for LOA documents are prepared by the DSCA (Operations Directorate, Case Writing Division) during the case development process. A payment schedule is developed for each case unless the Term of Sale is "Cash With Acceptance;" or the case is fully funded with FMS Credit (Non-Repayable) and/or MAP Merger, the total case value is less than $5M, and the country is not authorized cash flow financing. In these instances, the initial deposit covers the entire case value. 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

Typically, the payment schedule projects quarterly payments due by the 15th day of March, June, September, and December. Exceptions to these dates must be approved by the DSCA (Business Operations Directorate). SAMM table C9.T12 shows how payment schedule dates should be determined. For example, an FMS case having an LOA estimated total cost of $150,000 might have a payment schedule as follows:

Payment Date	Quarterly	Cumulative
Initial Deposit	$45,000	$45,000
15 March 2013	$40,000	$85,000
15 June 2013	$35,000	$120,000
15 September 2013	$30,000	$150,000

Payment Schedule Content

Payment schedules, to include initial deposits, are built upon IA assumptions such as source of supply, lead-time, delivery schedules, period of performance, progress payment schedules, etc. Payment schedules are built, using DSAMS, at the line level (or sub-line or delivery set level) and rolled-up to a case-level schedule. Payment schedules are prepared using IA pricing estimates and estimated dates for: LOA acceptance, LOA implementation, requisition initiation, contract awards, contractor payments, physical deliveries, and incurrence of personnel costs. Other information required to prepare the payment schedule include contractor termination schedules (used in the termination liability worksheet), lead times and/or availability, periods of performance, and disbursement histories for like-item cases or lines already implemented. Each deposit amount covers all costs to be incurred on the purchaser's behalf during the payment period, plus a reserve to cover Termination Liability (for sales from procurement). Costs may include such items as anticipated deliveries of services and stock items, and progress payments on contracts. This information is needed at the line-level and must be provided by the IA to the DSCA (Operations Directorate, Case Writing Division) for payment schedule preparation.

In the event an amendment or modification to the basic LOA, 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. Amendments use the term "Due with Amendment Acceptance" vice Initial Deposit [SAMM C9.9.1.5.1].

Initial Deposit

The initial deposit is a financial requirement collected from the customer at the time they accept the LOA. The initial deposit relates to the costs anticipated to be incurred from case acceptance (assumed for estimation purposes to be the LOA offer expiration date) until the first DD Form 645 bill is issued and monies collected for that case. SAMM C9.T12 defines the initial deposit time frame based on offer expiration / acceptance dates of LOAs. 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 Volume 15, chapter 4, section 040204B and SAMM C9.9.1].

The list below describes types of costs that can make up the initial deposit and any subsequent estimated quarterly payments [FMR Volume 15, chapter 4, section 040205]:

- Anticipated materiel deliveries/services from procurement
- Anticipated materiel deliveries/services from stock
- Progress payments to defense contractors
- Authorized surcharges including the administrative surcharge {Note that in cases where the calculated administrative surcharge is greater than $30,000, one half of the administrative surcharge is recouped as part of the initial deposit. The remaining half is recouped based on the dollar value of items or services delivered in each quarter. For cases where the calculated administrative surcharge is $30,000 or less, the entire administrative surcharge value, as well as any Small Case Management Line value (if applicable), is recouped as part of the initial deposit.}
- Termination liability (TL) reserve
- Contractor holdback

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 or work order, 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 by the USG to ensure future performance of the contractor.
- Termination liability (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 (as described in the next paragraph), the payment schedule will be developed without TL.

Standby Letter of Credit

A Standby Letter of Credit (SBLC) may be used instead of Termination Liability (TL) to guarantee termination payments. FMF programs are not eligible to participate. The purchaser may request participation in the SBLC program. The purchaser's request(s) must be sent to DSCA (Business Operations Directorate, Country Financial Management Division) in writing, and signed by an official authorized to accept the SBLC documents on behalf of the purchaser's government and/or organization. The purchaser must specify the bank(s) it wishes to use. The purchaser is responsible for paying all fees associated with the SBLC to the issuing bank. No fees can be capitalized or included in the dollar amount specified in the SBLC documents. The purchaser must sign the agreement specifying the terms and conditions in order for the associated SBLC to be implemented. The purchaser must notify DSCA (Business Operations Directorate), in writing, if it wishes to terminate the agreement with the bank(s).

DSCA (Business Operations Directorate) is the beneficiary stated on the SBLC. It is also the focal point for SBLC issues and engages the DSCA (Office of the General Counsel) USD(C), DFAS Indianapolis, and the IAs, as appropriate, to ensure effective SBLC execution.

DSCA (Business Operations Directorate) notifies the IA and the DSCA (Operations Directorate, Case Writing Division) when and SBLC is implemented. The notification includes a list of cases (or indicates that it applies to all cases) governed by the SBLC. DSCA Operations Directorate, Case Writing Division and the IA ensure the TL is not included in the payment schedules for any of these cases. If an SBLC is terminated, the payment schedule is revised to include TL and appropriate. DSCA (Business Operations Directorate) also notifies DFAS and the purchaser.

Drawdowns (sight drafts) from the SBLC are a demand for payment from the SBLC bank. A sight draft may be completed by DSCA (Business Operations Directorate), coordinated and approved by the Director or Deputy Director, DSCA, and sent to the bank for any of the following reasons:

- The FMS purchaser notifies the USG, in writing, that it is terminating all or a portion of an FMS case
- The USG notifies the FMS purchaser, in writing, that it is terminating and FMS case(s) or contracts relating to an FMS case
- The USG is aware the SBLC is being either terminated or not extended beyond its expiration date
- A contractor presents a bill to the USG for termination charges associated with an FMS case(s)
- The issuing and/or confirming bank falls below DSCA's acceptable eligibility thresholds.

The payment is remitted to the account specified on the sight draft. Upon receipt, DFAS ensures the payment is credited to the FMS case(s) as directed on the wire transfer. DFAS Indianapolis notifies DSCA (Business Operations Directorate) of the deposit date and the FMS case(s) is credited within three business days of demand payment receipt.

Annual Case Reviews

FMR Volume 15, chapter 4, section 040103C3 and SAMM C6.5.3 require that all FMS cases be reviewed at least once per calendar year [SAMM C16.2.3.1] using one of the following:

- Anniversary of basic case implementation
- Preparation for a formal review with the FMS customer
- Case value adjusts by ten (10) percent or more [SAMM C16.2.3.1]

DSCA's Reconciliation and Closure Guide (RCG) provide the minimum review items that are required of a case and identifies at which point in the case life cycle each item must be reviewed. RCG figure A7.C2.F5 provides the minimum review items that, taken together, constitute the required annual review of each case. The RCG matrix also identifies how long in the case life cycle each item must be reviewed. RCG figures A7.C2.F6 and A7.C2.F7 are the guidelines and checklist derived from the matrix that documents that the review was performed. The case manager must sign and date a checklist documenting that he/she performed the review and this checklist shall become an official document within the applicable case file. Automation, to the extent possible, and electronic filing is both allowable and preferred whenever practical. Automated replacement for the annual case review process and documentation requirements must be approved by DSCA (Business Operations Directorate, Financial Policy and Analysis Division).

Triannual Reviews

Triannual reviews are an internal DOD control practice used to assess whether commitments and obligations recorded are bona fide needs of the appropriations charged. Triannual reviews apply to all DOD funding sources to include, but not limited to, FMS case funds. Funds holders, with assistance from supporting accounting offices, shall review dormant commitments, unliquidated obligations (ULO), accounts payable, and accounts receivable transactions for timeliness, accuracy, and completeness during each of the four-month periods of each fiscal year. The triannual review process is a very effective tool in supporting the case manager's case management and reconciliation responsibilities. Refer to DOD FMR, Volume 3, chapter 8, section 0804 and SAMM C16.2.3.2 for additional policy information on the triannual reviews.

Payment Schedule Reviews and Revisions

Payment schedule updates are necessary to reflect revisions to delivery schedules, scope changes, pricing updates, actual contract award dates, contractor payment milestone revisions, etc. To determine whether an update is needed, payment schedule reviews occur at least annually as part of the case review and reconciliation process. Payment schedules must be evaluated for possible changes when a Modification or Amendment is processed. If the contract award date slips, the payment schedule must be 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 [SAMM C9.9.3].

Antideficiency Act Violations and Adverse Financial Conditions Reports

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. Funds available to agencies are considered appropriated, regardless of their source, if made available for collection and expenditure pursuant to specific statutory authority. In applying the Antideficiency Act, the FMS Trust Fund is considered to be, and is to be treated as, appropriated funds. Therefore, the Antideficiency Act applies to transactions involving the FMS Trust Fund [FMR Volume 15, chapter 3, section 0311].

Potential violations can occur under the FMS trust fund when:

- Issuing OA and/or awarding an FMS contract without a signed LOA
- Obligating 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 {Note: Additional information on potential violations of the Antideficiency Act is in FMR Volume 14, chapter 2}

Identifying and Reporting Violations on the Antideficiency Act

Detailed guidance for identifying and reporting violations under the Antideficiency Act is contained in 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.

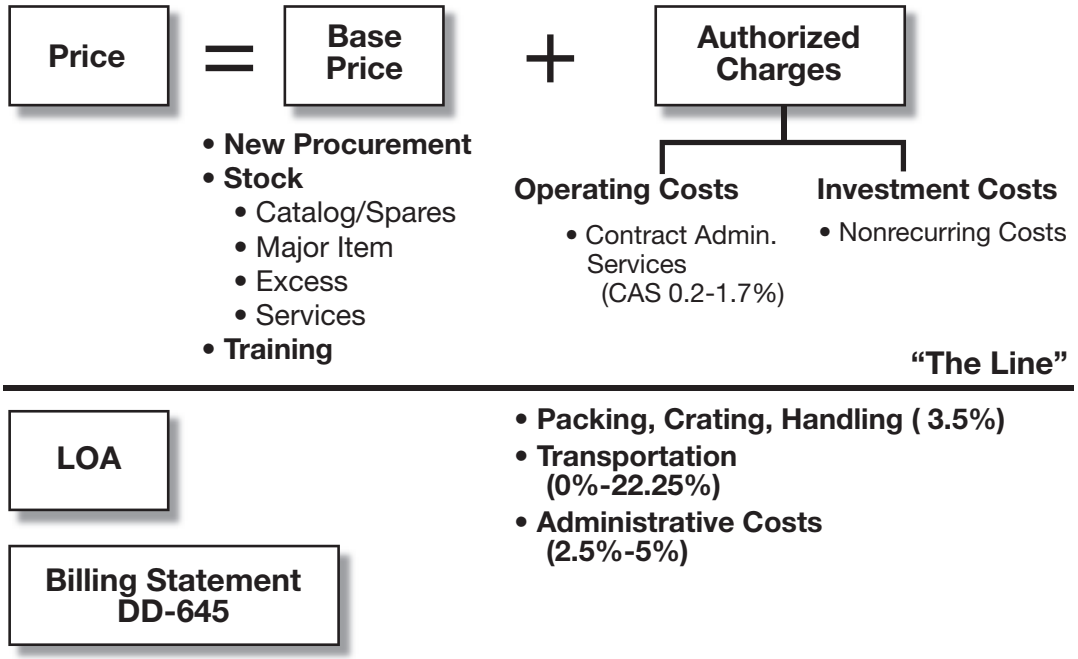
Pricing

The LOA material and/or service 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 delivery of an article or service. The prices entered on an LOA are estimates of the expected costs of articles and/or services to be delivered sometime in the future. The objective of these estimates, developed using cost analysis techniques, is to provide the purchaser with the USG's best effort prediction of a future cost. Prices entered into the billing system eventually document 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 initial prices reported will typically 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 and policies to determine an LOA material and/or service 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 will eventually document the actual cost incurred.

Pricing Elements

Figure 12-2 on the following page illustrates the basic pricing concept used to structure and compute the price of an LOA material and/or service. The elements of the LOA material and/or service 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) that the USG charges to recover total costs for the applicable services performed. In the following discussion, both of these categories will be addressed.

Figure 12-2
Price Formula



Base Price Computation

New Procurement

Defense articles procured for cash sales to an eligible foreign government or international agency, pursuant to AECA, Section 22, for direct delivery must be priced to recover the full contract cost to DOD. Costs may be revised for increases in labor and materials, or for other changes in production and procurement costs. The purchaser is obligated to pay any damages or costs that may accrue from the purchaser's cancellation of the contract (termination liability). [FMR Volume 15, chapter 7, section 0704 and figure 7-10]. The IA will price defense articles and services for pseudo LOA documents in accordance with the DOD Financial Management Regulation (FMR), DOD 7000.14-R; Volume 11A. [SAMM C15.3.3].

Stock Materiel Funded from the Defense Working Capital Fund (DWCF)

Typically, the DOD purchases most secondary items in DOD inventories through a revolving cost account categorized as a Defense Working Capital Fund (DWCF). Each MILDEP operates its own DWCF account, and the Defense Logistics Agency (DLA) operates a DOD-wide DWCF [FMR Volume 11B, chapter 1, section 010101]. Continuing operations are funded by reimbursements received. The goal for those DWCF accounts is to recoup the full retail costs of obtaining an item and maintaining it in the DOD inventory. The base selling price of DWCF articles to FMS purchasers must be determined at the time the article is dropped from inventory [FMR Volume 15, chapter 7, section 070302.B]. Packing, Crating, and Handling (PC&H) costs and inland CONUS (typically in FMS to the continental US pickup points of the FMS customer's freight forwarder) transportation costs are already included in the prices of DWCF item deliveries [FMR Volume 15, chapter 7, section 0705].

A small percentage (typically MILDEP managed) of DOD-managed secondary items are not acquired from the DWCF accounts. Examples of those non-DWCF managed items include ammunition, CADs/PADs (cartridge/propellant activated devices), TRAP (tanks, racks, adapters, and pylons), classified items, COMSEC/crypto, publications, and maps/charts.

Major and Principal Items from DOD Stock Inventory

The base pricing and treatment of reimbursements for non-DWCF articles sold are dependent upon whether the item(s) being sold requires replacement [FMR Volume 15, chapter 7, section 070302C].

Not Replaced

When a determination is made that the item will not be replaced, the price of the item must be the most recent actual procurement cost of the series and model being sold, plus the cost of any modifications or improvements incorporated after production and the applicable non-recurring (NC) recoupment charge. Reductions to the sale price may be made when there is an actual difference in utility or desirability among units of issue of an item due to age or condition. The cost of the last major overhaul or outfitting accomplished before the sale date is added to the calculated price and is not reduced for age or condition. The overhaul costs will be prorated over the interval between the last actual overhaul and the next scheduled overhaul. Examples for price computations are at FMR Volume 15, chapter 7, figures 7-3 and 7-4 (overhaul).

Replaced

When an item is sold from the stocks of DOD and the item is intended to be replaced, the replacement may be either with an end item which is of identical type, model, and series designation (replacement-in-kind, e.g., sale of a C-130B and a purchase of a C-130B), a later series or modified version of the same basic model being sold (e.g., sale of C-130B and the purchase of a C-130E), or an acceptable substitute item that provides at least the same capability or readiness as the item being sold (e.g., sale of an M-48 tank and purchase of an M-60 tank). The price of the item to be replaced must be the best estimated cost of the replacement item available at the time the item is dropped from inventory, plus the nonrecurring recoupment charge of the item being sold, adjusted for the remaining service life of the item being sold. The final bill will utilize the best pricing information available if actual replacement procurement cost is not known. This must be the final cost to the purchaser regardless of the actual cost of final replacement procurement.

Excess Defense Articles (EDA)

Excess defense articles (EDA) are items excess to the approved force acquisition level and approved force retention stock requirements of all DOD components. A determination of "excess" is made by DOD based on recommendation by the applicable DOD system or item manager. Any EDA transfers from DOD inventories are in an "as is, where is" condition which is defined in chapter 10 of this textbook. The cost of excess items is determined by computing and then using the highest of market, scrap, or fair value plus any applicable non-recurring (NC) and applicable overhaul charges. 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 applicable Federal Condition Code as shown in figure 12-3. The fair value is computed using the fair value rates associated with the Federal Condition Code of the asset multiplied by the established inventory price [FMR Volume 15, chapter 7, section 070304]. If the IA proposes the price of materiel to be less than the 5 percent minimum threshold indicated in FMR table 7-2, or if they propose to waive the overhaul costs, a detailed justification must be sent to the DSCA Directorate for Business Operations (DBO). If DSCA endorses the IA proposal, it will forward that package to OUSD(C) for final approval.

Figure 12-3
Federal Condition Codes for EDA

To calculate EDA fair value, determine the applicable percentage at the intersection of the EDA Supply Condition and Disposal Condition Codes and then multiply percentage by the established inventory price.				Supply Condition Codes								
				A	B	C	D	E	F	G	H	S
				SERVICABLE				UNSERVICEABLE				
				Issuable without qualification	Issuable without qualification	Priority Issue	Test / Modification	Limited Restoration	Repairable	Incomplete	Condemned	Scrap
Disposal Condition Codes	1	Unused	Good	50%	30%	30%	30%					
	2		Fair	30%	20%	20%	20%					
	3		Poor	10%	10%	10%	10%					
	4	Used	Good	40%	30%	30%	30%					
	5		Fair	30%	20%	20%	20%					
	6		Poor	10%	10%	10%						
	7	Repairs Required	Good				20%	20%	20%	20%	10%	
	8		Fair				5%		10%		5%	
	9		Poor				5%		5%		5%	
	X	Salvage							5%	5%	5%	
	S	Scrap										

Personnel Services

Many FMS and BPC LOAs contain personnel support costs such as engineering services, configuration data management services, technical services, training team members, etc. These services must be priced to recover all USG costs and will be included as separate, well-defined lines on the LOAs. This section excludes personnel assigned to DOD training installations as that will be discussed in the next section (Training Pricing). DOD personnel services LOA lines must be priced to recover not only the appropriate wages, but also all appropriate applicable 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. When determining the pricing for personnel services, every attempt should be made to use actual costs. If actual cost data is not available, estimated pricing is acceptable. The costs must be substantiated by a reliable audit trail [FMR Volume 15, chapter 7, section 0702].

SAMM table C9.T2 (Case-Related Manpower Functions and Funding Source Manpower Matrix) indicates which activities should be included as line items on the case (direct charges) and which activities are covered under the FMS Administrative Surcharge (indirect charges). For LOAs or case line items "accepted" after August 1, 2006, any program management services will be included on well-defined, services line items on the case.

Services performed by DOD civilian personnel must be priced at rates in effect at the time the services are performed. Civilian personnel salary tables are available at the Office of Personnel Management (OPM) web site (http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/). There are several components to civilian personnel pricing—base salary, leave and holidays acceleration, the civilian personnel fringe benefit rate, and the unfunded civilian retirement (UCR) factor. Base salary rates must be accelerated as discussed in the FMR Volume 15, chapter 7, section 070202. The applicable Civilian Personnel Fringe Benefits are posted at the OSD Comptroller (http://comptroller.defense.gov/) web site and can be accessed via the "DOD Reimbursable Rates" link on that page. The notes within that link's table identify which percentages should be used for Building Partner Capacity (BPC) and those that should be applied for FMS LOAs. DSCA Policy Memo 13-29

was issued to clarify the appropriate pricing of civilian personnel costs applicable to both FMS and BPC cases as priced in DSAMS. The pricing principles apply regardless if the civilian pay is a stand-alone line or whether it is embedded into a unit cost.

Military personnel services must be priced using the composite standard pay rates current at the time services are performed. Current reimbursable rate tables are available at the OSD Comptroller web site (http://comptroller.defense.gov/) and can be accessed via the "DOD Reimbursable Rates" link on that page. Rates applicable to FMS are computed using the "Annual Rate Billable to Other Federal Agencies" plus the Medicare-Eligible Retiree Health Care (MERHC) accrual. Travel, per diem, living allowance payments, and other entitlements to DOD personnel working on FMS cases must be identical to the payments and entitlements of DOD personnel working on direct DOD mission assignments at similar locations [FMR Volume 15, chapter 7, section 070202]. FAA, Section 503(a)(3) permits the exclusion of salaries of members of the Armed Forces (other than Coast Guard) if the sales case for defense articles, services (including training), or for design and construction services is totally financed by MAP Merger or by non-repayable FMF [FMR Volume 15, chapter 7, section 070104C5].

Training Pricing

Tuition rates for training must be based on the costs of providing the training. There are several factors that impact the tuition rate for which an international student is eligible. The source of financing is one determinant (e.g., whether a country uses its national funds to purchase training or whether US appropriated funds are used to purchase the training). Other factors include whether a country is a high-income country, whether it has signed a reciprocal training agreement with the US, and/or whether the country is concurrently in receipt of IMET. A general guide for pricing training is also addressed in FMR Volume 15, chapter 7, table 7-3 and SAMM C10.14. Detailed instructions to be followed in developing the tuition rates are included in FMR Volume 15, chapter 7, section 071002.

Tuition rates must be computed annually by the Military Departments and published in the Training Military Articles and Services List. Approved rates typically remain constant for the year. Adjustments must be made only to correct significant errors in computation, change in syllabus, or major unanticipated increases or decreases in the cost of such items as fuel and salaries. The foreign country must be billed for the actual time the student is in training. International students who audit a course must be charged the same price as enrolled students. Certain costs associated with support of international students and/or their dependents are considered to be a responsibility of the foreign government and are not included in the tuition rate for a training course(s) [FMR VOL 15, chapter 7, section 071001F].

The FAA and AECA prescribe a multi-tier pricing structure for training provided under the USG SC programs. The present pricing structure for SC training provides for five separate tuition rates (A, B, C, D, and E) as noted in FMR Volume 15, table 7-3, "Tuition Rate Pricing Structure" which is summarized in the following table.

Table 12-2
Training Tuition Rates

RATES	RATE DESCRIPTION
A	Countries and organizations purchasing training via an FMS case and not eligible for one of the FMS pricing categories listed below are charged Rate A.
B	Countries with a ratified reciprocal pricing agreement with the USG that are purchasing training via an FMS case are charged Rate B. SAMM Table C10.T13 lists the countries and effective dates of the reciprocal agreements. Note that some of these countries are also eligible for Rate C.

C	Countries currently in receipt of IMET or designated as a high-income foreign country, in accordance with the FAA, Section 546(b) (Austria, Finland, the Republic of Korea, Singapore, and Spain) and purchasing training via an FMS case using their own national funds, are eligible for Rate C. DSCA (Business Operations Directorate) maintains the DSCA IMET Allocation Database System (DIADS) that identifies countries currently receiving IMET. Refer questions on a country's IMET status to DSCA (Business Operations Directorate).
D	Training on a case financed with US-appropriated funds, receives Rate D. Training in this category is on cases financed with FMS Credit (non-repayable), or Building Partners Capacity programs. This rate is identical to Rate E except that the FMS administrative surcharge will be applied to it.
E	Training financed by the IMET appropriation is priced at Rate E.

Dedicated training programs (e.g., Euro-NATO Joint Jet Pilot Training Program, Euro-NATO Helicopter Pilot Training Program, PEACE CARVIN, PEACE FENGHUANG) must be priced in accordance with the terms and conditions established via formal agreement between the IA and the recipient country/countries. While each program is different, generally accepted full cost pricing principles must be applied taking into consideration appropriate legislative authority and terms of the formal agreement [FMR Volume 15, chapter 7, section 071001B1].

When a special course is conducted by an Security Cooperation Team (SCT) or Security Assistance Team (SAT) away from the normal training institution, the services of the team must be treated as a service and priced in accordance with the FMR. All salary, travel, per diem, and allowances paid to members of the team established to conduct in-country training must be considered incremental costs. Exclude military pay and allowances as well as civilian unfunded retirement from the costs established for teams conducting in-country training fully financed by MAP Merger or FMF, or financed under the IMET program [FMR Volume 15, chapter 7, section 071001B2].

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. For certain dedicated (all international) and contract courses, a 100 percent penalty is charged for cancellation unless filled by another student. For all other courses, if the country requests cancellation or rescheduling less than sixty days prior to the course start date, the country's IMET program (or other grant program) or FMS case is charged 50 percent unless filled by another student. Policy exceptions to the preceding are documented in the SAMM reference [FMR 071001.E and SAMM C10.15].

Authorized Charges

Nonrecurring Costs (NC)

Non-USG purchasers must pay for the value of DOD nonrecurring (NC) investment in the development and production of Major Defense Equipment (MDE), as required by law, unless an NC recoupment charge waiver has been approved by the Director, DSCA who has been delegated the authority to waive NC costs on FMS sales. The decision on any waiver requires the concurrence of OUSD(C) and OUSD (AT&L). If an issue concerning the waiver request cannot be resolved, the Director, DSCA, must submit an official waiver request to the Deputy Secretary of Defense for final determination. For FMS, an NC recoupment charge is applicable to all MDE. MDE is any item of Significant Military Equipment (SME) listed on the US Munitions List having a DOD nonrecurring RDT&E cost accumulation of $50 million or a total DOD production cost of more than $200 million. A DOD approved listing of MDE with associated NC charges can be found in the SAMM, appendix 1. MILDEPS and Defense Agencies are required (per the FMR and the DODD 2140.02, Recoupment of Nonrecurring Costs [NCs] on Sales of US Items) to review approved NC recoupment charges on a

biennial basis to determine if there has been a change in factors or assumptions used to compute an NC recoupment charge. When a recoupment charge is revised, the previous value is retained in the SAMM, appendix 1. Subsequent revisions to the pro rata charge must be applied to new LOAs and must not be retroactive. In instances where the initial rate has not yet been approved, DOD Components must provide for an estimated rate based on the most accurate information available to the DOD Component. The LOA must be modified to specify the subsequently approved rate and only that approved rate is to be billed. When NC recoupment is applicable, the unit price on an LOA must include the specific recoupment charge. NC LOA charges may also include special recoupment costs incurred under FMS, paid by a foreign customer to develop a special feature or unique or joint requirement. Recoupment of these costs is required on all cash sales unless a specific waiver has been authorized. Per the AECA and Foreign Assistance Act (FAA), LOAs fully financed with Military Assistance Program (MAP) Merger or non-repayable FMF are not assessed an NC charge. The requirement for the USG to recover NC on direct commercial sales (DCS) was eliminated. NC does not apply to BPC cases [SAMM C9.T4, C9.6.3, DOD FMR, Volume 15, chapter 7, section 070305, and Volume 11A, chapter 1, addendum 1].

Contract Administration Services (CAS)

Contract administration services (CAS) charges are collected and charged by DOD to reimburse FMS and BPC costs incurred by DOD 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. DFAS–SCA recovers the cost of CAS by applying a percentage surcharge to the delivery transactions reflecting disbursements to contractors for FMS and BPC procurements on which applicable CAS have not been waived. 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. For the United States Army Corps of Engineers (USACE) contracts, quality assurance and inspections and some of the contract administrative services costs are included in its supervision and administration costs charged to the case line, so separate additional CAS quality assurance and inspection and contract management do not apply to USACE cases or lines, but CAS contract audit still applies. The contract administration surcharge is subject to waiver in whole or in part if reciprocal agreements exist [SAMM C9.T4, C9.6.2, C9.T5, C9.T6, and C9.T7 and FMR Volume 15, chapter 7, section 070405]. Some (e.g., pre-contract award by the IA) CAS is actually funded by the administrative funds as case standard level of service (SLS). SAMM C9.T2 documents those funding policies. Current CAS charges (unless waived) are listed in table 12-3:

Table 12-3
Contract Administration Services (CAS) Charges

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

Accessorial Costs

Accessorial costs represent USG expenses incident to issues, sales, and transfers of materiel that are not included in the standard price or contract cost of materiel. Two primary accessorial costs are packing, crating and handling (PC&H) and transportation.

Packing, Crating, and Handling (PC&H)

PC&H costs are those DOD costs incurred for labor, materiel, or services in preparing non-Defense Working Capital Fund (DWCF) materiel for shipment from the storage or distribution point. PC&H costs do not apply to sales from procurement unless the item is processed through a DOD depot/distribution center. A PC&H rate of 3.5 percent of the unit price will be added to the selling price of materiel with a unit price of $50,000 or less. An additional charge will be added equal to 1 percent of that portion of the selling price of materiel over $50,000. For pricing blanket order lines on LOAs, PC&H is calculated as 3.5 percent on the line value. For excess items (i.e., EDA), PC&H is computed on the original acquisition value and not the reduced value of the excess materiel. The use of actual costs, when known, is highly encouraged. The LOA PC&H charges are shown on the LOA's block nine (9) in the Estimated Cost Summary. When provided as a unique service, these charges may be included as a separate line on the LOA [SAMM C9.T4 and FMR Volume 15, chapter 7, section 070502].

Transportation

The LOA transportation charges include the cost to the USG of transporting FMS and BPC purchaser materiel using the Defense Transportation System (DTS) or a Government Bill of Lading (GBL). Those LOA transportation costs include costs for labor, materiel, or services at ports of embarkation or debarkation). DWCF standard pricing includes transportation costs (for the first leg of transportation) within CONUS. If the first destination transportation is accomplished through GBLs, it must contain the DWCF funds cite. Shipping activities must clearly identify materiel as DWCF or non-DWCF to ensure the appropriate fund cite is issued for inland CONUS transportation [SAMM C9.T4, SAMM appendix 2, and FMR Volume 15, chapter 7, section 070503]. Price transportation on LOAs as follows:

Above-the-Line Transportation Services:

- When LOA customers use the Defense Transportation System (DTS), an estimated amount is placed above-the-line to pay for transportation services that are not appropriate to be funded with below-the-line estimates. Examples of these transportation services include premium transportation such as Special Assignment Airlift Mission (SAAM) flights, securing a vessel for a one time only shipment, staging cost for consolidating shipments, Radio-Frequency Identification tagging and tracking devices, special security (guards hired to escort the shipment), and other unique requirements.
- When a SAAM or some other form of dedicated premium transportation must be used to move the material purchased under an LOA, a separate transportation service line is included in the LOA. When expenditures are made for actual transportation, this line is adjusted to meet the full cost of this special transportation and a type address code needs to be supplied to the DOD service contract [SAMM C7.12].
- If a LOA line item's vendor/contractor is providing transportation services per the contract, the transportation costs may be included in the applicable LOA line item's unit and total price.

Below-the-Line Transportation Services:

- The Transportation Cost Look-Up Tables posted in the DSCA SAMM appendix 2 contain estimated actual transportation costs for items normally shipped via the Defense Transportation System (DTS) when costs using standard transportation percentages are significantly different from actual charges. The data in the tables are applicable when customers use the Defense Transportation System (DTS) to transport item(s) that match the specific listed National/NATO Stock Numbers (NSN) and the plan is for the USG DTS to be responsible for transporting those item(s) to either Delivery Term Code 8 or 9. These "estimated actual" costs have been determined over time by the MILDEPS on based historical costs of shipping the identified items to DTC 8 and DTC 9 locations. Figure 12-4

provides a sample of the cost look-up table that is posted at the DSCA SAMM appendix 2.

Figure 12-4
Transportation Cost Look-Up Table Example

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

- When customers use the Defense Transportation System (DTS) and either an 'above-the-line' charge or the Transportation Cost Look-Up Tables are not applicable, a Delivery Term Code (DTC) percentage is applied to the line to compute an estimated amount for transportation costs on the LOA. DTC percentages (refer to figure 12-5) are based on the mode of transportation provided (e.g., port-to-port, depot-to-in-country destination) and the rate area where articles are being delivered.

  - ◊ For defined order lines, the applicable DTC percent is charged for the first $10,000 in unit cost, and then 25 percent of the DTC percent for the portion of the unit cost that exceeds $10,000.

  - ◊ For blanket order lines, the applicable DTC percent is charged for the total line value.

- Delivery Term Codes (DTCs) for return of repaired materiel are documented in the FMR Volume 15, chapter 8, section 080402Ib, and in chapter 11 of this textbook, "Foreign Military Sales Transportation Policy."

- A Transportation Bill Code (TBC), if used, overrides the DTC for both blanket and defined order line entries. TBCs are used to bill FMS purchasers for "below-the-line" transportation costs, if the actual method of transportation is different than that identified by the DTC. The list of TBCs is documented in the FMR Volume 15, chapter 8, section 080402R, and in the DISAM *FMS Customer Financial Management Handbook* (Billing), often referred to as the "Red Book."

- The pricing percentages to be used for "Transportation Charges Based on Transportation Bill Codes for Inventory Items Shipped by DWCF" are documented in the FMR Volume

15, chapter 8, table 8-27.

- The pricing percentages to be used for "Transportation Charges Based on Transportation Bill Codes for Inventory Items Not Shipped by DWCF" are documented in the FMR Volume 15, chapter 8, table 8-28.
- For excess items, transportation costs are computed on the original acquisition value and not the excess materiel's reduced value. The use of actual costs, when known, is highly encouraged.
- The transportation below-the line costs are shown on the LOA's block eleven (11) in the Estimated Cost Summary.

Figure 12-5
DTS and TBC Percentage Rates

Rate Area	DTC 4 Point of Origin (TBC D)	DTC 2 Staging (TBC A, B, E)	DTC 5 CONUS Port of Embarkation (TBC A, B, E)	DTC 8 DoD CONUS Aboard Vessel/ACFT (TBC H, U)	DTC 9 Point of Debarkation Discharged (TBC C, V)	DTC 7 OCONUS Inland Destination (TBC G, Y)
1	0.00%	0.00%/3.75%	0.00%/3.75%	2.50%/6.25%	7.50%/11.25%	10.50%/14.25%
2	0.00%	0.00%/3.75%	0.00%/3.75%	2.50%/6.25%	15.50%/19.25%	18.50%/22.25%

Notes:

1. Rates documented in SAMM C9 table C9.T4a (Delivery Term Codes and Percentages) per FMR Volume 15, chapter 7, section 070503 (Transportation)
2. Rate Area 1 includes Europe, Hawaii, Latin America (Central America and Carribbean Basin, and Mediterranean Ports
3. Rate Area 2 includes Newfoundland, Labrador, Thule, Iceland, South America (East and West coasts), Far East, African Ports (other than Mediterranean), and Near East
4. For DTCs with multiple percentages, the first percentage listed applies to DWCF material while the second percentage applies to material other than DWCF
5. Refer to DISAM Red Book appendix N (Transportation Bill Codes and related charges) and FMR Volume 15, chapter 8, table 8-27 for additional Transportation Bill Code (TBC) definitions and information
6. Alphabetic Delivery Term Codes (DTCs) are "round-trip" and are used for material returns (e.g., material repairs). Those alphabetic DTCs are defined in the DISAM Greenbook chapter 11 and Redbook appendix G
7. Delivery Term Codes 3 and 6 were eliminated in 2010 and should not be used when pricing LOAs

Administrative Charges

The Administrative surcharge is collected to cover the USG costs of administering (including the Standard Level of Service as defined in the SAMM C9.T2) FMS and "FMS-like" (i.e., BPC) programs. It is included as a percentage of applicable line items as a below-the-line charge on the LOA and the quarterly bill. It is applied to the selling price with the exception of program management lines, small case management lines (SCML), EDA grant lines, NATO (non-contractor provided training lines for NATO countries if the training is provided in the continental US CONUS) training lines, and approved waivers (as discussed in the following waiver paragraphs). The administrative surcharge percentage is subject to change without prior approval of the purchaser. The administrative surcharge applicable to each line on the LOA is to be specified as a note to each LOA document. For cost increases within the scope of the LOA, modifications retain the administrative rates associated with the lines modified. When an amendment adds a new line to an existing case, the administrative surcharge rate in effect at that time is applied. For any case that is closed, the USG will retain funds to pay for estimated administrative costs associated with the case, even if no articles or services have been delivered ($0 delivered value). The "Administrative Charge" below-the line costs are shown on the LOA's block ten (10) in the Estimated Cost Summary.

Costs associated with administering the FMS program must always be paid and/or collected (AECA, section 21(e)(2)). If a waiver of the FMS Administrative Surcharge for the purchaser is approved in one of the circumstances described below, it must still be recouped from another funding source.

Waiver by the Implementing Agency: DOD 7000.14-R, Volume 15, chapter 7, and AECA, Section 21(e)(2)) allow the IA to waive or reduce FMS Administrative Surcharges that should be assessed to the purchaser on the LOA as long as the IA obligates its own operation and maintenance appropriations to pay the FMS Administrative Surcharge Account the waived and/or reduced amount.

Waiver of Administrative Surcharges for NATO Maintenance and Supply Agency (NAMSA) FMS Programs: AECA, section 21(e)(3), allows the waiver of FMS Administrative Surcharges for NAMSA programs under very specific circumstances. Waiver of FMS Administrative Surcharges on these cases is not retroactive; only LOAs implemented after October 1, 1988 are eligible for consideration. The waiver value includes the calculated FMS Administrative Surcharge amount and any SCML value included on the LOA. Only NAMSA LOAs in support of weapon system partnership agreements or NATO Supreme Headquarters Allied Powers, Europe (SHAPE) projects (i.e., common-funded projects supported by allocated credits from NATO bodies or by host nations with NATO infrastructure funds) qualify for FMS Administrative Surcharge waivers. FMS Administrative Surcharges waived under this program must be reimbursed to the FMS Administrative Surcharge Account from Major Force Program (MFP) 10 funds controlled by the US mission to NATO. The specific procedures are documented in the SAMM [FMR Volume 15, chapter 7, section 070605 and SAMM C9.6.1.1].

Percentage Rates: The following is a list of the Administrative Surcharge rates that are included as a percentage of the applicable LOA line items as a below-the-line charge on the LOA [SAMM C9.T4].

- 3.5 percent for both standard and nonstandard articles/services for LOA lines accepted on or after 01 November 2012
- 3.8 percent for both standard and nonstandard articles/services for LOA lines accepted on or after August 1, 2006 and before 1 November 2012
- 2.5 percent for standard articles/services for LOA lines implemented on or after June 1, 1999 and before August 1, 2006
- 3.0 percent for standard articles/services for LOA lines implemented on or after October 1, 1977 and before June 1, 1999
- 2.0 percent for cases signed prior to October 1, 1977
- 5 percent for non-standard articles/services for LOA lines for non-standard items implemented before August 1, 2006
- 5 percent for Foreign Military Sales Order (FMSO) I cases

Other Cost Recovery Charges

In addition to the above Direct (i.e., Above-the-Line) and Indirect (i.e., Below-the-Line) charges, following are other authorized charges that can be included on LOAs and bills to recover the full cost of the USG providing articles and/or services [SAMM C9.T4]:

Prepositioning: Supply distribution costs incurred by locations outside the US in anticipation of support to other authorized purchasers are included as a separate line item on the LOA. These costs are applicable when shipments are made from overseas storage and distribution points. No positioning costs shall be assessed on "long supply stocks."

Royalty: Incremental payments for the use of intellectual property that is subject to contractor proprietary rights restrictions and are included in the pricing of the item. Prior to January 1, 1998, charges for Technical Data Package (TDP) usage were included as a separate line item on the LOA but were discontinued for cases implemented on or after January 1, 1998 for US-owned TDPs that are not subject to contractor proprietary rights restrictions. For BPC cases, apply only to the extent that the cost is included in the contract. [FMR Volume 15, chapter 7, table 701-1 and Volume 11A, chapter 1, addendum 1 for BPC]

Staging: Costs for consolidating or prepositioning materiel in US facilities within CONUS. Included as an estimated actual cost above or below the line on the LOA. It is below the line if the appropriate DTC is used. It is above the line if a separate staging LOA line is used.

Foreign Military Sales Order Storage (FMSO): Cost of storing on-hand Cooperative Logistics Supply Support Agreement (CLSSA) inventory. Included in the line item value on the FMSO I LOA. 1.5 percent annually on value of stored assets, unless a separate fee is negotiated with the storage facility or 0.125 percent monthly on value of stored assets, unless a separate fee is negotiated with the storage facility [DOD FMR Volume 15, chapter 7, section 070704].

Storage (Other): Cost of storing items. Included above the line on the LOA. 1.5 percent annually on value of stored assets, unless a separate fee is negotiated with the storage facility or 0.125 percent monthly on value of stored assets, unless a separate fee is negotiated with the storage facility [FMR Volume 15, chapter 7, section 070801 and Volume 11A, chapter 1, Addendum 1 for BPC].

Logistic Support Charge (LSC): 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.

Billing

Payments into the FMS Trust Fund, other than initial deposits, are based on bills (Billing Statement, DD Form 645, or Special Billing Arrangement (SBA)). DFAS–SCA sends the DD Form 645 to the purchaser quarterly. Under DSCA's oversight, DFAS–SCA ensures that sufficient cash is available from the purchaser to cover accrued expenditures, costs to be incurred during the remainder of the current quarter, and costs to be incurred during the next quarter (e.g., contractor progress payments, contractor holdbacks, potential termination charges, and deliveries from DOD inventories). DD Form 645-based billings are the amount shown on the current case payment schedule or the quarterly forecast of the financial requirements accompanying the DD Form 645, bill, whichever is greater. The billing, not the payment schedule, contains the required payment amount. IAs refer billing problems and questions to DFAS–SCA. If a purchaser has an SBA, total expenditures for the forthcoming billing period are subtracted from total available cash resources to determine the billing amount. SBAs override Column 14 (Amount Due and Payable) of the DD Form 645. SBAs are issued by either the DSCA (Business Operations Directorate) or DFAS–SCA and are managed at the country level unless an exception has been granted by the DSCA (Business Operations Directorate) [SAMM C9.10].

The AECA sections 21 and 22 provide the legal basis for FMS billing policies and procedures. LOA case billing involves many actions, but can be viewed as one of two processes. First, the agency provides a commodity or service, from either DOD stock or contractual sources, and then bills the customer's or program's trust fund account managed by DFAS–SCA via a delivery report transaction. Second, DFAS–SCA sends the purchaser the DD Form 645 Billing Statement.

Delivery Transaction Reports

The DOD components report deliveries of materiel and services, contractor progress payments, and other related costs to DFAS–SCA to obtain reimbursement or to report performance under an allotment of FMS Trust Fund budget authority. IAs shall report accrued expenditures (work in process [WIP]) and physical deliveries to DFAS–SCA within thirty days of occurrence (date of shipment or performance) through the billing and reporting procedures prescribed in the FMR via a delivery transaction [FMR Volume 15, chapter 8, section 080102C]. 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 (80) position document. The complete listing of the delivery transaction positions and reporting codes is documented in the FMR Volume 15, chapter 8, section 080402. Some of the significant delivery transaction information documented in those 80 record positions includes the following:

- Routing Identifier Codes (RICs)
- Price Code (e.g., "E" for estimated, "A" for actual costs, etc.)
- Stock or Part Number or Supply Discrepancy Report (SDR) Response
- Quantity Delivered
- Document Number (discussed in the DISAM logistics lessons and Greenbook chapters)
- Case Designator
- Mode of Shipment
- Delivery Source Code (DSC)
- Reimbursement Code
- Transportation Bill Code (TBC)
- Date Shipped/Services Performed
- Amount Delivered / Extended Value
- LOA line item to which the report is applicable

The delivery transactions are submitted by the IAs and are received by DFAS–SCA. The delivery transaction provides data enabling DFAS–SCA, via the Defense Integrated Financial System (DIFS), to compute and bill customers for accrued expenditures including the application of various charges, such as administration, contract administration, PC&H, transportation, etc.

The delivery transaction reports are the source documents for the detailed entries which appear in the Delivery Listing that accompanies each DD Form 645 Billing Statement. Attachment 12-1 at the end of this chapter provides additional information regarding the delivery transaction report and an example of the format.

DFAS–SCA Performance/Delivery Reporting Feedback to Implementing Agencies

As discussed in the previous Delivery Transactions section, IAs shall report the cost of DOD services, inventory items, and new procurement to DFAS–SCA using delivery reports, or automated equivalents, through the FICS delivery transaction. DFAS–CA shall pay earned reimbursements included in such reports within twenty working days from the date of receipt. If a cash flow problem precludes payment, DFAS–SCA shall issue immediate notification to the Director, DSCA, and to OUSD(C). The Director, DSCA, shall notify IAs to suspend further deliveries of DOD stocks or

performance of DOD services unless a determination has been made that it is in the national interest for billings to be dated and issued upon delivery or performance, with payment due in sixty days. DFAS–SCA provides several products to the IAs to assist in reconciling their accounts. The following is a list of selected DFAS–SCA products and some of the data provided by each product. DFAS–SCA normally provides these products on electronic media to the IAs [FMR Volume 15, chapter 8, section 080801].

- ***FMS Command Pay List:*** DFAS–SCA provides reporting activities with a monthly FMS Command Pay List that identifies the total amount of WIP or deliveries charged to FMS cases in the current reporting period, excluding accounts payable. The amount includes the delivery transactions submitted by the reporting activity, less accounts payable and rejected items, and additional charges mechanically computed by DFAS–SCA. The last line of the Command Pay List, "Total Reimbursable to This Payee," should equal the amount received by the payee.

- ***FMS Detail Delivery Feedback List:*** The FMS Detail Delivery Feedback List is attached to the Command Pay List and identifies the delivery transactions submitted by reporting activities and processed by DFAS–SCA for reimbursement or reporting to the FMS purchaser.

- ***FMS Implementing Agency Performance Report Transaction Register:*** DFAS–SCA provides this five (5) part report for IAs to use in reconciling their reported deliveries to the deliveries processed by DFAS–SCA. The register also contains transactions submitted by the IA that could not be processed by DFAS–SCA because of invalid data and/or suspected problem areas, information on transactions input by DFAS–SCA on the IA's behalf, transactions modified by DFAS–SCA, and transactions deleted by DFAS–SCA.

- ***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 also contains a total of all transactions that are reimbursable and non-reimbursable to the reporting activity.

Foreign Military Sales Billing Cycle

Billing Cycle

DFAS–SCA issues a DD Form 645 Billing Statement (with attachments) to customers based on the LOA payment schedule prepared by the applicable IA. DFAS–SCA bills the customer for costs related to defense articles, services, and training that have been sold pursuant to the AECA. After the customer accepts the offer and provides DFAS–SCA with signed copies of the LOA and the applicable initial deposit, DFAS–SCA updates DIFS with applicable LOA data. The 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 availability of funds from the first billing payment due date.

Billing statements are prepared and forwarded to the purchaser on a quarterly basis (i.e., for quarters ending 31 December, 31 March, 30 June, and 30 September) [SAMM C9.T16]. This FMS billing time line cycle (depicted in figure 12-6 below) must be taken into consideration during the computation of

the initial deposit period and any quarterly payments thereafter.

Figure 12-6
FMS Billing Time Line

Completed Work Period/ Quarter	Projected Mailing Date	Payment Due to DFAS SCA	Planned Future Work Period/ Quarter
01 Oct - 31 Dec	15 January	15 March	01 Apr - 30 Jun
01 Jan - 31 Mar	15 April	15 June	01 Jul - 30 Sep
01 Apr - 30 Jun	15 July	15 September	01 Oct - 31 Dec
01 Jul - 30 Sep	15 October	15 December	01 Jan - 31 Mar

The payment dates shown on the payment schedules must be compatible with the billing cycle. Determining the initial deposit period and the earliest quarterly payment date is based on the LOA's offer expiration date (OED)/expected implementation date [FMR Volume 15, chapter 4, table 4-1, and SAMM C9.T12]. For example, if the LOA OED (like the BN-D-YCY LOA) is within the 11 September through 10 December date range, the LOA initial deposit should cover the forecast of expenditures from the LOA OED through 31 March (as shown in figure 12-7). 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 the 01 April–30 June time period.

Figure 12-7
Determining Initial Deposit Period

For anticipated offer expiration/ implementation date:	Earliest payment date shown in payment schedule is:	For costs to be incurred in:
11 Sep - 10 Dec	15 Mar	Apr - Jun
11 Dec - 10 Mar	15 Jun	Jul - Sep
11 Mar - 10 Jun	15 Sep	Oct - Dec
11 Jun - 10 Sep	15 Dec	Jan - Mar

What's the OED for case YCY? 30 Sep

Foreign Military Sales Billing Statement

The FMS Billing Statement, DD Form 645 (see example in figure 12-8) is prepared by DFAS–SCA. In the absence of a special billing arrangement, the FMS Billing Statement represents the USG's official claim for payment to the purchaser for the articles and/or services agreed to on the LOA. It also furnishes an accounting to the purchaser for LOA costs incurred to-date. In addition to identifying deliveries or performance of services made on the purchaser's case, the DD Form 645 also reflects the forecasted costs which relate to the next quarter's financial requirements on that same case. These forecasted costs may include anticipated progress payments, contractor holdback, TL reserve, accrued and future deliveries, and associated costs (e.g. NC, CAS, administrative/accessorial, etc.). For example, the DD Form 645 for the period ending 31 December would contain delivery transaction data provided to DFAS–SCA in October, November, and December and a forecasted financial requirement for April, May and June. The 15 March payment due date shown in the figure 12-8 DD Form 645 example below would also be the same payment date as contained in the estimated payment schedule of the applicable LOA [FMR Volume 15, chapter 8, section 080204 and table 8-1, and the DISAM Redbook].

Figure 12-8
FMS Billing Statement, DD Form 645 Example

FOREIGN MILITARY SALES BILLING STATEMENT				UNITED STATES OF AMERICA DEPARTMENT OF DEFENSE/AIR FORCE				
1. TO: BANDARIA AIR FORCE		2. THIS IS A BILLING STATEMENT BASED ON CASH REQUIREMENTS. PAYMENT IS DUE BY 12 SEP 15		3. STATEMENT NUMBER: 12-06DD		4. FOR PERIOD ENDED: 12 JUN 30		5. DATE PREPARED: 12 JUL 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
YCY								
001	78,683,170.00	0.00	0.00	0.00				
	HUMDINGER MISSILES							
002	619,300.00	0.00	0.00	0.00				
	LAUNCHERS							
003	488,840.00	0.00	0.00	0.00				
	TRAINING MISSILES							
004	3,017,692.00	0.00	0.00	0.00				
	CNU CONTAINERS							
005	1,563,480.00	27,284.80	5,736.30	33,021.10				
	SUPPORT EQUIPMENT							
006	2,163,402.00	123,785.60	62,557.94	186,343.54				
	CTR SUPPORT							
007	2,017,000.00	0.00	0.00	0.00				
	SPARE PARTS							
008	2,021,000.00	0.00	0.00	0.00				
	COMPONENT PARTS							
009	12,372.00	1,215.30	947.37	2,162.67				
	PUBLICATIONS							
010	1,636,316.00	171,800.00	10,000.00	181,800.00				
	AIRLIFT AMC							
011	181,800.00	0.00	0.00	0.00				
	TECHNICAL DATA							
012	1,008,500.00	0.00	0.00	0.00				
	R+R OTHER							
013	631,250.00	0.00	0.00	0.00				
	R-R MISSLES							
014	2,694,188.00	0.00	0.00	0.00				
	WARRANTY							
700	657,000.00	184,090.91	61,363.64	245,454.55				
	OTHER TECHNICAL							
701	73,338.00	47,859.72	14,270.54	62,130.26				
	SITE SURVEYS							
702	2,514,403.00	48,612.18	0.00	48,612.18				
	OTHER SERVICES							
989	260,000.00	0.00	0.00	0.00				
	TRAINING							
L6A	3,809,236.00	22,976.64	5,885.28	28,861.92				
	ADMINISTRATIVE FEE							
L00	783,796.00	5,256.60	1,602.50	6,859.10				
	ACCESSORIAL COSTS							
WIP	WORK IN PROCESS			2,555,004.68				
CASE TOTAL	104,836,083.00	632,881.75	162,363.57	3,350,250.00	495,860.00	3,846,110.00	3,350,250.00	495,860.00

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. The DD Form 645 supporting attachments include: (1) FMS Delivery Listing, (2) FMS Reply Listing to Customer Requests for Adjustments, (3) FMS financial forecast, (4) holding account statement, and the (5) accelerated case closure suspense account statement. Each of these documents is explained in greater detail in the following paragraphs.

Foreign Military Sales Delivery Listing

A delivery listing (see example in figure 12-9) is prepared in support of entries to the DD Form 645 column 9, "Current Period Delivery Costs." The delivery listing is an itemized listing of all items physically delivered and services performed during the reporting period. It is cross referenced to specific document numbers and allows purchasers to validate receipt of the materiel or services. The delivery listing is sorted by Delivery Source Codes (DSCs). The meaning of the DD Form 645 entries are documented in the FMR [FMR Volume 15, chapter 8, sections 080204 and 080205, table 8-2, and DISAM Redbook].

Figure 12-9
FMS Delivery Listing Example

FMS DELIVERY LISTING — FOR PERIOD ENDED: 10 DEC 31 — DATE PREPARED: 11 JAN 05 — PAGE 1

COUNTRY: BANDARIA — STATEMENT NUMBER: 10-12NA — U.S. DEPT/AGENCY: ARMY
SERVICE: ARMY — CASE: URK ITEM NBR 002

ARTICLE/SERVICES TRANSACTIONS

DOC ID	RIC	PRC CD	STOCK NUMBER	UNIT ISSUE	QUAN SHIP	DOCUMENT NUMBER	DOC SFX	SUPL ADRS	M S	ARC	ACCT DATE	TBC	DSC	DATE SHIP	UNIT PRICE	EXTENDED VALUE
FKA	B14	A	C0001BDURK	EA	SCR	BBDC4421009004		BZ2URK	G	CB	1010	A	AB	2140	70.00	350.00 CR
FKA	B14	E	493000926123400	EA	10	BBDC4421009001		BZ2URK	F		1010	G	AB	2250	120.55	1,205.50
FKA	S9C	A	473000016267800	EA	2	BBDC4221009009		BZ2URK	G		1011	A	AB	2280	50.00	100.00
													ITM NBR/DSC SUBTOTAL:			955.50
FKA	B14	A	CONTRACT ADM	XX	1	BBD00000005330		URK			1011	D	BD	2330	2.96	2.96
													ITM NBR/DSC SUBTOTAL:			2.96
FKA	B14	A	493000928111100	EA	1	BBDC442100910		BZ2URK			1011	D	DC	2281	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	BBD		1010	COMPUTED	2.50	1,205.50	30.13
FKC	L6A	ADMIN COSTS	BBD		1011	COMPUTED	2.50	300.00	7.50
FKD	L6A	ADMIN COSTS	BBD		1010	COMPUTED	2.50	350.00 CR	8.75 CR
FKE	L1C	AIR TRANS	BBD		1010	COMPUTED	6.00	1,205.50	72.33
FKE	L1F	OS INLAND	BBD		1010	COMPUTED	3.00	1,205.50	36.17
FKE	L2B	CONUS PORT	BBD		1010	COMPUTED	2.50	1,205.50	30.14
FKE	L2C	OS PORT	BBD		1010	COMPUTED	1.00	1,205.50	12.06

Foreign Military Sales (FMS) Reply Listing to Customer Requests for Adjustments

DFAS–SCA provides a consolidated listing of the actions taken in response to Supply Discrepancy Reports (SDRs), entitled "FMS Reply Listing to Purchaser Requests for Adjustments" (see example in figure 12-10 and FMR table 8-7). All responses to SDRs shall be listed separately for each country and case. The Reply Listing is prepared in the same basic sequence as the billing statement and FMS delivery listing. The Adjustment Reply Code (ARC) documents the USG decision/action for the purchaser submitted SDR [FMR Volume 15, chapter 8, section 080303 and table 8-7, and DISAM Redbook].

Figure 12-10
FMS Reply Listing to Customer Requests for Adjustments Example

FMS REPLY LISTING TO PURCHASER REQUESTS FOR ADJUSTMENTS

FOR PERIOD ENDED: 10 DEC 31
DATE PREPARED: 11 JAN 05

COUNTRY: BANDARIA
SERVICE: ARMY STATEMENT NUMBER: 10-12NA 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	ACCT DATE	TBC	DSC	UNIT PRICE	EXTENDED VALUE
						CASE: XIL RSN:001									
FKG	BY7	A	WZ001500Y616586	EA	4CR	BBDK443361A426		BZ2XIL		CB	1012	D	AB	70.43	281.72CR
						CASE: XIU RSN:002									
FKG	591	A	534001016767100	EA	800CR	BBDK443361B158		BZ2XIU		CB	1010	D	AB	1.50	1200.00CR

Foreign Military Sales Financial Forecast

The financial forecast 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 [FMR Volume 15, chapter 8, table 6-14 (Foreign Military Sales (FMS) Billing Required Documentation), and DISAM Redbook].

Holding Account Statement

Discussed earlier in this chapter as a convenience to the FMS purchaser, DFAS–SCA maintains purchaser holding account(s). The FMS customer may request DFAS–SCA to draw upon its country holding account(s) 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 (see example in Figure 12-11), is provided to the country showing deposits and withdrawals to the holding account(s) and is considered an off-line billing statement. The FMS customer must advise DFAS–SCA of its desires relative to the controls over holding account transactions. For example, DFAS–SCA needs to know if the customer desires automatic refunds, or if the customer wants to request refunds on a case-by-case basis [FMR Volume 15, chapter 7, section 070102I, and DISAM Redbook].

Figure 12-11
Holding Account Statement Example

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

Accelerated Case Closure Suspense Account Statement

For those countries participating in accelerated case closure procedures, DFAS–SCA must record the case's estimated Unliquidated Obligation (ULO) value in a summary account entitled "Case Closure Suspense Account" (CCSA). A statement of the country's CCSA (see example in figure 12-12), 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 [FMR Volume 15, chapter 3, section 0309025(5) and DISAM Redbook].

Figure 12-12
Accelerated Case Closure Suspense Account Example

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–SCA 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–SCA 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 detailed written agreement between DFAS–SCA and the FMS customer to document the transaction authorization(s). 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. Examples of "Cross-Leveling" transactions can be seen in the previously presented holding account statement example (figure 12-12).

Special Billing

A Special Billing Arrangement (SBA) is an alternative to the FMS Billing Statement (DD Form 645) that otherwise serves as an official USG claim for payment to the FMS purchaser. 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. If a purchaser has an SBA, total expenditures for the forthcoming billing period are subtracted from total available cash resources to determine the billing amount. SBAs override Column 14 (Amount Due and Payable) of the DD Form 645. SBAs are issued by either the DSCA (Business Operations Directorate) or DFAS-SCA and are managed at the country level unless an exception has been granted by the DSCA (Business Operations Directorate. As noted, since each agreement is unique, DSCA should be contacted if additional information is desired [FMR Volume 15, chapter 3, section 030104E and Definitions, and SAMM C9.10.2].

Case Reconciliation

Reconciliation refers to the financial and logistical actions that ensure proper accounting, accuracy and thoroughness of data, currency of schedules, and timeliness and completeness of reporting. In turn, successful reconciliation throughout the life of a case expedites case 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 a case. Reconciliation commences with the implementation of a case and does not end until the case is "final" closed. Reconciliation for closure involves extensive communication between various logistics, financial and contract organizations to ensure associated closure transactions are completed. It is imperative that case and line reconciliation be initiated upon implementation of the LOA to make the closure process described herein timely and easier. By reconciling during case execution, case closure becomes an event instead of a process. DSCA recently consolidated the case reconciliation and closure policies in chapter 16 of the SAMM. The policies in that chapter apply to both FMS and BPC cases. Unique closure requirements for BPC cases are provided in chapter 15, section C15.6. Information contained in SAMM chapter 16 complements the DOD FMR. SAMM chapter 16 also identifies all policies in order to facilitate actions and simplify efforts to research the associated business rules and processes provided in the recently published DSCA Case Reconciliation and Closure Guide (RCG), which is SAMM appendix 7.

Active Case Reconciliation

Active case review and reconciliation, extending from LOA implementation until the case is Supply/Service Complete (SSC), are critical components of effective case management. It is mandatory that each case manager performs an annual case and payment schedule review and/or reconciliation on each case, which includes comparing data between systems, comparing LOA data to performance, comparing LOAs to underlying contracts and comparing systemic data to hardcopy or electronic supporting documentation. Case managers are responsible for the timely reconciliation and closure certification of cases, regardless of how these activities are delegated within the responsible IA. Case managers should not wait until a case is ready to be closed to reconcile the case. Case managers should reconcile and close lines of accounting, requisitions, funding documents, and other program documents as material is delivered and services are performed. 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 a case it also accepts a fiduciary responsibility, which is, completed once final reconciliation is affected. Those cases where reconciliation cannot be achieved should be referred to the DSCA case closure Executive Committee (EXCOM) [SAMM C16.3].

Supply/Service Complete (SSC)

Eventually, an active line or case transitions into Supply/Service Complete (SSC) status. A process exists (refer to SAMM appendix 7 RCG Figures A7.C2.F15 and A7.C2.F16) for deciding that a case or line is SSC. The reconciliation condition of data (other than that which is preventing item delivery or actual completion of services), the allocation of resources (funding and/or manpower), or the distribution/transfer of workload are not factors in determining when SSC occurs. The IA declares a case or line is SSC when the following events occur by updating the status in the IA system (to include SSC Date) and informing the purchaser: [SAMM C16.2.12.1]

- Verification that all items are delivered; title has transferred
- Verification that all services have been performed
  - ◊ Training: Verification that all courses, Mobile Training Teams (MTT) and Extended Training Service Specialist/Language Training Detachments are completed, all Temporary Duties (TDYs) are finished, and all case-funded salary positions have expired
  - ◊ Other services. Period of performance has elapsed
  - ◊ Program Management Line (PML): The end point may vary, but may be no later than 12 months after final delivery and/or performance of last non-PML service for the related case(s). Like any other service, the duration of PML must be linked to the period of performance.
- All warranty periods have elapsed
- No items are in storage
- If the country is under suspensions and/or sanctions, there are no deliveries pending, and no future deliveries shall occur once sanctions are lifted

Post-SSC Reconciliation

Once the conditions for SSC are reached, lines and/or cases shall be coded by the IA with this status and the actual date of SSC within five business days in the appropriate security cooperation information management systems. This coding shall not be delayed under any circumstance. The management of blanket order case/line items is generally conducted based on their value. Therefore, the application of SSC status on blanket order cases and/or lines may be accomplished based on the amount of unused value, when appropriate, rather than the absence of open orders. The reconciliation condition of data (other than that which is preventing item delivery or actual completion of services),

the allocation of resources (funding and/or manpower), or the distribution/transfer of workload has no application in determining when supply/services completion occurs. To the extent possible, the SSC status of lines and sub-lines should be coded in the Defense Security Assistance Management System (DSAMS) as either completed (CMPLTD) or shipped (SHPD) [SAMM C16.2.12.2].

If the purchaser indicates the intent is to execute the residual value of the FMS case, the IA will include it on the "To Be Kept Open" list upon written notification from the LOA signatory organization until requirements are identified to use the residual case value. At that time, the IA will remove the SSC status on the FMS case and remove it from the "To Be Kept Open" list. Until the case is removed from the "To Be Kept Open" list, the IA should follow-up every sixty days with the purchaser and provide DSCA the current status through the quarterly case closure reporting process. If disposition of the residual case value has not occurred after 180 days, the case should be removed from the "To Be Kept Open" list and a modification to the LOA prepared to return the residual case value. This policy is intended to allow the residual value to be used and is not a blanket endorsement for the addition of funds to the case that will extend the execution phase, which could prolong the reconciliation and closure of the case beyond set standards [SAMM C16.2.13.2].

Case Closure

Once a case is SSC, and the requisite verification steps for SSC reconciliation are complete, the case is eligible to be submitted for closure. Case closure is the final phase of the LOA life cycle and is extremely important to the USG and purchaser. A case is submitted for closure once it is reconciled according to procedures for the appropriate closure method. Two broad categories of closure exist: (1) Accelerated Case Closure Procedures (ACCP) and (2) non-ACCP. ACCP applies to all countries/programs that have cases financed with Foreign Military Financing (FMF) funds, or those countries that elect to participate. For cases under ACCP all commitments and obligations must be completed, however expenditures do not have to be finalized prior to closure. The non-ACCP category exists to accommodate those countries whose FMS programs are completely financed with national funds (cash) and have not elected to participate in ACCP. In addition, Building Partner Capacity (BPC) programs which use various funding where the period of funds availability expires/cancels must utilize non-ACCP [SAMM C16.4].

Accelerated Case Closure Procedures (ACCP)

The standard or typical FMS closure process is ACCP. This type of closure allows a FMS case to be closed after SSC, even if there are Unliquidated Obligations (ULOs) on the case. Required (to pay the ULOs) purchaser funds are placed in a Case Closure Suspense Account (CCSA) pending final resolution of the ULOs. This program is voluntary, except for those countries that have FMF-funded cases, which requires mandatory participation in ACCP for all FMS cases regardless of the funding source. Most countries/international organizations participate or are automatically included in the ACCP process. The DSCA (Business Operations Directorate, Financial Policy and Analysis Division) maintains the master list of countries and international organizations that participate in ACCP. A list of ACCP participants is provided in the RCG, chapter 3. A case shall be direct final closed (i.e., not interim closed) if the ULO equals zero, even if supporting contracts remain open. The USG and purchaser both prefer that direct final closures are utilized to the fullest extent possible without impacting case closure standards [SAMM C16.4.1.1.2]. For purchasers participating in ACCP, the USG goal is to close cases within twenty-four months of achieving SSC [SAMM C16.4.1.1.3]. Following additional policies apply for an FMS case to be eligible for ACCP closure: [SAMM C16.4.1.1.1]

- Cases are SSC for at least 12 months. The 12 months allows for final reconciliation actions and considers the purchaser's right to submit an SDR associated with the final delivery. This time period can be reduced, however, if the purchaser confirms in writing (e-mail or meeting minutes are acceptable) that the submission of SDRs is not anticipated. This

statement does not waive the FMS purchaser's right to submit an SDR as indicated in the LOA Standard Terms and Conditions 5.4.

- No outstanding SDRs exist when the case is submitted for closure
- A case can close under ACCP for which a litigation judgment was issued, even if the settlement has not been paid.
- All accrued costs and the amount of estimated ULO to be expended after interim closure are determined.
- Unused Obligational Authority (OA) is reduced to zero in the IA accounting system and the correct OA/Obligations (R4/RE transactions) balances are reflected in DIFS, unless an exception is granted by DSCA.
- The case is paid in full, i.e., collections equal the expected case closure value. If the case is not yet paid in full, the IA shall continue processing the case for closure and shall forward the closure certificate (and associated 'C1' transaction) to DFAS Indianapolis.
- Performance reports, submitted to DFAS Indianapolis to report all delivered articles and services, have been processed. All estimated billings have been converted to actual billings.
- Costs of articles and services have been reimbursed from FMS Trust Funds to DOD appropriations or USG equity accounts.

Non-Accelerated Case Closure Procedures (Non-ACCP)

Non-ACCP procedures are used to accommodate those countries that have not elected to participate in the ACCP process and who's FMS programs are completely financed with national funds (vice with FMF). While ACCP case closure usually has a higher priority (unless case is designated as DSCA priority or is a BPC), non-ACCP cases with no supporting contracts should be closed as quickly as possible. BPC program cases are also closed under non-ACCP procedures. Non-ACCP closure eligibility requires the following: [SAMM C16.4.1.2.1]

- No outstanding SDRs exist when the case is submitted for closure
- No ULOs exist on underlying contract ACRNs (Accounting Classification Reference Numbers)
- All costs are determined, final charged and collected
- All applicable IA systems are fully reconciled with DIFS
- Unused OA is reduced to zero in the IA accounting system and the correct OA/Obligations (R4/RE transactions) balances are reflected in DIFS, unless an exception is granted by DSCA
- Performance reports, submitted to DFAS Indianapolis to report all delivered articles and services, have been processed. All estimated billings have been converted to actual billings
- Costs of articles and services have been reimbursed from FMS Trust Funds to DOD appropriations or USG equity accounts

Other Closure Information

Case Closure Priorities

The order of priority for case reconciliation and closure is: (1) DSCA focus/priority cases (i.e., identified by DSCA Business Operations Directorate, Financial Policy and Analysis Division that requires priority reconciliation and closure action), (2) BPC cases, (3) ACCP closure candidates, (4) 4.Non-ACCP closure candidates. Only DSCA (Business Operations Directorate, Financial Policy and Analysis Division) can authorize deviations to prioritizing closure for specific cases, countries or closure categories [SAMM C16.4.2].

Estimated Case Closure Dates

On all LOAs except Foreign Military Sales Order (FMSO) I LOAs, IAs must include a note identifying an estimated case closure date. See SAMM appendix 6 for exact LOA note wording. Cases with long-running contracts may experience closure challenges, but for ACCP cases, the estimated closure date is twenty-four months after the date of projected final delivery or service performance. For non-ACC program cases, the estimated closure date is estimated to be at thirty-six months after closure of the longest underlying contract (if applicable). If no contracts apply, the closure date should be within thirty-six months after final delivery or service performance.

Closure Inhibitors

Multiple sets of closure inhibitors exist that identify conditions preventing the certification and closure of cases. DSCA prescribes a standard set of pre-certification inhibitors that are used to identify conditions that prevent the certification of cases for closure. These inhibitors are outlined in the SAMM RCG table A7.C3.T5. To varying degrees, the IAs' automated management systems have corresponding inhibitors. In addition, a set of post-certification inhibitors exists that are used to identify conditions that prevent the closure of the case. See section SAMM C16.4.9.1 for further information on this set of inhibitors.

Case Closure Certificates

The IA ensures the case closure certificate and any other necessary supporting documentation (e.g., ULO closure information for ACCP interim closures) are completed in accordance with established procedures. See SAMM RCG figure A7.C4.F5 for additional details. All case closure certificates are sent via e-mail by the designated IA POCs to DFAS-SCA (dfas-in-sca-ccci@dfas.mil). [SAMM C16.4.8]

Closure Transactions

Simultaneously with the submission of the closure certificate to DFAS-SCA, the IA must process the 'C1' closure transaction for transmission to DIFS. The 'C1' transaction signifies IA completion of its actions necessary for DFAS Indianapolis to close the case. This transaction is required for all closure submissions. Upon successful interface of the 'C1' transaction, closure data is loaded in the DIFS Case Closure Certificate Inventory (CCCI) and applicable closure status/inhibitor codes are assigned. DIFS closure status/inhibitor codes and their definitions are contained in the SAMM RCG table A7.C4.T5. Other related closure transactions include the 'C3', 'C4' and 'C5'. The 'C3' transaction indicates a case is closed. It is generated by DIFS and sent to the IA. The 'C4' transaction removes the case from the CCCI. The 'C5' transaction reopens a non-ACCP case or moves an ACCP case from Final to Interim closed status. Both the 'C4' and 'C5' transactions are initiated by the IA and sent to DIFS [SAMM C16.4.9].

Case Closure in DIFS

DFAS–SCA Indianapolis reviews the case closure certificate and takes actions to close the case in DIFS. If DFAS Indianapolis has questions about the closure certificate, DFAS Indianapolis contacts the IA representative listed on the certificate. IAs check the DIFS case closure inventory as needed to determine which cases have been closed. DFAS Indianapolis should close all cases that do not have any outstanding or unresolved issues within 30 days of closure certificate and acceptance of a 'C1' closure transaction [SAMM C16.4.9.3].

Summary

Proper Security Cooperation funds management requires the FMS and BPC managers to acquire an understanding of a myriad of financial policies and procedures. Each LOA must document the financial requirements to deliver the requested materials and/or services. This is accomplished using multiple LOA data entries, including terms of sale, prices, payment schedule, notes, etc. For a case to be implemented, IAs must request OA, and the OA must be passed from DFAS–SCA to the applicable IA. OA allows the IA to prepare and process funding documents on behalf of the purchaser. Expenditure authority must be requested by the IA from DFAS–SCA in order to pay bills as a result of material delivered and services rendered.

The methodology employed in determining LOA prices 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 regulations and policies. The basic method involves the determination of a base cost (e.g., stock, inventory, procurement) plus other authorized applicable charges (e.g., administrative charge, accessorial charges, etc.) for the USG to recover total cost. Although the pricing methodology is relatively simple, estimating the cost elements for allocation to a security cooperation case 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 payments are to be made in advance of USG expenditures on the purchasers behalf. IAs report the cost of DOD services, inventory, and new procurement sales to DFAS–SCA using the "Delivery Transaction." The basic FMS billing document is the DD Form 645, which is prepared at the end of each calendar quarter. This form 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," "FMS Reply Listing to Customer Request for Adjustments," "Holding Account Statement, "FMS Financial Forecast," and the "Accelerated Case Closure Suspense Account Statement."

References

DOD 7000.14R, *Financial Managment Regulation, Volume 15* (Security Cooperation Policy), http://comptroller.defense.gov/fmr/15.aspx.

DSCA Manual 5105.38-M, *Security Assistance Management Manual*. Chapter 9. http://www.samm.dsca.mil/.

Attachment 12-1
Delivery Reporting Transactions

The delivery reporting transaction identifies accrued MILDEP/IA LOA expenditures for work in process and physical deliveries of inventory/new procurement articles and services. Based on the data contained in the delivery transaction, DFAS–SCA will compute applicable surcharges and report the transactions to the purchaser through the delivery listing attachment to the DD Form 645 Billing Statement. There is a significant correlation between the codes and data that are entered in the Military Standard Requisition (per the MILSTRIP procedures) and the subsequent delivery reporting transaction. A Delivery Reporting Transaction example is shown in figure 12-13 below. FMR Volume 15, chapter 8, section 080402 provides additional details on the Delivery Transaction Delivery Reporting Codes. The following paragraphs in this attachment highlight some of the significant delivery reporting codes.

Figure 12-13
Delivery Reporting Transaction Example

CARD CODE	TRANSACTION CODE	MONITOR CODE	ROUTING IDENTIFIER CODES	PRICE C ODE	STOCK NUMBER / PART NUMBER or SDR RESPONSE	UNIT OF ISSUE	QUANTITY DELIVERED	DOCUMENT NUMBER: IA CODE	COUNTRY/PROGRAM CODE	MARK FOR CODE	DEL TERM CODE	TYPE OF ASSISTANCE	REQUISITION JULIAN DATE	SERIAL NUMBER
1	2	3	4 5 6	7	8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	23 24	25 26 27 28 29	30	31 32	33	34	35	36 37 38 39	40 41
N	A	M	B 1 4	E	4 9 3 0 0 0 9 2 6 1 2 3 4 0 0	E A	0 0 0 1 0	B	B N	C	4	4	3 1 0 0	9 0

SERIAL NUMBER	SUFIX CODE	SUPPLEMENTAL ADDRESS: COUNTRY SERVICE	OFFER RELEASE CODE	FREIGHT FORWARDER	LOA CASE DESIGNATOR	MODE OF SHIPMENT	ADJUSTMENT REPLY CODE	PROGRAM YEAR	DELIVERY SOURCE CODE	PORT OF EMBARKATION CODE	REIMBURSEMENT CODE	TRANSPORTATION BILL CODE	RESERVED FOR FUTURE USE	DATE SHIPPED / SERVICES PERFORMED	AMOUNT DELIVERED / EXTENDED VALUE	LOA LINE ITEM NUMBER	ROUNDED VALUE INDICATOR	RESERVED FOR FUTURE USE
42 43	44	45	46	47	48 49 50	51	52 53	54	55 56	57	58	59	60	61 62 63 64 65 66	67 68 69 70 71 72 73 74 75	76 77 78	79	80
0 1	N	B	Z	2	U R K	F		9	A B	A	R	G		1 4 0 1 2 9	0 1 2 0 5 5 0 0 0	0 0 2		

Accurate and timely performance reporting is essential to LOA financial management. For example, the Transaction Code (record position #2) identifies the type of transaction (e.g. delivery of articles or services, work in progress, etc.), while the Monitor Code (record position #3) and Routing Identifier Code (RIC in record positions #4-6) 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 Price Code (record position #7) advises the customer that delivery is at an estimated price and "A," actual costs, will be reported at a later date.

The delivery term code (DTC in record position #34) indicates the responsibility, DOD or purchaser, for transportation of the articles. For example, DTC "8" advises the purchaser that the DOD planned to transport the article(s) to a continental US (CONUS) port of embarkation (POE) and provide loading, handling, and storage aboard a vessel at the POE. 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.

The Delivery Source Code (DSC) (record positions #55 and 56) provides an audit trail between performance and the pricing of the LOA. The DSC is also used by DFAS–SCA to recognize DOD earnings for:

- Administration
- PC&H
- Contract administration services
- Certain transportation charges

For example, a DSC beginning with the alpha "A" indicates delivery of materiel 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–SCA to collect for contract administration, etc.

The complete listing and definitions of the authorized Delivery Source Codes are documented in the FMR Volume 15, chapter 8, section 080402O and are reprinted in this book as attachment 12-2 to this chapter.

The financial actions that DFAS–SCA will take is based on the IA reported Delivery Source Code (DSC) for each delivery transaction that is reported. The complete Surcharge Matrix for each the authorized Delivery Source Codes (DSCs) are documented in the FMR Volume 15, chapter 8, table 8-26 and are reprinted in this book as attachment 12-3 to this chapter.

The transportation bill code (TBC in record position #59) is a very important code. It is used by DFAS–SCA to recognize DOD earnings for transportation of materiel. If this position is left blank, DFAS–SCA will compute transportation costs using the DTC previously discussed.

The transaction Amount Delivered /Extended Value (in record positions #67-75) represent the total dollar value of the delivery transaction report. DFAS–SCA will divide this value by the quantity shown in transaction positions 25-29 to determine the unit price as reported in the delivery listing to the purchaser.

Errors in the delivery reporting transactions codes can, and do occur. Those errors cause serious difficulties in the proper billing of purchasers and reimbursement of costs. Delays in submission of delivery transaction reports by the MILDEPs/IAs can also cause multiple issues including: late reporting of transactions to purchasers, the erroneous appearance of excessively large purchaser trust fund balances, and other related problems.

Attachment 12-2

Delivery Source Codes (DSC)

Description	DSC 1st Position	DSC 2nd Position
1. Sale of Articles Under Section 21, AECA		
Defense Working Capital Funds (DWCF), non-excess items, including technical data package (TDP) and publications, from inventory for a matured FMSO.	A	A
DWCF, non-excess items, including TDP and publications, from inventory for other than a matured FMSO.	A	B
DWCF non-excess items diverted from procurement initiated to maintain stock inventory for a matured FMSO.	A	C
DWCF non-excess items diverted from procurement initiated to maintain stock inventory for other than a matured FMSO.	A	D
Procurement funded item, including TDP and publications from inventory, which requires replacement.	A	E
Procurement funded item, including TDPs and publications from inventory, which does not require replacement.	A	G
Excess DWCF for a matured FMSO.	A	H
Excess DWCF for other than a matured FMSO.	A	J
Excess Procurement Funded Item from Inventory (applicable PC&H computed on original acquisition cost of item and included in price of item).	A	K
Use of this code eliminated beginning FY 2001. Items (other than DWCF item) sold from inventory that is not subject to normal PC&H charge. This code shall only be used when the case has a transportation line, a PC&H line, or a pricing exception granted by OUSD(C).	A	L
2. Performance of DoD Services Under Section 21 or 22, AECA		
DoD provided training course.	B	A
Contractor provided training course.	B	B
Repair or replace FMS purchaser equipment. IAs shall include actual PC&H and transportation for materiel consumed in overhaul in reported cost.	B	C
Other DoD services. Does not include “above-the-line” transportation or “above-the-line” packing, crating, handling and transportation (PCH&T) associated with repair or modification of consumer owned equipment that is included in repair cost report using code “BC.”	B	D
Storage charge (for other than FMSO cases).	B	E
Depreciation associated with leases.	B	F
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 DSC “AK” and “AL.”	B	H
DWCF activity services.	B	K

"Above-the-line" transportation to FMS purchasers that is included in the case. This code includes "high-flight" or special airlift. It does not include the "above-the-line" transportation cost that is included in the selling price of an item or service.	B	T
3. Unique FMSO Charges		
FMSO I materiel used to support a 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 cases. The FMSO I case manager shall input the FMS detail delivery transaction. There is no annual charge for cooperative logistics supply support arrangements (CLSSAs) on DWCF items since 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 cases. The FMSO I case manager shall input the delivery transactions. There is no annual charge for CLSSAs on DWCF items since the DWCF standard (stabilized) price recoups all costs.	C	C
Cash advances for on-hand portion of FMSO I cases.	C	D
4. Procurement for FMS Purchasers Under Section 22, AECA		
Contractor services (other than training).	D	A
DWCF item, TDP, or publications from contractor.	D	B
Procurement appropriation funded secondary item from contractor.	D	C
Procurement funded principal or major item from contractor.	D	D
Progress payment to contractor.	D	E
DoD services in support of procurement. This code was previously applied to actual CAS hours prior to establishment of the charge. It now applies to other than CAS services.	D	F
Nonrecurring Cost (NC) Recoupment Charges (Research and Development and Production). Identifies amount of NC financed by the FMS purchaser and may be used in calculating the Special NC.	D	G
GFM shipped from inventory.	D	J
GFM shipped from another contractor.	D	K
PCH&T applicable to procurement appropriation funded GFM.	D	L
Contractor efforts in overseas locations that are supported by FMS management lines rather than through normal CAS effort.	D	X
5. Miscellaneous Charges		
Royalty charge—USG TDP.	E	E
Other Federal agency shipment from stock.	E	F
Other Federal agency shipment from contractor.	E	G
North Atlantic Treaty Organization Petroleum, Oil, and Lubricants.	E	H
Redistributable Military Assistance Program property.	E	J
Collection of special nonrecurring production charge or license fee for a third country.	E	K
Prepositioning costs.	E	L
Interest on arrearage computed in accordance with Chapter 5 of this volume. This code is restricted to use by DFAS–SCA.	E	M

NC recoupment charge for sales from procurement or inventory.	E	N
6. Special Defense Acquisition Fund (SDAF)		
SDAF sales of items originally purchased from DWCF inventories.	S	A
SDAF sales of items originally purchased from DoD inventories other than DWCF.	S	B
SDAF sales of items procured from contractors for the fund.	S	D
SDAF sales items procured from contractors and shipped directly from the contractor to the FMS purchaser, providing there is no requirement for any special PC&H.	S	E

Attachment 12-3
DSC Surcharge Matrix [FMR Volume15, Chapter 8, Table 8-26]

Delivery Source Code (DSC)	Contract Administration[1]	Packing, Crating, & Handling (PC&H)[2]	Administrative Charge[5]	Transportation[6,7] Parcel Post[8]
AA	N	N	Y	A
AB	N	N	Y	A
AC	N	N	Y	A
AD	N	N	Y	A
AE	N	Y	Y	B
AG	N	Y	Y	B
AH	N	N	Y	A
AJ	N	N	Y	A
AK	N	N	Y	B
AL	N	N	Y	B
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	N
CB	N	N	Y	N
CC	N	N	Y	N
CD	N	N	N	N
DA	Y	N	Y	N
DB	Y	N	Y	A
DC	Y	N	Y	B
DD	Y	N	Y	N
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	B
EG	N	N	Y	B
EH	N	N	Y	N

Delivery Source Code (DSC)	Contract Administration[1]	Packing, Crating, & Handling (PC&H)[2]	Administrative Charge[5]	Transportation[6,7] Parcel Post[8]
EJ	N	Y	Y	Y[9]
EK	N	N	Y	N[9]
EL	N	N	N	N
EM	N	N	N	N
EN	N	N	Y	N
SA	N	N	Y	A
SB	N	Y	Y	B
SD	N	Y	Y	B
SE	N	N	Y	B

Notes:

1. DFAS SCA will compute CAS if price code is “N and reimbursement code is other than “N” unless statutory waiver of contract administration has been made. See paragraphs 080402.E and 080402.Q of this chapter.

2. PC&H does not apply to DWCF items with ship dates after September 30, 1990.

3. Included in actual or estimated actual repair cost.

4. Computed standard PC&H except if RIC begins with “G.” RIC that begins with “G” will not have PC&H computed.

5. Administrative costs will be computed unless administrative costs have been waived pursuant to statute.

6. The Inland CONUS transportation charge of 3.75 percent does not apply to DWCF shipments with shipping dates after September 30, 1990. Computation for generic codes L1D and L1E for DWCF items was discontinued on items with shipping dates after September 30, 1991.

7. In this column, A refers to items furnished from DWCF. B refers to inventory items that are not shipped from DWCF. Transportation for inventory items furnished from DWCF to freight forwarders or Canada (except Newfoundland and Labrador) is included in the price. Shipments beyond that point are computed according to table 8-27 of this chapter. Costs for items that are not furnished from DWCFs are also computed according to Chapter 7 of this volume and table 8-28 of this chapter.

8. Transportation costs are computed using the TBC of the transaction. However, if this position is blank, transportation costs are computed using the DTC. If a DTC is not on the DTC table, reject the transaction.

9. For DSC “EF” and “EG” when transportation is by GSA (RIC begins with “G”) and the TBC is not Blank or where the TBC is Blank and the DTC is other than “4”, the CONUS transportation add-on (generic codes L1A, L1D, and L1E) is not computed. GSA includes CONUS transportation in the price of the item.