SPECIAL DEFENSE ACQUISITION FUND (SDAF)

BY

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Background

Historically, Department of Defense (DoD) major defense equipment (MDE) procurement efforts for foreign recipients have been hampered by long production lead times and the frequent need to divert materiel from DoD resources to fulfill an emergency foreign requirement. In an attempt to reduce, and eventually eliminate, these negative impacts, the Executive Branch proposed establishing for FY 82 a new account to expedite the procurement of MDE. This account, the Special Defense Acquisition Fund (SDAF), would: 1) facilitate "advance" procurement of equipment with an anticipated Foreign Military Sales (FMS) demand, thereby reducing delivery lead times; and 2) through the creation of an inventory of high-demand MDE, enhance the President's ability to satisfy urgent requirements of allied/friendly nations while minimizing the impact on U.S. force readiness.

The Executive Branch further proposed that the SDAF be funded with FMS-derived monies which normally are credited to the U.S. Treasury Miscellaneous Receipts Account 3041. These sources would include: 1) nonrecurring research, development, test and evaluation (RDT&E) and production charges, wherein the foreign customer shares, on a prorata basis with the U.S., all pertinent product/technology development costs; 2) asset use charges computed and added to FMS billings to recoup the cost of any DoD plant/equipment used in production or delivery of an item; 3) contractor rental payments which are facility charges made under the provisions of the Use and Charges Clause of the Defense Acquisition Regulation (DAR); and 4) collections from sales of defense articles not intended to be replaced in stocks. Since the revenues from these sources are significant (the Treasury received over $300M from these collections in FY80), they were considered to be a good source for capitalizing the SDAF. Furthermore, the diversion of FMS-derived dollars to SDAF would mean that no direct DoD appropriations would be required for the acquisition effort.

Citing reduced lead times, an enhanced capability to meet urgent MDE needs of allies, non-application of DoD working appropriations, and the fact that SDAF financed assets could be alternatively employed by U.S. Forces, the Executive Branch proposed to Congress the enactment of the SDAF program. Specifically, SDAF was created under the authority of Chapter V of the Arms Export Control Act (AECA), as amended by the International Security and Development Cooperation Act (ISDCA) of 1981. All of the funding sources proposed by the Executive Branch were authorized within the AECA to be used to establish the fund. Also, direct appropriations were authorized as an additional funding source, although no such appropriations were requested. Further, the assets resulting from sales of defense articles not intended for replacement must continue to be deposited in the Miscellaneous Receipts Account 3041 until Section 748 of the DoD FY 82 Appropriations Act is repealed or otherwise amended.

The ISDCA, in concert with Public Law 97-252 of 8 Sep 82, amends Section 138 of Title 10 U.S.C. establishing FY funding ceilings for the SDAF and allowing that threshold to go potentially as high as $900M for FY84. In addition to the ceilings, the authorizing legislation requires that annual reports be provided Congress identifying actual and estimated future SDAF procurements. It further stipulates that sponsoring DoD Components may use SDAF-financed defense articles prior to FMS customer "buy-out," with the caveat that they will pay for all operational/maintenance costs as well as restoration or replacement costs.

An Office of the Assistant Secretary of Defense, Comptroller (OASD(C)) memorandum dated 2 Feb 82 reiterated the above guidance, defined SDAF as a "revolving fund separate from other accounts," and specified that SDAF would be capitalized with eligible FMS case collections received after 29 Dec 81. It also established the Defense Security Assistance Agency (DSAA) as the DoD activity responsible for overall program management, with special emphasis being placed on ensuring that expenditure restrictions established in the ISDCA are maintained.

Current Status

Although SDAF was created under the authority of the ISDCA (1981), the program could not be implemented until Congress provided an appropriation that would allow for the commitment of SDAF monies to MDE acquisitions. To expedite program implementation, DoD requested a supplemental appropriations authority for FY82 concurrent with its submission to Congress of the FY83 budget request. Procedural and systems planning efforts were geared toward implementation occurring sometime in 1983. However, as a result of the Congressional override of President Reagan's veto of the 1982 Supplemental Appropriations Act on 10 Sep 82, $125M was immediately provided for the initial SDAF procurements. With only 20 days left in FY82, DSAA was faced with the "unenviable" task of obligating these funds or having them revert to the budgetary account (11X4116) and be unavailable for commitment pending further congressional allocations. DSAA issued ten Military Interdepartmental Purchase Requests (MIPRs) to Army and Air Force totaling the entire $125M for materiel, including M60A3 tanks, Maverick and I-TOW missiles, and AN/TPS 70 radars. Piggybacking these short-fused requirements on existing contracts (but ensuring the establishment of separate contract line items for SDAF), the Military Departments (MILDEPs) successfully obligated all but approximately $15M of FY82 SDAF authorities and the initial procurement effort was underway.

Methodology

Working under the auspices of DSAA, the Security Assistance Accounting Center (SAAC) and the MILDEPs have been charged with making the program a reality. On the one hand, SAAC has been designated as the accountable and paying station responsible for maintaining selected general ledger accounts, ensuring spending thresholds are not violated, monitoring SDAF capitalization efforts, performing contract accounting on MIPRs, and assuring the adequacy of FMS Trust Fund deposits on behalf of foreign customers who have purchased SDAF equities. Conversely, the MILDEP's role is primarily logistical, with special management attention being ascribed to: 1) ensuring that obligations against a given SDAF-financed item do not exceed the

MIPR-authorized amount; and 2) ensuring that necessary documents and inventory/work-in-process information required by SAAC and DSAA to discharge their duties are promptly and accurately provided. In essence, the MILDEPs will be performing an "inventory custodianship" role, while SAAC's mission will have more of a financial orientation. In this context, the four distinct processes relevant to the SDAF program are explained as follows:

Procurement. Several criteria are used to identify items which are eligible for SDAF procurement. No single criterion determines eligibility for an SDAF procurement; however, considerable emphasis is placed on items in short supply for U.S. Forces that also have anticipated foreign demands. The criteria are:

-- Items should be those which are needed to meet foreign customer requirements in less than normal procurement lead times.

-- Items should be those whose diversion from DoD inventory would adversely impact U.S. combat posture.

-- Items should be capable of production from existing or expanded production facilities.

-- If not ultimately transferred to a foreign interest, the items should have an application within DoD (i.e., they must meet some established force acquisition objective).

-- Items should have significant future FMS demands.

-- Items should be eligible for foreign sale under current national disclosure policy.

As shown in Figure 1, DSAA, in conjunction with the MILDEPs, the Joint Chiefs of Staff (JCS), and the Department of State, will develop a "shopping list" or an SDAF procurement plan. DSAA will then issue a funded MIPR (or procurement directive) to the MILDEP normally having cognizance over the item to be acquired. The MIPR is processed in accordance with the Defense Acquisition Regulation (DAR), Chapter 5, Part II--Coordinated Procurement. As per the DAR, the receiving activity must formally accept the MIPR and its terms before the procurement can proceed. Financing under an SDAF MIPR can be one of two types (or a mix thereof): 1) Category I--reimbursable financing in which the SDAF account repays some performing MILDEP appropriations or stock fund for materiel/services provided in support of the effort; or 2) Category II--direct citation of the financing appropriation on contracts awarded in support of the acquisition.

Concomitant with the MIPR issuance, DSAA provides a funding document to SAAC which moves authorities from the SDAF budgetary account (11X4116) to the intermediate or user level account (9711X4116). This funding allotment, which is facilitated by a DD Form 1151 transfer voucher, establishes the limits of SAAC's accountability and provides the fiscal authority for payment of SDAF obligations. Upon receipt of the funding authorization, SAAC posts the amount allotted as an "uncommitted-unobligated" program authority.

Once the MIPR issuance phase is completed, the cognizant MILDEP can initiate the SDAF acquisition by negotiating a contract and whatever "in-house" efforts are required for that procurement. As per the caveat stated in the "notes" section of MIPR, the procuring activity must ensure that copies of the MIPR acceptance and all obligation documents are forwarded to SAAC as the accountable station. Receipt of a copy of the MIPR acceptance generates an SDAF commitment on SAAC's records and also a simultaneous obligation in the event of Category I or reimbursable financing. For Category II or direct-cite funding, the obligation of SDAF fiscal authorities occurs when SAAC receives a copy of an awarded contract.

The intention is that, under the procurement phase, production and in-house support efforts will have progressed to the point where delivery lead time is significantly reduced when an FMS sale or buy-out is negotiated.

Buy-Out. As portrayed in Figure 2, the interested foreign purchaser submits a Letter of Request (LOR) to the cognizant MILDEP requesting price and availability (P&A) data for a specific military end item. The MILDEP prepares a Letter of Offer (LOO) accompanied by the P&A information to DSAA which will make a determination as to whether the demand meets SDAF criteria and whether it can be satisfied from existing SDAF equities (be they funds available for new procurement, work-in-process, or completed assets) or whether it must proceed through normal FMS procedures. Assuming SDAF eligibility and available program funding/assets (and, after appropriate coordination with the JCS and State Department), DSAA will: 1) countersign the LOO; 2) provide a copy of the LOO to SAAC for recording as a "Q" (DSAA) case in an offer status on its data base; and 3) return the LOO to the MILDEP for finalization and submission to the foreign customer as a formal U.S. offer. A key consideration in this process is that the MILDEP must interface with SAAC prior to LOO finalization to determine the initial deposit requirement based on: 1) total costs incurred to date and financed by SDAF for the equity purchased; and 2) an amount to cover anticipated expenditures in the near term (usually the first 60-90 days after acceptance).

Upon country acceptance of the LOO and receipt of the required deposit, SAAC records the case as "accepted," posts the transaction as an unfilled customer order on its general ledger records, and transfers the initial deposit from the FMS Trust Fund to the SDAF account. DSAA will amend the MIPR identifying the buyer of an SDAF equity, shipping instructions, and any special configurations. If additional funding is required and available, an amended MIPR and related funding documents will be provided by DSAA. SAAC reports the collection to the U.S. Treasury and keeps DSAA apprised of performance against the buy-out.

Payment. Contractor and DoD internal billing (i.e., SF 1080s and interfund charges) are submitted directly to SAAC for processing and payment. (See Figure 3). Disbursements are made from the SDAF account (9711X4116) and expenditures are recorded on the general ledger. SAAC prepares appropriate expenditure status reports to DSAA/MILDEPs.

Reimbursement. Figure 4 highlights the SDAF reimbursement process. As per this schematic, the SDAF account provides continuous funding for all approved procurements and associated buy-outs. It will be reimbursed at time of buy-out and periodically thereafter for all performance against the FMS equity purchase. Earned reimbursements will be credited to the parent or budgetary account (11X4116), awaiting further Congressional allocation. All performance (i.e., progress payments, interfund billings, etc.) will be input by SAAC for customer billing. SAAC and the MILDEPs will work closely to ensure the legitimacy of related SDAF LOA payment schedules and drawdowns from interest-bearing accounts in support of program expenditures.

Outlook for FY83 and Beyond

As a result of SDAF program implementation occurring sooner than expected, the various DoD activities were forced to piggyback SDAF accounting/logistical requirements on existing systems and procedures. This obviously generated some problems and nonstandard applications which hopefully will be anomalous to FY82.

Once the FY82 problems are ironed out, the "watch words" for FY83 will undoubtedly be cautious optimism. Not only will the FY83 funding ceiling be increased to $600M (thereby enabling larger and more diverse weapons systems production), but the first buy-out will probably occur at or near FY expiration. This buy-out should provide the first real indication of program viability; moreover, it will hopefully strengthen President Reagan's security assistance policy by reinforcing the perception of friends/allies that the U.S., as a partner, is a "reliable" supplier of military equipment.

SPECIAL DEFENSE ACQUISITION FUND

PROCUREMENT PROCESS

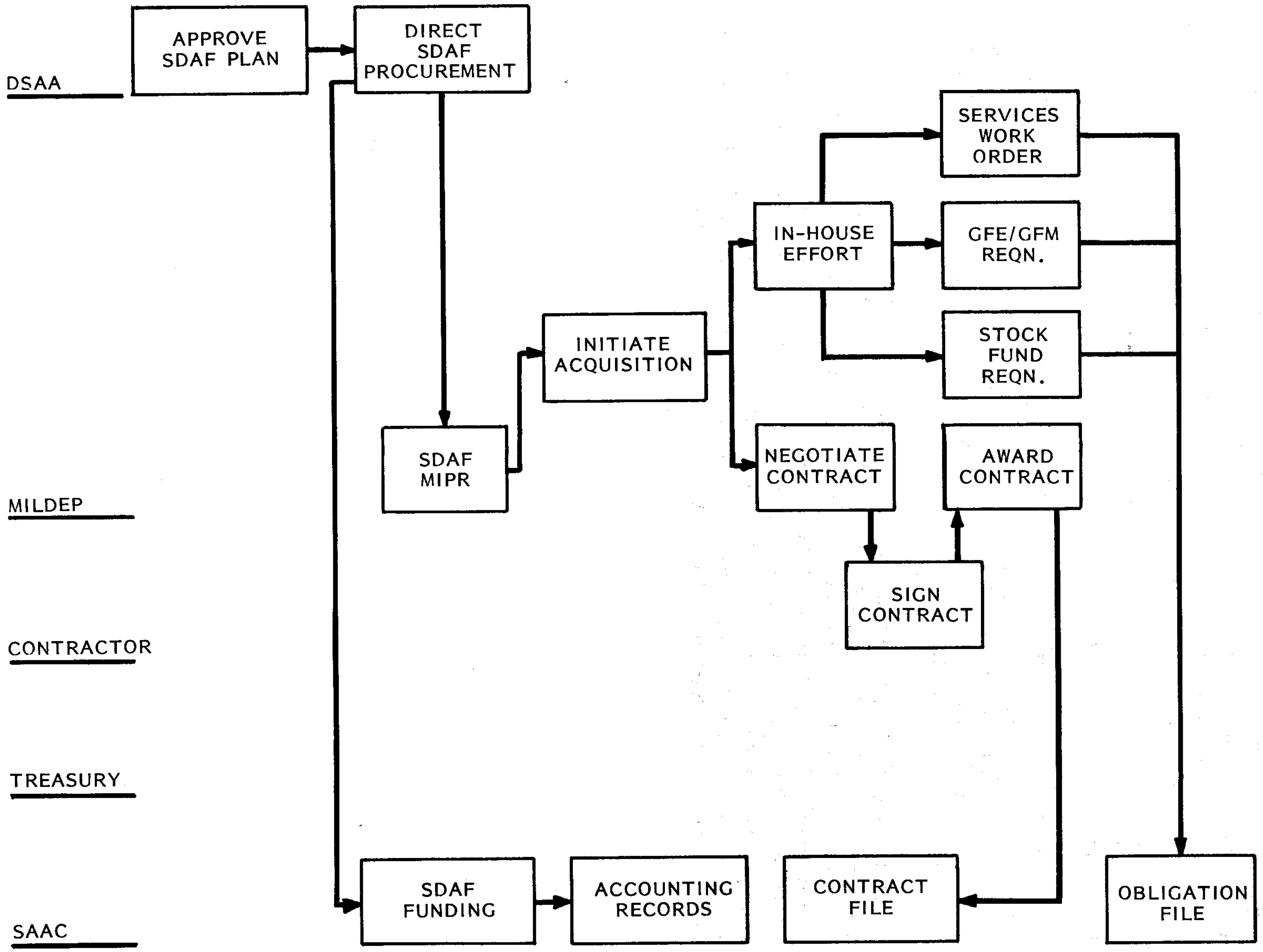

FIGURE 1

SPECIAL DEFENSE ACQUISITION FUND

BUY-OUT

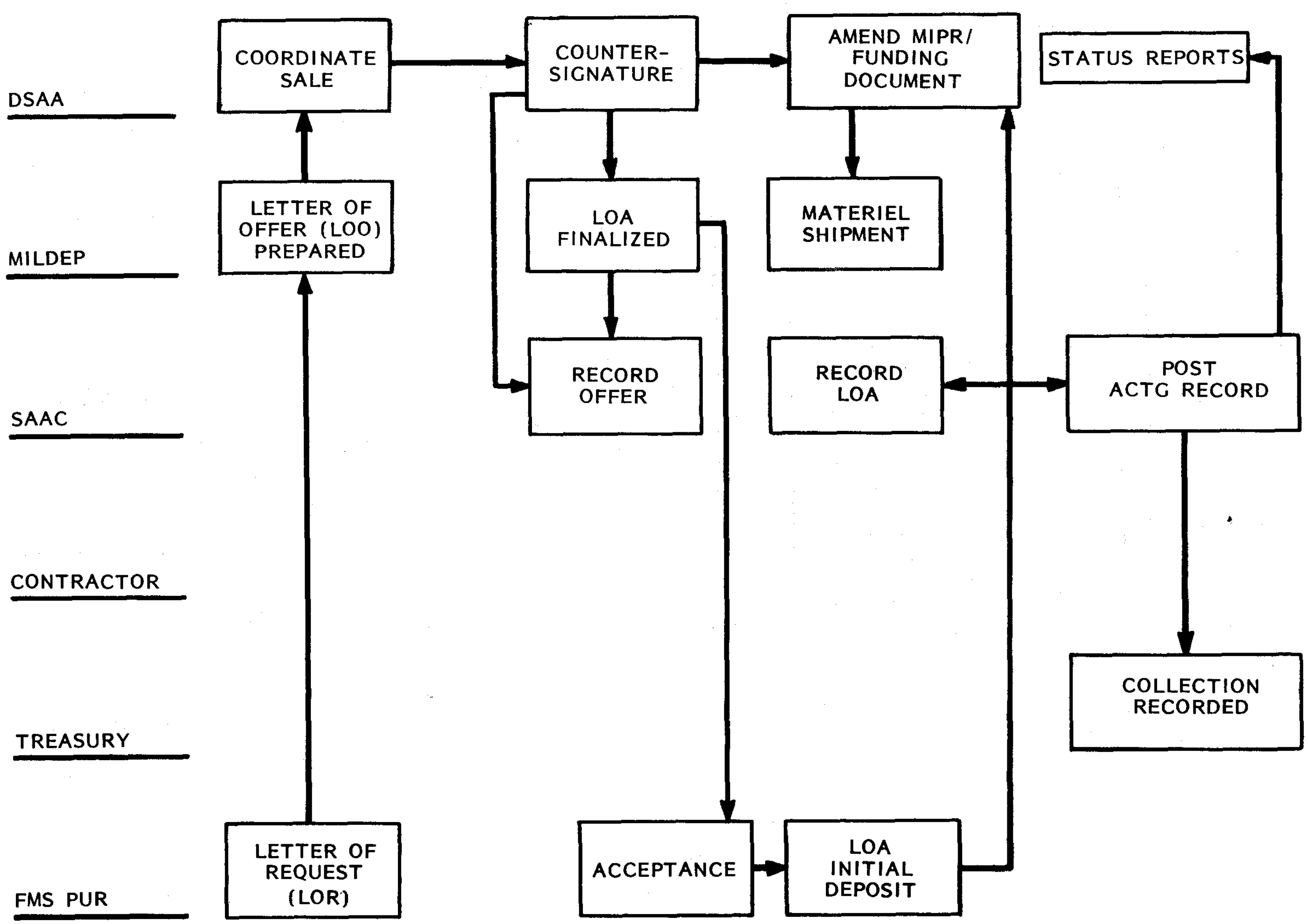

FIGURE 2

SPECIAL DEFENSE ACQUISITION FUND

PAYMENT PROCESS

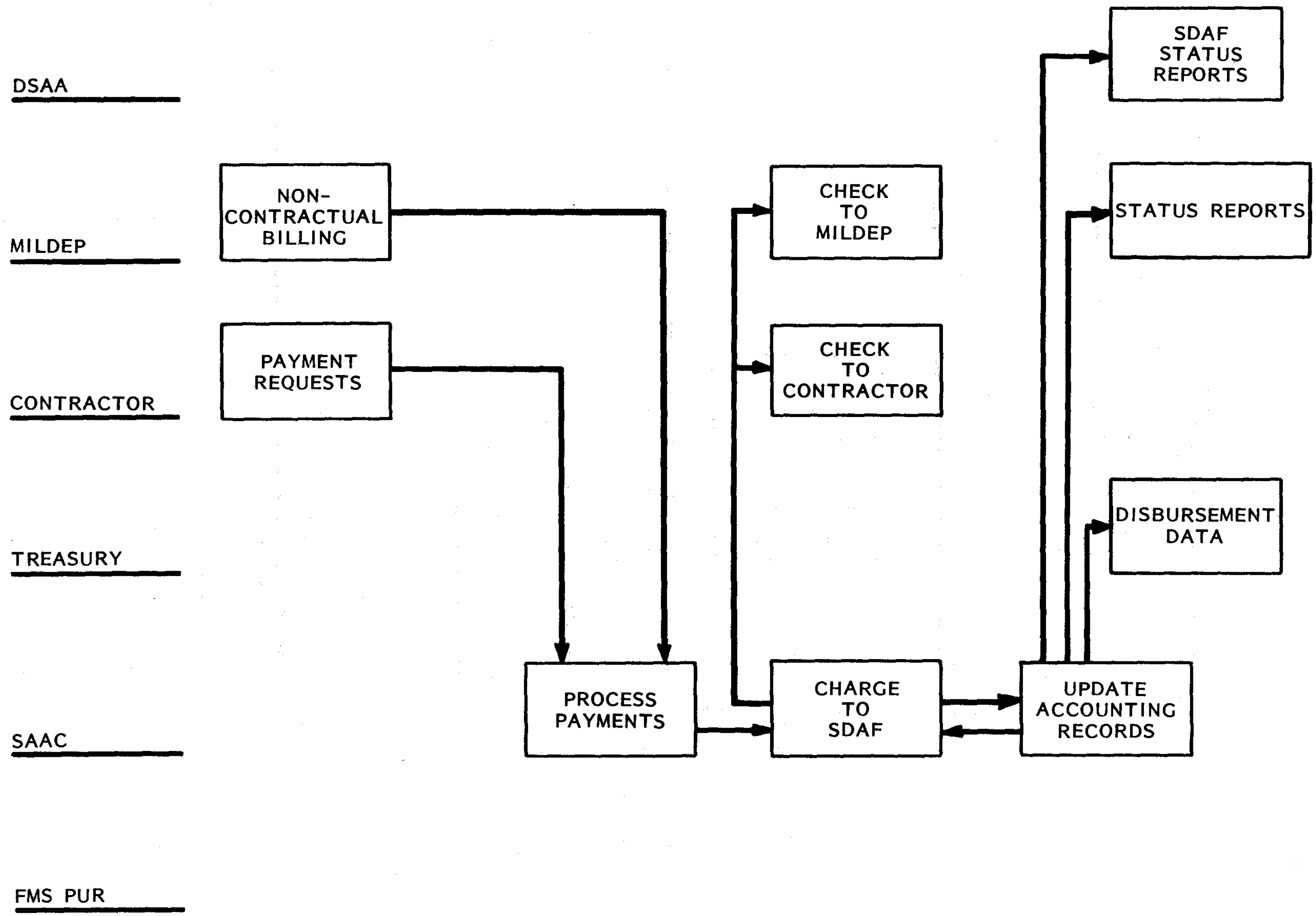

FIGURE 3

FMS PUR

SPECIAL DEFENSE ACQUISITION FUND

REIMBURSEMENT PROCEDURES

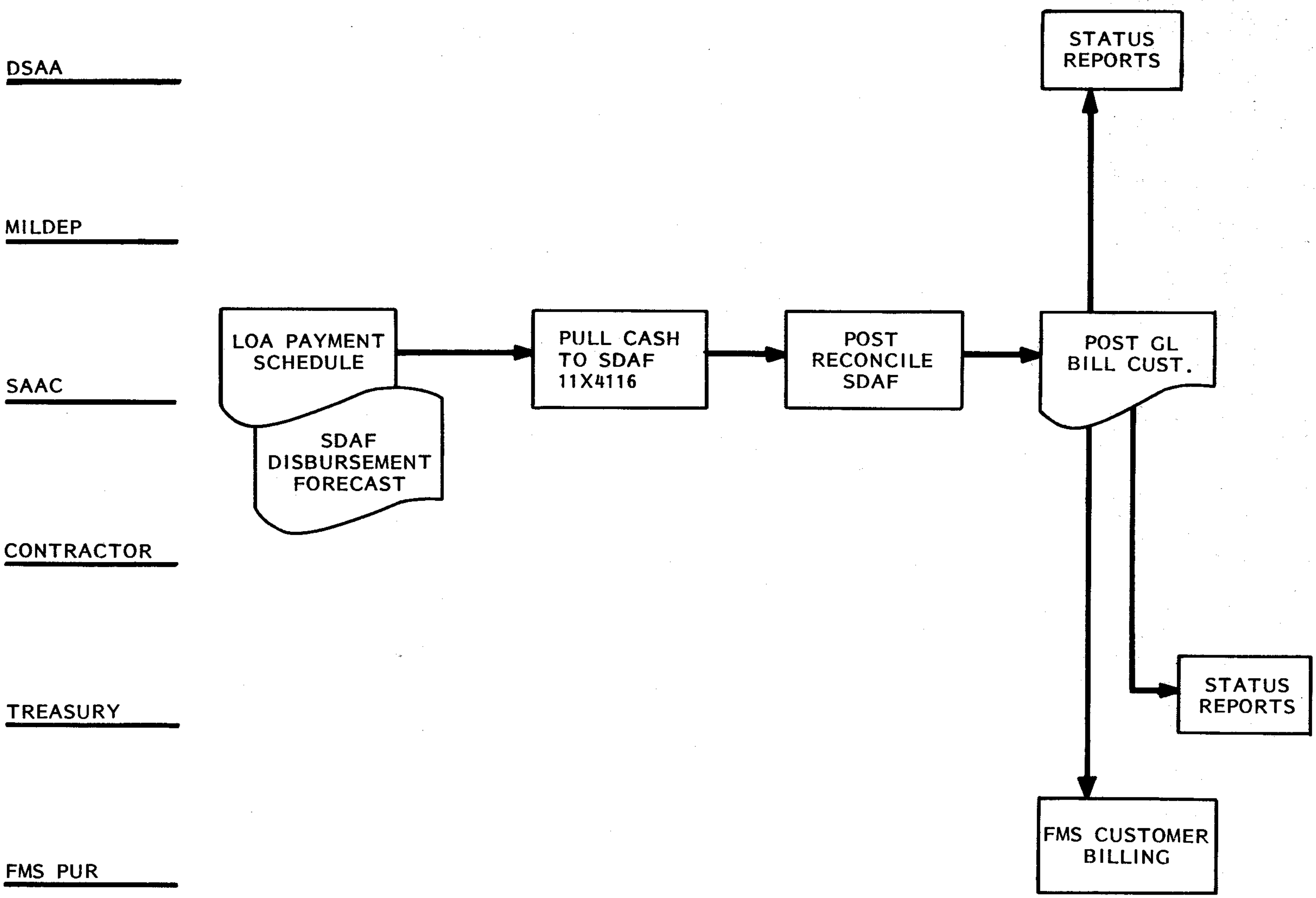

FIGURE 4

ABOUT THE AUTHOR

Mr. Tom Brozovich is a Systems Accountant assigned to the Plans and Policies Division, Security Assistance Accounting Center (SAAC), Denver, Colorado. Mr. Brozovich has been assigned as the SAAC focal point for SDAF, responsible for ensuring that SAAC accounting/systems applications for this unique program are consistent with DoD directives. He recently separated from active duty with the U.S. Navy, after having served nearly eight years as a Supply Corps Officer (the last two of which were spent assigned to SAAC as a Naval Liaison/systems analyst). He is still affiliated with the Navy, albeit in Reserve status, and was recently selected for promotion to Lieutenant Commander.