

Financial Management: The Role of the Security Assistance Accounting Center (SAAC)

By

Colonel David E. Roesler, USA

and

Mr. Sam Fletcher

The roots of modern day security assistance runs deep in our nation's history. Security assistance has been an integral part of U.S. foreign policy for many years. The formal military assistance elements of modern day security assistance began in the late 1940s with the "Truman Doctrine." A large part of our early history in arms transfers programs took place under the grant aid Military Assistance Program (MAP), which essentially transferred arms to friendly foreign governments at no cost. Although during this early period there also were direct foreign military sales to some of these governments, the Foreign Military Sales (FMS) program as we know it today did not take shape until the passage of the Foreign Military Sales Act (FMSA) in 1968. The FMSA was subsequently amended in 1976 by the International Security Assistance and Arms Export Control Act which, under the abbreviated title Arms Export Control Act (AECA), remains the legislative basis for the present operation and management of the FMS program.

The early years of FMS were characterized by small sales volumes and decentralized financial management. Prior to 1977, the financial operations of the FMS program were performed by the respective military departments. Each service had its own unique billing and accounting systems.

It became clear by mid-1975 that financial management could be improved given the differing ways it was carried out throughout the Department of Defense. With sales growing and approaching \$10 billion a year, and undelivered FMS orders totalling \$24 billion, the military departments found themselves performing financial management over a vast commercial-type enterprise with accounting and billing systems that were unsuited for the task. More importantly, these various accounting and billing systems did not provide sufficient cash flow for foreign governments to keep pace with escalating FMS outlays. Government audit findings further indicated problems with missing and inaccurate cash forecasts, customer trust fund cash deficits, and variances in undelivered orders in logistical and financial records.

DOD financial managers concluded that these problems were a product of three factors: accounting systems which had evolved from the Grant Aid program were ill-suited for FMS accounting and billing; FMS financial information systems were incomplete and were subordinated to logistics management systems; and FMS financial operations were being performed by undermanned staffs, with professional accountants representing less than ten percent of these staffs.

The first steps toward improvements in the FMS financial areas included a proposal by the Defense Security Assistance Agency (DSAA) which led to the establishment of a Joint Financial Management Office (JFMO). It was envisioned that this office would be responsible for all aspects of FMS financial management and would ensure the implementation of policy guidelines issued by the Assistant Secretary of Defense, Comptroller. During this initial phase of the JFMO operations, the military departments retained their individual FMS billing and accounting functions. JFMO

surveillance and audit disclosures revealed that although billing formats were standard, procedures for accumulating, accounting, and reporting financial data were non-standard and continued to perpetuate old problems. As a result, the Deputy Secretary of Defense issued a memorandum on 9 September 1976 directing that FMS billing, cash collection, trust fund accounting, and administrative fee management be centralized under a Security Assistance Accounting Center (SAAC).

The establishment of SAAC was formalized by DOD Directive 5132.11, January 24, 1978. Under this directive, the Air Force was designated as the Executive Agency for operating the DOD centralized billing, cash collection, and trust fund accounting system for the FMS program. To accomplish these functions, SAAC was established as a separate organizational component of, and collocated with the Air Force Accounting and Finance Center (AFAFC) in Denver, Colorado. The Commander of AFAFC is also the Director, Air Force Accounting and Finance (on the Air Staff), and additionally is the Assistant Director of Security Assistance Accounting for DSAA. The Director, DSAA, furnishes overall direction in FMS matters to SAAC through the Assistant Director for Security Assistance Accounting, DSAA. The Director of SAAC is a Senior Executive Service employee of DSAA and deals directly with DSAA elements on day-to-day operational matters. Some of the key functions of SAAC include:

- Support of the DOD FMS Financial Management Program.
- Providing a central point of contact with DOD for FMS-related financial inquiries from United States Government (USG) activities and foreign governments, and for procedural and operational financial inquiries from DOD components.
- Preparation, review and authentication of all DOD FMS bills, and the calculation and assessment of interest charges resulting from delinquent debts.
- Maintenance of a centralized, automated FMS financial data system.
- Operation of a centralized system for DOD-wide FMS forecasting, delivery reporting, billing, collecting, and trust fund management.
- Maintenance of an adequate interface of DOD-wide logistical and financial systems.

SAAC receives FMS financial policy guidance from the Comptroller, DSAA. Daily operational coordination is maintained with DSAA and all implementing agency activities involved in performing against FMS cases. These activities include DD Form 1513 processing, case implementation, funding matters, performance, status, financial reporting, and case closure actions. Daily interfaces are also maintained with customer countries on all financial matters concerning FMS billings, collection, and case financial status.

The interfaces between SAAC and all other organizations are conducted through various communications media, e.g., telephone, message, correspondence, and official visits to appropriate activities, plus visits to SAAC by representatives of customer countries and DOD elements.

SAAC's overall role is best understood when viewed in the context of the life cycle of an FMS Case. An FMS case constitutes a contract between the U.S. Government and a foreign government for the sale of goods or services. As an FMS case develops it will evolve through a series of distinct phases, or statuses--Request, Acceptance, Implementation, Execution, and finally Case Closure.

REQUEST STATUS

A foreign government's intent to purchase U.S. defense articles, or services is first stated in a Letter of Request. Upon receipt of the LOR and a decision by the USG to make a sales offer to the country, the cognizant military department (MILDEP) develops a Letter of Offer (LOO) and the necessary price and availability (P&A) for the materiel requested. The LOO is developed on a DD Form 1513, Letter of Offer and Acceptance. This is the basic contractual agreement between the U.S. Government and the customer country. An FMS case can be subsequently amended because of a change in scope (e.g., customer decides to purchase 100 jeeps instead of 99). This is accomplished via a DD Form 1513-1, Amendment to Offer and Acceptance.

The MILDEP which develops the LOO must ensure that the potential customer is an eligible FMS recipient, that the article or service sought may be sold, and that the request has been received through proper channels. The MILDEP then reports the pending case into the DSAA 1200 Data System. This enables the dissemination of case information to SAAC and to the State Department. Other parties, including the U.S. Congress, may also be notified if the case meets certain major defense equipment or coproduction requirements.

ACCEPTED STATUS

The customer country may negotiate minor changes in the LOO with the MILDEP. These changes may be annotated on the offer by the country only if they have received written approval from the MILDEP. A signature on the LOO by an authorized representative of the foreign country converts that LOO into a Letter of Acceptance (LOA) and it becomes a binding contract. The customer forwards copies of the LOA to the MILDEP and SAAC. SAAC uses this information to update and finalize all detail information for the case and places the case in accepted status. If an initial deposit accompanies the signed LOA to SAAC, it is posted to the customer's trust fund and identified to the appropriate case. The initial deposit may be in the form of a check, an authority to transfer cash from a holding account, a Federal Reserve Bank (FRB) wire transfer or a Federal Reserve Bank of New York (FRBNY) deposit, as applicable. (A discussion of FRBNY accounts is provided later in this article.)

IMPLEMENTATION STATUS

The signed LOA is reviewed and validated by SAAC. Any apparent discrepancies must be resolved before the case can be implemented. If the accepted 1513 is complete and all initial cash requirements have been met, SAAC implements the case in the Defense Integrated Financial System (DIFS) and advises the MILDEP that obligational authority (OA) is available for the case. This enables the MILDEP to implement the case, begin filling requisitions, and initiate procurements.

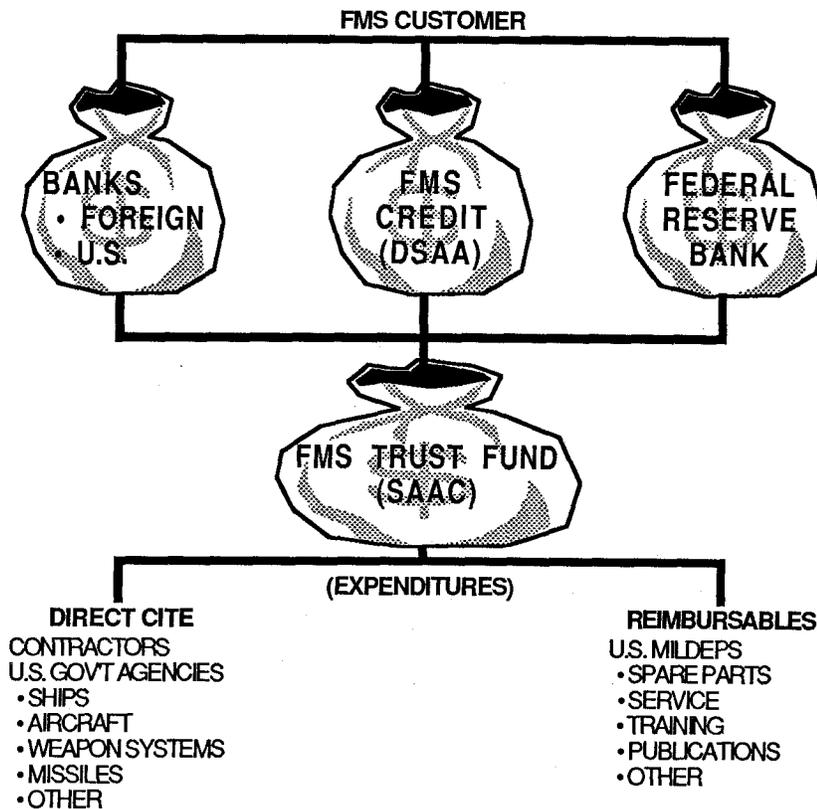
OA is a funding authority requested by a military service or DOD agency from SAAC which allows obligations to be incurred within a given FMS case in an amount not to exceed the value of the OA granted. Military departments will initiate obligation authority action by loading the FMS case data into the on-line SAAC module of their Customer Order Control System (COCS) using the DD Form 1513 as their source document.

As stated above, SAAC advises the MILDEP of the availability of obligational authority and the MILDEP must confirm funding requirements prior to the time of implementation. The MILDEP then advises SAAC of its need to use this authority throughout the life of the case. The MILDEP also must request and receive monthly expenditure authority from SAAC for any self-reimbursed or direct cite disbursements.

Expenditure authority (EA) is the fiscal authority granted by SAAC to a military service or DOD agency which allows expenditures to be incurred against obligations previously recorded against the FMS Trust Fund Account. When SAAC issues EA, the cash necessary to liquidate the expenditure authorization is reserved within the SAAC accounting records and the cash is available for no other purpose.

Based upon receipt of an accepted DD Form 1513, and the receipt of obligation authority (OA) from SAAC, the responsible U.S. implementing agency begins program implementation and execution in the form of requisitions, procurement contracts, issues from defense inventories, training courses, progress payments to contractors, etc. This activity is reported to SAAC monthly using DD Form 1517. Prompt reporting of articles/services furnished and progress payments made to contractors on behalf of the procuring country is imperative in order to render an accurate accounting to the country of how the country's FMS funds, deposited with SAAC, have been used by the defense activities. Data reported in the monthly performance cycle is "fed" back to the major U.S. DOD implementing activities each month for recording in their particular agency's FMS data base. If any of the FMS performance transactions are identified as reimbursable to the furnishing activity, a payment is made by SAAC to the activity. Such reimbursable activity constitutes a relatively small percentage of the total funds expended. The largest percentage of the dollar values reported via monthly performance input represents "after the fact" reporting of expenditure or direct cite expenditure authority issued by SAAC directly from a country's FMS trust fund (appropriation symbol 8242). Figures 1 and 2 are graphic illustrations of this flow of funds and the performance reporting activity cycle.

FIGURE 1
The Flow of FMS Funds

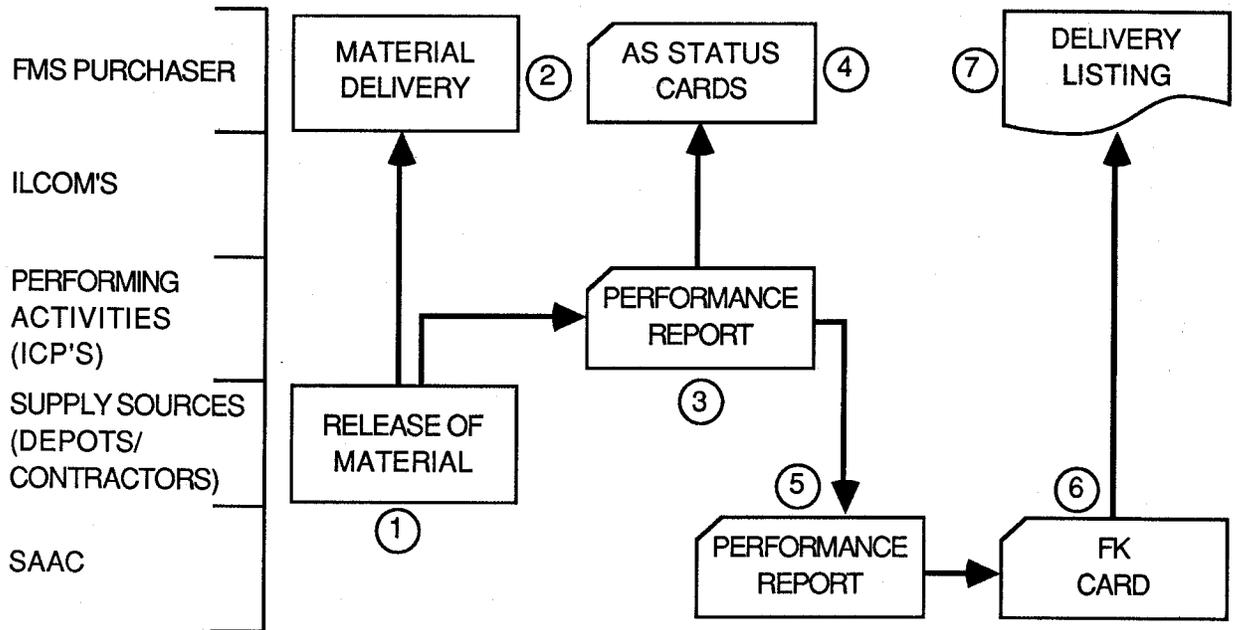


or
led
the
ble

ity
and
es,
hly
nts
rate
sed
jor
ata
ing
s a
ues
rect
ion
nce

FIGURE 2

Financial Performance Reporting Process



All transactions reported in the monthly performance cycle are accumulated through the end of the calendar quarter. The accumulated transactions are then processed into the FMS quarterly billing cycle. At the end of each calendar quarter, SAAC renders all FMS Customer countries a quarterly billing statement (DD Form 645) which represents an official claim for payment for individual cases and identifies the date on which payment is due. This billing statement is the end result of the interaction of numerous defense organizations throughout the world, the processing of hundreds of thousands of transactions, and the involvement of thousands of people. The final scrutiny, determination of accuracy, research and analysis of discrepancies and distribution is a primary function of SAAC, the importance of which cannot be overemphasized. The DD Form 645 also provides detailed financial and logistical data to the foreign country/agency that fully describes articles/services, progress payments, and earned administrative and accessorial charges furnished to or on behalf of the foreign country. It provides a financial forecast to foreign countries/agencies of financial requirements for a 90 day period beginning in the second calendar quarter following the as-of-date of the bill. The basic source document for these forecasts is the payments schedule prepared by the implementing agencies and included in the financial annex of the DD Form 1513, Letter of Offer and Acceptance (LOA).

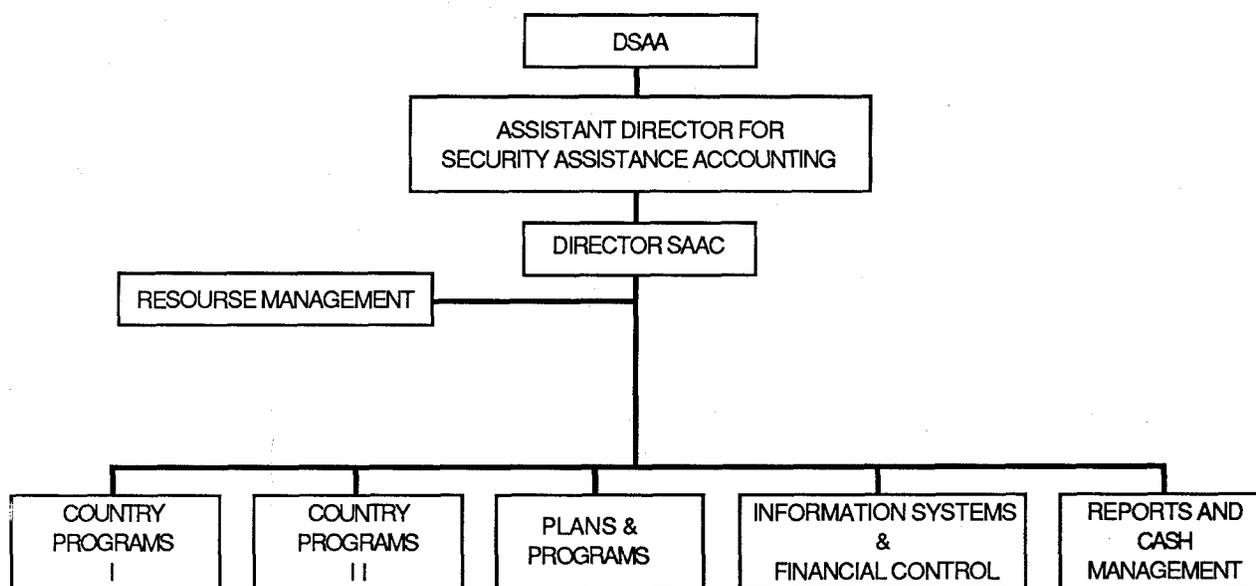
CLOSURE STATUS

Upon completion of the furnishing of articles/services as agreed upon in the DD Form 5113 and amendments thereto, the Implementing Agency (IA) will prepare a case closure certificate certifying that all logistical requirements of the case have been fulfilled. The certification process by the IA includes the following: a review of logistical activity during the life of the case; assurance that all requisitions have been filled or cancelled; a review of all performance reporting provided to SAAC and case obligation authority; and a determination that obligations and the delivered value of articles/services at the time of closure are in balance. Once these actions are completed the certificate of closure is forwarded to SAAC. The closure certificate is then used by SAAC to financially reconcile and close the case, with the subsequent issuance of a final billing statement to the purchasing country.

To carry out its functions, SAAC is organized as shown in Figure 3 and is staffed by 200 civilian and 7 military personnel. The staff is composed mostly of professional accountants and accounting technicians. SAAC also has people in the Automated Data Processing career field, as well as administrative and clerical support people.

FIGURE 3

The SAAC Organization



The two Country Programs Divisions are organized geographically to perform several functions in servicing customer country accounts. Among their many functions, they each:

- Maintain country case and billing records, to include the preparation and mailing of the DD Form 645 quarterly FMS bill.
- Monitor and maintain various documents and data products to detect or project deficiencies relating to the financial condition of each country's FMS program.
- Respond to financial inquiries from FMS customers and DOD activities.
- Advise U.S. representatives on the financial condition of country programs.

113
ate
ess
ase;
ing
the
are
l by
ing

- Compute monthly draw down requirements for countries maintaining an account with the Federal Reserve Bank of New York.

- Manage commercial Letters of Credit, prepare drawdown documents, communicate with appropriate bank and customer representatives, and assure that receipts are correctly posted to SAAC records.

The Reports and Cash Management Division performs a variety of functions including: FMS trust fund accounting and reporting; receipt, approval, and issuance of obligation and expenditure authorities; and control and certification of cash balances and availability. In addition, this Division:

- Performs Special Defense Acquisition Fund accounting, disbursing, billing, and reporting functions.

- Recommends changes in accounting and reporting systems to eliminate deficiencies.

- Reviews proposed changes to SAAC and MILDEP FMS accounting and reporting systems.

- Performs reconciliation of FMS trust fund cash balances at country and implementing agency level.

- Reconciles cash and billing records at country and worldwide levels.

The Information Systems and Financial Control Division designs, develops, and maintains centralized FMS financial data systems. Additionally, this Division:

- Provides computerized interface between implementing agencies and the Defense Security Assistance Agency (DSAA) on matters relative to FMS program status and performance.

- Maintains ADP liaison with DOD activities and foreign customers in regard to automated systems and programs required for FMS financial management.

- Controls and monitors case closure certificates, Reports of Discrepancy (RODs), and Command Pay.

AND
ENT

- Recommends required changes regarding the standardization of MILDEP reporting, coding, and systems interface.

- Provides microcomputer acquisition, training, and maintenance for SAAC.

- Provides independent system testing, evaluation, and documents for DIFS.

veral
of the
ject

The Plans and Programs Division is responsible for the overall development, coordination, and monitoring of SAAC plans, goals, objectives, and priorities. Other functions include:

- Performing long-range planning and analysis regarding strategy, resources, and functional and system changes.

- Developing SAAC positions on and participating in the development of FMS financial policies and procedures for DOD-wide application.

- Formulating policies, procedures, and operating instructions on FMS accounting and financial management for internal SAAC operations.
- Advising and assisting foreign government representatives and U.S. government agencies on FMS accounting and billing policies and procedures.
- Establishing and maintaining the overall Directorate Quality Assurance Program.

SAAC also has a small resource management office that provides internal support for administration, budget, supply, safety, personnel, and manpower functions.

But, SAAC is more than the accounting and billing extension of DSAA. There are several functions performed by SAAC that are often misunderstood but which are highly critical to managing the funds of individual countries.

1. **Monitoring Country Funds.** One of the big distinctions between SAAC, as country managers, and the MILDEPs, as case managers, is in the area of funds management. Whereas the MILDEPs are concerned with obtaining funds from SAAC to ensure that the logistics requirements of individual cases are brought to fruition, it is SAAC's responsibility to ensure that sufficient FMS customer funds are available to meet the MILDEPs funding requirements. SAAC accomplishes this by monitoring the individual FMS customer Trust Fund account at country level. This monitoring compares the average monthly disbursements from the customer's Trust Fund, to the balance of the customer's Trust Fund account. As long as the customer maintains an adequate monetary reserve to meet estimated average disbursement, plus contract termination liability requirements, the Trust Fund balance is considered adequate. If adequate monetary reserves are not available, SAAC performs additional analyses to determine which cases are not being paid and, if possible, which of the customer activities are not paying their DD Form 645 requirements. Once this analysis is complete, SAAC takes action with the FMS customer, and through DSAA if necessary, to obtain additional funds. In addition to this monitoring of total available funds, SAAC also follows the guidance in DOD 7290.3-M, Chapter 9, for following up on past due amounts on individual cases.

2. **Holding Accounts.** Holding Accounts have been established to account for customer MAP, credit, and cash funds which are not identified to a particular case, and for which the FMS customer has not requested a refund. Funds normally contained in these accounts represent either monies from cases which have been closed out, or payments which have been made to SAAC with no identification as to which cases against which they are to be applied. The funds in these accounts are part of the FMS customer's Trust Fund; and at the request of the FMS customer, the funds maintained in the customer's cash holding accounts either may be refunded or applied against a specific case. Holding accounts are also used to provide an audit trail in transferring customer funds from one case to another; that is, the funds are transferred from a losing case through the holding account to a gaining case. The entries in the holding account will reflect both cases and the dates on which the transfers were made. As part of the DD Form 645, copies of all holding account statements are provided which reflect opening and closing balances plus all transactions which impacted on the holding account during the quarter.

3. **Cross-Leveling.** Cross-Leveling is where the excess funds from one FMS case are transferred (i.e., cross-leveled) to another FMS case. There are two types of cross-leveling. One occurs when the customer has signed a formal agreement with SAAC whereby SAAC can transfer excess funds from one or more cases to cover a shortage of funds on another case. The second method is when the customer directs SAAC, in writing, to move excess funds between cases. During FY 87, \$724.9 million were cross-leveled between cases. To provide FMS customers an

accounting of any cross-leveled funds, all of these types of transactions are processed through the customer's holding accounts.

Cross-leveling has been misunderstood by U.S. Implementing Agencies (IA) and because of this, SAAC has been accused of misapplying funds to cases. This happens when the IA is not aware of when the FMS customer has request SAAC to cross-level funds. While it doesn't occur frequently, at times the customer's Defense Department will have SAAC transfer funds from one in-country service program to another in-country service program (i.e., from an Army program to a Navy program). This causes confusion because the losing in-country service program and the U.S. Implementing Agencies are not aware of why this transfer was made and they erroneously assume SAAC has been arbitrarily moving funds around.

4. **Federal Reserve Bank of New York (FRBNY) Accounts.** Some countries maintain cash accounts with the FRBNY. To open one of these accounts for FMS purposes the country must use country funds, meet certain financial criteria and conclude a tripartite agreement with the FRBNY and DSAA. With such an account deposits are made to the customer's FRBNY account with a designation to which case the funds are to be applied. Once the funds are on deposit in the FRBNY account, only SAAC can withdraw the funds. On a monthly basis, SAAC withdraws funds from the FMS customer's account to meet the U.S. implementing agencies requirements for funds for the next 30 days. While SAAC applies the transferred funds to individual cases, the decision on the total amount of funds to be transferred is based on the average monthly disbursements made to the IAs. If the draw down estimate is too low, and it appears the FMS customer's Trust Fund account will run out of funds, the SAAC country program manager will make an emergency draw down from the FMS customer's FRBNY account. However, if the draw down was excessive, then the next estimated draw down will be adjusted for the amount of funds remaining in the FMS customer's Trust Fund account. By drawing down funds at country level, and continually adjusting for funding requirements in accordance with DOD implementing activities' requirements, SAAC tries to ensure the optimum utilization of customer resources.

CONCLUSION

As long as security assistance remains a key apart of our nation's foreign policy, the accounting function will play a key role in the conduct of the program. SAAC is just one of many military departments and defense agencies working together to administer an increasingly complex system. As customers become more sophisticated, our accounting systems must be more responsive to their needs as well as to those of our government. SAAC represents a group of dedicated professionals working toward the accomplishment of a common security assistance goal: to keep the United States a reliable partner of other nations in securing our mutual security and world peace.

ABOUT THE AUTHORS

Colonel David E. Roesler, USA, is the Deputy Director of the Security Assistance Accounting Center. He has been associated with FMS financial management and security assistance support since 1979. Prior to his current job, Colonel Roesler was Deputy Comptroller, USPACOM and Chief, Policy and Programs, J1, USCENTCOM. He is a 1964 graduate of the U.S. Military Academy and holds a Master's degree in Industrial Management from the Georgia Institute of Technology. Colonel Roesler is currently the President of the Mile High Chapter, American Society of Military Comptrollers.

Mr. Sam Fletcher is Chief of the Policy and Procedures Branch at the Security Assistance Accounting Center. He has been with SAAC since 1981 and has previously been in charge of the Quality Assurance Division, the Country Program Division II, and the International Programs Branch. Prior to joining SAAC, he was with the U.S. Army Audit Agency and the DOD Inspector General's Office. He is a 1967 graduate of Benjamin Franklin University.