
FMS BILLING AND FINANCIAL CONTROLS

By

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The purpose of this article is to provide an overview of the FMS billing system. This may suggest to the reader that a discussion of the customer's "FMS Billing Statement" (DD Form 645) will follow. That is true; however, an analysis of an end product, such as the customer's Billing Statement and its attendant delivery listing, requires some preliminary review of the financial documents, document flow, related budgetary authority controls, and computer systems which provide the catalysts for the inputs to the "FMS Billing Statement." This article is designed to provide a perspective for financially-oriented personnel, military or civilian, US or foreign, on how the FMS billing system operates--a view that can be used to help decipher some of the more perplexing problems facing the FMS financial world today.

In order to develop this perspective, let us assume that the fictional country of Bandaria (BD) has been offered Letters of Acceptance (LOAs) (DD Form 1513s) for two FMS cases. Let us further assume that these are the only two FMS cases that Bandaria has ever negotiated with the U.S. Government (USG). The facts for the two cases are as follows:

DD FORM 1513

<u>Line 3</u> <u>Case</u> <u>Identifier</u>	<u>Line 21</u> <u>Net Case</u> <u>Value</u>	<u>Line 26</u> <u>Total Case</u> <u>Value</u>	<u>Line 27</u> <u>Initial</u> <u>Deposit</u>	<u>BD</u> <u>Service</u>
BD-P-SAA	\$1 mil	\$1.1 mil	\$200K	Navy
BD-D-SAB	\$3 mil	\$3.5 mil	\$400K	Air Force

Case BD-P-SAA will be managed by the US Navy (USN) and case BD-D-SAB managed by the US Air Force (USAF). Both cases will involve requirements for services and material from procurement and inventory. Bandaria will accept the cases by forwarding copies of the signed DD Form 1513s to the US military departments (MILDEPs) and to the Security Assistance Accounting Center (SAAC), in Denver, Colorado. An initial deposit amount of \$600,000 for the two cases will also be wire transferred to SAAC. SAAC will use its computer system called the Defense Integrated Financial System (DIFS) to identify and record individual DD Form 1513 line item information for the above two cases as well as record Bandaria's payments into the FMS trust fund. As these cases progress through their life cycles, SAAC will use the DIFS to monitor and collect monthly MILDEP-reported case performance data. Eventually, the DIFS with the help of SAAC personnel will prepare Bandaria's quarterly "FMS Billing Statement" (DD Form 645). Under normal conditions, SAAC needs to have the DIFS properly primed with FMS case data and

required initial deposit amounts before the MILDEPs can implement and execute case requirements.

The MILDEPs cannot initiate the Bandarian requisition requirements until they receive authority from SAAC to obligate funds on behalf of Bandaria. Since Bandaria has accepted the two cases and paid the initial deposit, let us now assume that SAAC has released obligational authority (OA) of \$1 million to the USN for case BD-P-SAA and \$3 million to the USAF for case BD-D-SAB. Normally, the amount of OA released for a given case will equal the amount of OA required by the MILDEP for one year.

OBLIGATIONAL AUTHORITY (OA) CONTROLS

The amount, flow and planning of obligational authority requirements is an area of FMS financial management that is carefully controlled. It is the responsibility of the MILDEP to prepare in advance a detailed plan of the amount of OA that will be required for each fiscal year (1 Oct to 30 Sep) after an FMS case has been implemented. The amounts of OA required by a MILDEP essentially will be the sum of inventory requirements, negotiated contracts (procurements) and service agreements that are planned to occur within a given fiscal year. Additional OA would be required if the cost of planned deliveries should include allowances for additional authorized FMS costs such as assessments for pro-rata, non-recurring research, development, testing, evaluation, and production costs.

The primary documents used in the OA control process are the "FMS Obligational Authority" and "FMS Planning Directive," which are also known as DD Forms 2060 and 2061, respectively. These documents provide a detailed OA fiscal year guideline to match against actual case performance. Deviations from the planned OA, whether valid or not, can then be recognized for corrective action. Preplanned and actual OA performance is maintained and tracked for the MILDEPs by a variety of computer systems. The USN calls their system the FMS Case Control System (CCS); in the USAF it is called the Air Force Customer Order Control System (AFCOCS); and in the USA it is termed the Program Budget and Accounting System (PBAS). These computer systems have been in use since about 1980 and have greatly enhanced OA quality control and significantly reduced the amount of time needed to implement an FMS case. The duration of the FMS case implementation process, which begins with the receipt of a signed DD Form 1513 and initial deposit at SAAC and concludes with the MILDEP receipt of OA and the establishment of case records, has been reduced from three to six months, to an average of thirty days.

DIRECT CITE AND REIMBURSABLE AUTHORITY

To continue our scenario, let us now assume that based on the receipt of \$1 million OA the USN has begun to initiate supply system requirements for case BD-P-SAA. These FMS requirements will normally be filled by one of three methods: (1) through the issue of material from DOD inventory; (2) by procurement from a contractor; or (3) by performance of some kind of reimbursable service by DOD personnel. All FMS orders placed into the

supply system will require Military Standard Requisitioning and Issue Procedures (MILSTRIP) information that includes a requisition document number and related logistical and financial data.

The financial data that accompanies an FMS order dictates which of two types of budget authority is to be used by the MILDEP for reimbursement purposes. The use of "reimbursable" budget authority allows the MILDEP to initially pay for the item or service out of its domestic use appropriations. Subsequently, the MILDEP will be "reimbursed" from the proper FMS trust fund account. "Direct cite" is the second type of budget authority wherein the MILDEP directly cites the proper FMS trust fund account to pay for an FMS order. No MILDEP appropriations are cited as a source of funds when "direct cite" authority is used.

For example, in inventory or stock issue requirements the MILSTRIP requisition transaction will normally contain a fund code to indicate that the FMS trust fund should be cited to reimburse the proper DOD appropriation for the stock issue. An FMS procurement requirement will include, in addition to MILSTRIP information, a hard copy contract that will contain the necessary appropriation data to be cited as a source for disbursements to the contractor. Usually this will involve the direct citation of the FMS trust fund. Similarly, a service requirement will be accompanied by a hard copy document such as a work request or project order that will cite the appropriate MILSTRIP and appropriation information for reimbursement purposes.

EXPENDITURE AUTHORITY (EA)

Since procured items are usually the longest lead time items, let us assume the USN, within a month after case acceptance, negotiated a \$500,000 contract for the procurement of defense articles for case BD-P-SAA. Available OA has now been reduced by \$500,000 from the original OA of \$1,000,000. As production of the BD-P-SAA contract items progresses, the contractor will request incremental disbursements--called progress payments--from a designated USN finance office. We shall assume a progress payment request of \$210,000 has been received by the USN from the contractor. Before the finance office can make a payment to the contractor, expenditure authority will have to be obtained from SAAC.

To release EA, SAAC will determine if collections (actual deposits of money) from Bandaria's FMS trust fund account are sufficient to cover all the EA requests up to this point in time. Therefore, even though only \$200,000 has been deposited for BD-P-SAA, an EA request for the \$210,000 payment can be honored. This is because EA can be based upon the total of monies deposited into Bandaria's trust fund account, which totals \$600,000, i.e., the sum of the two initial deposits for the Air Force and Navy cases. The key point here is that EA is managed by SAAC on a country level basis, while OA is managed on an FMS case level basis.

Designated MILDEP finance offices can obtain EA from SAAC by telephone, message, or through the MILDEP's customer order control systems. EA for numerous small disbursements is made manageable by requesting blocks of EA on a periodic (daily or weekly) basis.

If EA is not available, the MILDEPs cannot make disbursements on Bandaria's behalf: FMS orders could not be filled and Bandaria's program would grind to a halt. Historically, however, problems caused by a lack of EA have not occurred on any large-scale basis. FMS case payment schedules, continuously monitored and updated by the MILDEPs, have ensured that sufficient funds are on hand in each country's trust fund account to cover all EA requirements.

PERFORMANCE REPORTING

The release of EA is not recorded at case level; however, the resulting progress payments or other types of incremental disbursements that will eventually lead to the delivery of an item or completion of a service are considered case performance that must be recorded down to the case and line item level. The vehicle for reporting this MILDEP case performance to SAAC is the DD-COMP(M) 1517, "FMS Detail Billing Report." The DD-COMP(M) 1517, generally called a "performance report," is an 80-column card which contains information such as the requisition document number, quantity, NSN, etc., and some unique billing information. A complete description of the DD-COMP(M) 1517 performance report can be found in Chapter 8 of the DOD 7290.3-M, "FMS Financial Management Manual." The information in the DD-COMP(M) 1517 report is passed from the MILDEP to SAAC and then on to the FMS customer in the DD Form 645 "FMS Billing Statement" and attached delivery listing. The DD-COMP(M) 1517, therefore, becomes one of the key communications links in the FMS financial world. The MILDEPs are required to submit DD-COMP(M) 1517s to SAAC by the 16th day of each month and no later than 30 days after case performance has occurred. Case performance that should be reported within these time frames will consist mostly of incremental disbursements for services performed or disbursements for new procurement (i.e., progress payments), as well as actual deliveries of defense articles.

If a DD-COMP(M) 1517 is reporting the actual delivery of an item or the completion of a service, then the dollar value of that report will be reflected in Column 9, "Current Period Delivery Costs," of the DD Form 645. For reference purposes, an example of a DD Form 645 is shown in Figure 1, which is an extract from Chapter 6 of the DISAM/SAAC FMS Customer Financial Management Handbook (Billing), 3rd edition. The total dollar value of DD-COMP(M) 1517 reports reflected in Column 9 of the DD Form 645 will be supported by detailed requisition level information (from the DD-COMP(M) 1517) in an attachment to the DD Form 645 billing statement, the FMS Delivery Listing. All delivered values will initially appear in Column 9 of the DD Form 645 and also become part of the total "Cumulative Delivery Costs" reported in Column 10. With the next billing statement, the column 9 costs become part of column 8, "Cumulative Delivery Costs--End Prior Period," of the DD Form 645.

If the DD-COMP(M) 1517 performance on a case is being reported as a progress payment, the value of that progress payment will be reflected in Column 10 of the DD Form 645 across from the title "P/P Progress Payments." These progress payment values will accumulate in Column 10 of the DD Form 645 until the actual delivery of material to the FMS customer occurs. When these deliveries are reported to SAAC, the delivered values of the

FIGURE 1

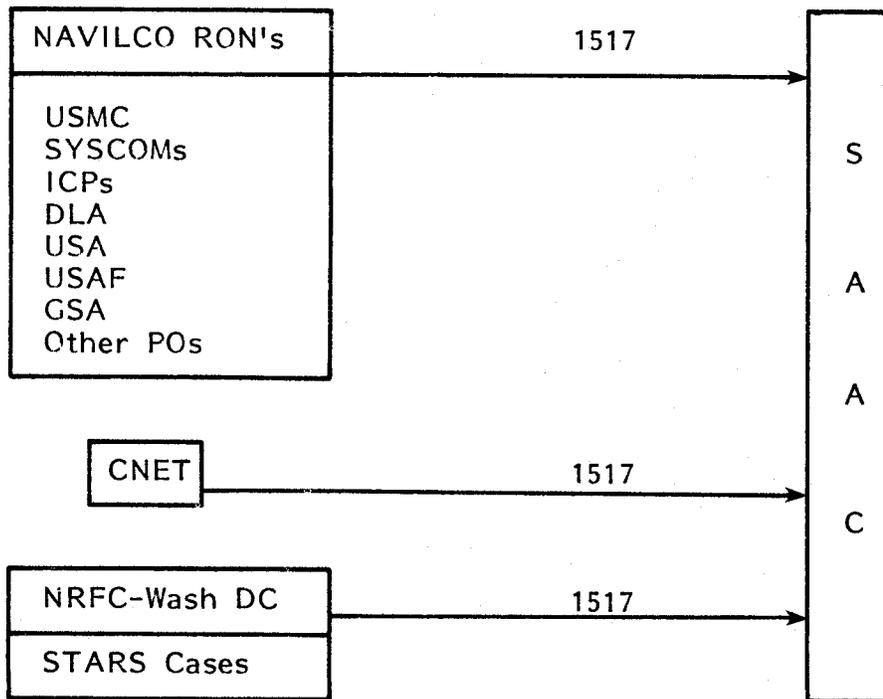
PCN: FS-07-321

FOREIGN MILITARY SALES BILLING STATEMENT				UNITED STATES OF AMERICA DEPARTMENT OF DEFENSE/ ARMY				
1. TO: BANDARIA ARMY		2. THIS IS A BILLING STATEMENT BASED ON CASH REQUIREMENTS. PAYMENT IS DUE BY: 82 MAR 15		3. STATEMENT NUMBER: 81-12NA		4. FOR PERIOD ENDED: 81 DEC 31	5. DATE PREPARED: 82 JAN 15	
CASE IDENTIFICATION AND DELIVERY STATUS				FINANCIAL STATUS				
6. CASE & RSN	7. TOTAL VALUE ORDERED	8. CUMULATIVE DELIVERY COSTS END PRIOR PERIOD	9. CURRENT PERIOD DELIVERY COSTS (ATTACHMENT 1)	10. CUMULATIVE DELIVERY COSTS & WORK IN PROCESS	11. FORECASTED REQUIREMENTS (NOTE A)	12. TOTAL FINANCIAL REQUIREMENTS	13. CUMULATIVE PAYMENTS RECEIVED	14. AMOUNT DUE AND PAYABLE
URK 001	60,000.00	14,900.00	15,100.00	30,000.00				
	ARMAMENT SYS XX							
002	10,000.00	3,844.50	1,155.50	5,000.00				
	SUPP EQT							
L6A	2,100.00	562.34	487.66	1,050.00				
	ADMINISTRATIVE FEE							
L00	1,075.00	270.47	229.53	500.00				
	ACCESSORIAL COSTS							
P/P	PROGRESS PAYMENTS			13,900.00				
CASE TOTAL	73,175.00	19,577.31	16,972.69	50,450.00	9,000.00	59,450.00	50,450.00	9,000.00

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DD-COMP(M) 1517 reports will be deducted from the cumulative progress payment value in Column 10 of the DD Form 645. The final delivered values will then appear as part of the "Current Period Delivery Costs" in Column 9. These delivered values will be cross referenced to individual document numbers and related logistical status on the "FMS Delivery Listing," which is Attachment 1 to the DD Form 645. The flow of reported dollar values from Cumulative Progress Payments in Column 10 to Column 9, "Current Period Delivered Costs," can occur throughout the life of a case. In order to present the total accrued cost picture to the FMS customer, it is important to note that the progress payment entry in Column 10 will contain values not only for actual progress payments made to a contractor but also dollar values for collections made in advance for such things as termination liability, contractor holdback, etc.--collectively known as work in process.

FIGURE 2
MILDEP PERFORMANCE REPORTING - NAVY



- CNET - Chief of Naval Education and Training Center
- TCPs - Inventory Control Points
- NAVILCO RQNs - Requisitions and expenditures processed through the Navy International Logistics Control Office
- NRFC - Navy Regional Finance Center
- POs - Payment or Disbursement Offices
- STARS - Standard Accounting and Reporting System
- SYSCOMs - USN Systems Commands (NAVAIR, NAVSEA, etc.)

MILDEP BILLING REPORT FLOW

Figures 2 through 4 show the general flow of MILDEP performance reporting to SAAC. Each MILDEP has its own unique methods for reporting performance--the Navy having the most centralized. Figure 2 shows that all DD-COMP(M) 1517s for the Navy will be generated by one of three activities: NAVILCO, CNET, and NRFC (Washington D.C.). FMS delivery or expenditure data flowing into any of these organizations will cause the generation of a DD-COMP(M) 1517 report to SAAC.

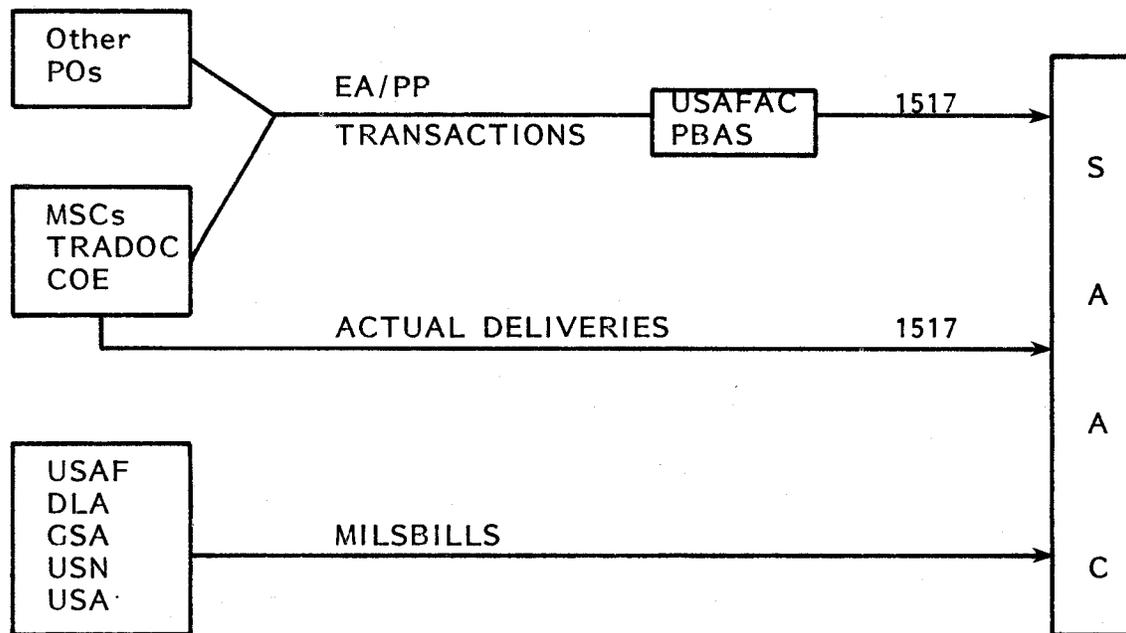
Figures 3 and 4 show the FMS performance reporting flow for the Army and Air Force respectively. For selected stock funded requirements, the Army and Air Force will allow the cognizant activity providing the material (i.e., the seller) to report performance to SAAC via a detailed billing card known as a modified MILSBILLS (Military Standard Billing System) transaction. SAAC will use this detail billing card in lieu of the DD-COMP(M) 1517. For example, Figure 4 shows that an FMS stock-funded requisition received by the Air Force and managed by DLA, GSA, USA, or USN (i.e., the seller) will be performance reported by the seller to SAAC via the modified MILSBILLS transactions. SAAC will eventually generate a feedback report to the Air Force of these MILSBILLS transactions to allow the Air Force to update its records with final delivered values.

For other than MILSBILLS transactions, both the Air Force and Army use two separate channels for reporting performance. One route is the financial channel which uses existing financial systems within each service to report performance disbursements. These disbursements can be for either progress payments or for expenditures that were made because services were performed or because stock material was issued from inventory. The DD-COMP(M) 1517 performance reported via this financial channel will show up in Column 10 on the FMS Billing Statement as part of the progress payment value.

The second route used by the Air Force and Army is the logistics channel. When the material for which disbursements were previously reported via the financial channel is actually delivered, then a DD-COMP(M) 1517 performance report reflecting that delivery will be made by the supplying activity. This final delivery performance report will cause the progress payment amount in Column 10 of the billing statement to be decreased by the reported delivered value. The reported delivered value will then be shown as part of the total current delivered value in Column 9 of the bill, with the DD Form 645 delivery listing showing the specific requisition and related logistics data for the delivered item. For example, in Figure 3, the Tank Automotive Command (TACOM)--one of the Army's major subordinate commands (MSCs)--will use the financial channel to report progress payment disbursements through its Program Budget and Accounting System (PBAS) to the USA Finance and Accounting Center (USAFAC) in Indianapolis, Indiana. USAFAC will then generate DD-COMP(M) 1517 performance reports of progress payments to SAAC. The value of these progress payments will appear in Column 10 of the DD Form 645. Eventually, the item for which progress payments have previously been reported will be delivered to the FMS customer. When this occurs, TACOM will forward via separate logistics

channels a DD-COMP(M) 1517 delivery performance report. As described earlier, the value of this delivery report will be deducted from the progress payment value in Column 10 of the DD Form 645. This delivered value will then be shown as part of the current delivery costs in Column 9 of the DD Form 645. The requisition number and related logistical status for the delivered item appear in the DD Form 645 delivery listing.

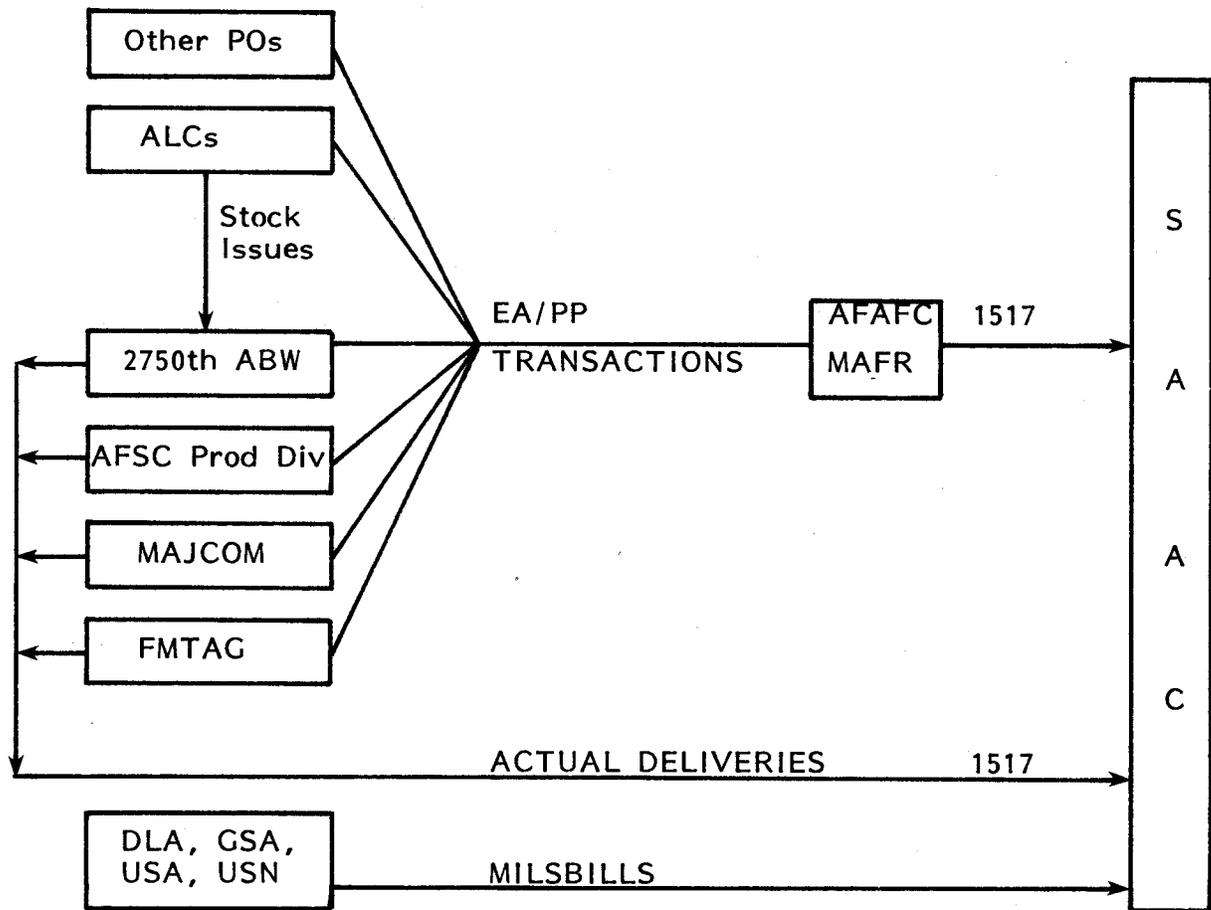
FIGURE 3
MILDEP PERFORMANCE REPORTING - ARMY



- COE - Corps of Engineers
- EA/PP - Expenditure Authority or Progress Payment
- MSC - Major Subordinate Commands
- MILSBILLS - Military Standard Billing System (for stock-funded items)
- POs - Payment or Disbursing Offices
- PBAS - Program Budget and Accounting System
- TRADOC - Training and Doctrine Command
- USAFAC - USA Finance and Accounting Center

The Air Force (Figure 4) reports disbursements and deliveries in a similar fashion. The financial channel for performance reporting for the Air Force is routed through the Merged Accountability and Fund Reporting (MAFR) system and the Air Force Accounting and Finance Center in Denver, Colorado. The DD-COMP(M) 1517 delivery reports for the logistical channel are then generated by the supplying activities shown in Figure 4. One of the unique aspects of the Air Force reporting system is that as of October 1984, all Air Force DD 1517 reporting, except for MILSBILLS transactions, will follow this two-channel reporting route. Therefore, FMS requirements for services, procurements, and USAF inventory material will first be reported via the financial channel as a progress payment. Deliveries will subsequently be reported via the logistical channel. The two-channel route for the Army applies primarily to services and procurements.

FIGURE 4
MILDEP PERFORMANCE REPORTING - AIR FORCE



ABW - Air Base Wing
 AFAFC - Air Force Accounting and Finance Center
 AFSC - Air Force Systems Command
 ALCs - Air Logistics Centers
 EA/PP - Expenditure Authority or Progress Payment
 FMTAG - Foreign Military Training Affairs Group
 MAJCOM - Major Command (TAC, MAC, etc.)
 MAFR - Merged Accountability and Fund Reporting
 MILSBILLS - Military Standard Billing System (for stock-funded items)
 POs - Payment or Disbursing Offices

SUMMARY AND CONCLUDING OBSERVATIONS

This description of the FMS Billing System is a "bare bones" view of how selected financial controls work and how performance is reported to SAAC. For example, figures 2 through 4 show only a skeletonized view of the

sources of financial and delivery data that feed performance information into SAAC. In fact, there are more than a hundred sources of data that furnish such information to SAAC.

The billing system as it stands today is complex, immensely complex. This complexity is a result of more than 10 of years evolutionary development in which it has been required to respond, with limited resources, to an ever increasing work load. Additionally, it has had to mold itself to an incredible array of diverse and many times conflicting organizational factors and political pressures, both within the U.S. and abroad.

What is the future? What will the billing system look like in the next few years"? It appears that significant changes are in the winds.

The billing system, in particular the MILDEP performance reporting procedures and the impact they have had on the FMS Trust Fund and effective FMS Financial management, has been the topic of numerous audits and Congressional inquiries.

As a result of Congressional concern, the FMS Financial Management Improvement Program (FFMIP) office was established in April 1983 to identify and recommend improvements or solutions to problems that face the FMS financial management world today. The FFMIP office director reports directly to the Assistant Secretary of Defense (Comptroller) [ASD(C)]. The office consists of a staff and project offices in DLA, DSAA, SAAC, and in each MILDEP.

The findings that have been documented by the FFMIP office to date address many FMS system weaknesses that preclude effective financial management. One high-priority finding addresses the lack of uniformity among the MILDEPs in reporting financial and delivery data to SAAC. This lack of uniformity, even within individual MILDEPs, effectively precludes SAAC from ensuring proper accounting controls down to FMS case and line item level. This has caused substantial inequities in various FMS trust fund accounting records. To remedy these imbalances, one audit recommendation has been that an entirely new FMS trust fund be established. The FFMIP response to these suggestions has been to recommend that the MILDEPs first standardize their delivery and financial reporting methods, which would then allow SAAC to maintain balanced trust fund records.

As a solution, FFMIP has proposed that the MILDEPs modify their existing customer order control systems to permit a standardized billing and delivery reporting system. This enhanced system, called the FMS Integrated Central System (FICS), would be the only data base system that would feed performance reporting data into SAAC. The MILDEPs could then continue to use their internal control systems to execute FMS cases. FICS would then act as the single interface that would funnel case performance information from the MILDEPs into SAAC.

The remaining part of the solution would require the development of a new SAAC accounting system to manage the FMS trust fund. This accounting system, called the FMS Accounting and Billing System (FABS), would replace the existing Defense Integrated Financial System (DIFS).

How soon will these changes take place? Numerous personnel in the MILDEPs and at SAAC are currently working on the system design specifications that would provide the guidelines for the implementation of these changes. The answer to the question appears to be another question. That is, how quickly will the system designs for the proposed solutions be developed and implemented? The answer to this is that with the attention that these problems are receiving, changes are likely to emerge fairly soon. One would hope that the pressures for change are not so great as to prevent their orderly and systematic introduction into the highly complex billing arena.

ABOUT THE AUTHOR

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