

Foreign Military Sales (FMS) Repair of Repairables (ROR): How FMS Customers Can Help Themselves

By

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During the first eight months of 1987, the Naval Supply Systems Command's (NAVSUP's) Security Assistance Directorate (SUP 07) conducted a test of its Repair of Repairables (ROR) procedures. We did this in response to a body of conventional wisdom that had grown up in the absence of any hard data about how well the repair process actually worked. The study demonstrated that conventional wisdom was wrong in a number of areas: the U.S. Navy's FMS repair process does, in fact, work very much as it is designed to. Seldom are we unable to account for a carcass that has been returned for repairs or to report its repair status in response to a request from an FMS customer. Nevertheless, the ROR test identified areas in which we can improve our tracking abilities and we have begun to implement improvements.

At the same time, we discovered that FMS customers do not consistently follow the turn-in procedures spelled out in NAVSUP Publication 526 (P526), the *FMS Customer Supply System Guide*. Not following these procedures often leads to delay or confusion in the U.S. Navy's efforts to track and repair FMS carcasses.

For example, many FMS customers develop their own formats for turn-in letters rather than adopting the samples specified in P526. This, in itself, causes no problem as long as the turn-in letter contains all the information necessary to permit us to identify the item. We must have the identification of the FMS case, a unique MILSTRIP document number for each transaction, the item's National Stock Number (NSN) or its manufacturer's part number where applicable, its nomenclature, its serial number, and its accurate UMMIPS priority. The serial number is so critical to our ability to keep track of turned-in carcasses that some U.S. Designated Overhaul Points (DOPs) will themselves assign serial numbers when none exist.

Furthermore, new editions of our sample turn-in letter will give customers the opportunity to advise us up front of their preferred alternative should the carcass turn out to be Beyond Repair (BR) or Beyond Economic Repair (BER). Completing these sections will eliminate the time it takes for us to request and receive customers' disposition instructions.

Finally, each turn-in letter should contain the address to which we are to reship the Ready For Issue (RFI) asset when repairs are completed.

The turn-in letter procedures works best when a separate letter accompanies each carcass returned. It is false economy to include a number of transactions on a single turn-in letter, even though the turned-in carcasses may be all the same type of equipment, going to the same DOP under the same FMS Case.

Customers should take care to construct MILSTRIP Document Numbers as outlined in Chapter 2 of P526 (paragraphs 2260 through 2264). Failure to do so can mean that the same

Document Number can unintentionally be repeated. Just as each carcass should have its own turn-in letter, it must also have its own unique document number.

Too often, we found that FMS customers use no turn-in letters whatever. This causes delays when DOPs receive a carcass but have no idea what to do with it. Before the carcass can be inducted for repairs, the DOP must request instructions from the appropriate Inventory Control Point (ICP).

Something else we discovered was that some FMS customers, in the interest of speed, use messages rather than letters as turn-in documents. This is not necessarily a problem, but it opens the door to other complications. Several of the messages we reviewed did not include all the required information. As a result, time was consumed in going back to customers requesting this additional information. There is also no guarantee that the message will get to all parties who need to know that the carcass is on its way--a particularly critical factor if a copy of the message does not accompany the carcass.

Customers should make sure not only that they use turn-in letters or messages that provide all essential information, but that they provide information copies of the turn-in document to everyone who needs one. For repairs under a Tailored Repairable Item List (TRIL), this includes one copy in the shipping container accompanying the carcass, one copy to the applicable DOP, two copies to the applicable ICP, and one copy retained for the customer's own records. For single transactions, this includes one copy to accompany the carcass, one copy to the applicable ICP, and two copies to NAVILCO.

In addition, the U.S. Navy offers a means of informing customers that the carcasses sent in for repairs have been received. To take advantage of this, customers must include an extra copy of their turn-in letter with a self-addressed envelope with U.S. postage affixed.

There are several reasons for requiring U.S. postage despite the difficulty some customers experience obtaining and distributing U.S. stamps. What these boil down to is that providing U.S. postage in a manner that does not violate U.S. law and DOD-level guidance would impose an administrative burden on DOPs vastly out of proportion to the value added, and this would eventually be experienced by customers as delays and increased costs. Our investigations also showed that customers have a far better chance of having their letters returned if they supply the necessary postage.

Where, then, are customers to buy and position these U.S. stamps? One solution is for customers to arrange for their freight forwarders to obtain the stamps and ensure that they are affixed to the envelope accompanying the shipment. This solves the problem of carcasses being returned from numerous in-country locations.

Another choice for those who have Security Assistance Representatives in the United States is to have these representatives purchase stamps at any U.S. post office. Countries without Security Assistance Representatives should explore what must be done in order for members of their diplomatic missions in the United States to purchase postage stamps. This, too, offers several advantages. First, representatives will be able to confirm the current applicable air mail rate. Second, representatives can use their business or home address in the U.S. as the return address for the letter. Therefore, if the letter cannot be delivered, it will still reach someone from the country involved who can himself pass on the information that the item has been received. The complications involved in trying to purchase U.S. postage by mail directly from the customer's own country lead us to discourage such attempts.

An error customers sometimes make that is particularly costly in terms of time, expense and increased risk of loss is, for single transactions, to ship items in advance of receiving instructions.

With increased emphasis on competition in contracting, the commercial contractors that repair an item now may not be the same as the ones who have repaired that same item in the past. If customers, assuming they know what DOP should receive the carcass, proceed to ship it, they may find themselves involved in a costly and time-consuming rerouting effort, if they do not lost the carcass entirely.

The relatively simple suggestions spelled out above (and also, for the most part, found in P526) will save you, as FMS customers, unnecessary delay and at the same time complement the Navy's efforts to improve our ability to provide you with timely information on the status of your repairables.

Ask Professor Price

"Ask Professor Price" is a new article designed to communicate financial policies and procedures to our readers, and foster a better understanding of pricing within the Department of Defense. If you have questions, send them to the Office of the Director of Finance and Accounting, Attn: SAFM-FAP-S, Indianapolis, Indiana 46249. Your questions and Professor Price's responses will be published to help others too.

Question: Professor, I've been told by my supervisor to get up to speed on something called unit exchange. Please tell me what it is and how it should be priced. Signed, Interested.

Answer: Dear Interested: The term unit exchange refers to the exchange of military units (i.e., battalion) between the U.S. and foreign countries or international organizations for the purpose of training. This training and related support must be reciprocal and provided within one year. If this doesn't occur, the country or organization must reimburse the U.S. for the full cost of the training and support provided. The price is determined by using the full costing methods described in Chapter 7 of DOD 7290.3-M, FMS Financial Management Manual. Now be aware, the U.S. could owe the foreign country or international organization for the fair value of training received in the event we don't reciprocate. For additional guidance, see the Joint Security Assistance Training Regulation. These publications provide detailed implementing instructions, to include an international memorandum or agreement, to be used. Incidentally, you can expect to see more financial guidance released near the end of this year on unit exchange. OSD plans to issue a DODI on the subject. When this official guidance is published, I'll give you an update.

Question: Dear Professor: I'm getting ready to estimate civilian labor cost for pricing a Foreign Military Sales (FMS) case. Now, when I calculate, do I apply the labor acceleration rate (35.85%) to the adjusted pay or to the adjusted pay plus leave and holiday? Signed, Not Sure.

Answer: Dear Not Sure: Your latter choice is the correct one! As you already know, the proper application of labor acceleration affects the accuracy of your estimate tremendously. Adjusted pay cost along with the leave and holiday cost is the basis for determining the other benefits cost. Together, these cost elements become the civilian labor cost. As equations, the elements look like this: $OTHER\ BENEFITS = (Adjusted\ Pay + Leave/Holiday) \times 35.85\%$; $CIVILIAN\ LABOR = Adjusted\ Pay + Leave/Holiday + Other\ Benefits$.

Question: Dear Professor: I don't understand why Foreign Military Sales (FMS) pricing has to be so complex. Aren't there some simple plans and general goals of this program? Signed, Jim.

Answer: Dear Jim: FMS pricing has intricate roots beginning in law and implemented in Department of Defense guidance. The Arms Export Control Act (AECA), as amended, mandates FMS policies and requires the United States Government to determine and recover all costs relating to FMS except where authority exists for reductions or waivers. The FMS customer must pay a fair share of the overhead and other costs that have been incurred by the United States Government as a result of serving the customer.

FMS policy dictates that the United States Government should incur no profit and no loss. Price and availability data are only estimates. In order to satisfy the foreign government or

international organization, the estimated prices of goods and services must be as close as possible to the actual costs which eventually will be billed to the FMS customer. Major changes to the price quoted on the letter of offer and acceptance should be quickly brought to the attention of the FMS customer.

By the way, these and other important FMS pricing practices are taught in detail in the "Fundamentals of Pricing" and "Fundamentals of Billing" courses. These computer assisted instructional courses are available at DISAM and throughout DOD. Call Mr. Jerry Wheaton at AV 699-3051 for the location nearest you.