

Foreign Military Sales Case Closure

By

Mr. W. David Carey

INTRODUCTION

Simply stated, when a Foreign Military Sales Case is closed that means that all the books balance, debits equal credits and obligations equal expenditures; or as a case manager may state it, the case is both supply and financially complete. The business of case closure is extremely important and therefore requires considerable management attention. The people involved must be knowledgeable of the requirements and procedures to get there. DOD has been and continues to be responsive to customer needs. However, in the past, DOD efforts were concentrated on negotiating requirements, writing cases, delivering material, and performing services to satisfy those needs. In other words, we have been good logistics managers. Now we are seeing emphasis being placed on the total management spectrum. That is, we should be both good financial managers, as well as logistics managers. We must be both in order to arrive at case closure in a timely manner as required by the *FMS Financial Management Manual*, DOD 7290.3-M. Many improvements are being made throughout DOD to help us in this task, including:

- Improvements in data systems.
- Improved training for personnel.
- Better communications.
- Update of closure policy and procedures.

Case closure requires people from many different functional areas (i.e., logistics, finance, contracting, training, etc.) to work closely together to do the job. This article will address the background of case closure, required case closure actions, problems preventing closure, and recent changes in case closure procedures.

BACKGROUND

The first basic understanding that we must have is the definition of a closed case. A foreign military sales case, as far as case closure is concerned, goes through two distinct stages. The first stage, commonly referred to as the *supply complete stage*, is finished when the implementing agency (IA) has provided all of the material or services required. In addition, the IA has provided actual costs to the Security Assistance Accounting Center (SAAC). At this time, the IA certifies through a case closure certificate, that the net case value (block 21 of the DD Form 1513) is complete and accurate taking into consideration authorized variances between IA and SAAC records. The receipt of a case closure certificate (see Figure 1) at SAAC "triggers" the second stage, often referred to as a *financially complete case*. When SAAC completes case reconciliation actions, the FMS case is reclassified to an inactive status (on-line close case file). At this time SAAC issues to the customer a final statement of account or the final DD Form 645, and the case is considered financially as well as supply complete.

Obviously there are many actions that must occur before a case becomes supply complete. Before addressing these actions, we must first understand how a case becomes a candidate for closure. That question can only be answered after we identify the basic characteristics of the types of cases that we manage. A blanket order case becomes a candidate when its money is gone or the ordering period (normally one year, but also up to two years), has expired. The same selection

criteria should apply for the Foreign Military Sales Order II case or requisition case under a Cooperative Logistics Supply Support Arrangement. The defined order case, however, is different simply because of its characteristics. A customer could request, under this type of case, anything from a major weapon system to small repair parts needed to keep a system operational. Since the customer is very specific with respect to wants and needs in a defined order case, a Price and Availability study is performed as part of writing the case. In so doing we not only estimate price, we also estimate source and availability. Having done that, we can with some accuracy, identify the item or items which have the longest lead time and establish some target date as to when such a case would become a candidate for closure.

FIGURE 1

FMS Case Closure Certificate

1. Date: _____.
2. Implementing Agency/Country/Case: _____.
3. Net Case Value (Case trial balance account 4041): _____.
4. Case Cancelled at FMS Customer's Request: _____.
5. Final charges against net case value (case trial balance account 4093): _____.

A. _____ The net case value shown on line 3 agrees with implementing agency records and obligational authority released to this agency via DD Form 2060.

and

B. _____ The accrued expenditures shown on line 5 agree with or are within one percent of the net case ordered value with the difference not exceeding \$10,000.

and

C. _____ The contracts awarded in connection with the FMS case are financially complete and included in line 5 (case closed).

or

_____ The contracts awarded in connection with the FMS case are not financially complete. However, the contracting officer has advised that no additional FMS costs can be identified, or the financial conditions regarding FMS cases with long-running contracts have been met. Applicable contract costs are included in line 5.

and

D. _____ All requisitions, reimbursable work orders, and invitational travel orders that have been processed pursuant to this FMS case are accounted for and the costs thereof are included in line 5. Reimbursements from SAAC have been deposited to the financing appropriation or miscellaneous receipt account 3041, as applicable.

and

E. _____ All outstanding RODs against the case are being processed.

Signature of Certifying Official

CASE CLOSURE ACTIONS

Once a case is selected for closure, the next step is to assure that all actions are complete and that the implementing agency accounting records are in agreement with the SAAC accounting records. This requires the implementing agency to take the following actions:

1. Verify there are no unfilled requisitions, or unmatched supply or status reports.
2. Verify all items have been delivered or shipped, all services performed, and all such actions reported to SAAC.
3. Verify that contracts awarded in connection with the case are financially complete, or that the contracting officer has advised that no additional costs can be identified, or that financial conditions on long-running contracts have been met.
4. Verify that outstanding Reports of Discrepancies have been processed.
5. Verify that financing appropriations have been reimbursed.
6. Request an FMS case trial balance for the above-the-line costs from SAAC, and reconcile the implementing agency accounting records to the SAAC trial balance. The implementing agency should process whatever documents are necessary to bring the records into agreement.

Once the preceding actions have all been completed the Implementing agency should:

1. Update the DSAA 1200 system to reflect a supply complete status.
2. Submit a case closure certificate to SAAC.
3. Submit a final DD Form 2060 and 2061 to SAAC.

When SAAC receives the case closure certificate the case then goes into a reconciliation status where, upon completion, the case will be considered financially complete. SAAC is responsible for ensuring that the following steps occur before transferring the case to an inactive status.

Confirm that the:

1. Case closure certificate has been received from the IA.
2. Final DD Form 2060 and 2061 have been received.
3. Outstanding reports of discrepancy have been resolved.
4. Delivery billings equal case closure value.
5. Trust fund expenditures equal closure value.
6. Administrative costs have been billed.
7. Accessorial costs have been billed.
8. Add-on costs have been billed (e.g., contract administrative services).
9. Amounts billed equal amounts collected.
10. The Final Statement of Account (Final DD Form 645) has been issued to the customer.

Military Departments can retire case file records to record holding areas after receiving a copy of SAAC's final statement of account. SAAC can retire case records no earlier than three years from the date of last correspondence with the customer.

WHAT PREVENTS CASE CLOSURE?

If nothing else were involved, the sheer volume of open and active FMS cases and lines certainly slows down the process. As of 9 July 1986, there were 15,915 FMS cases open and active on the SAAC data base. This equates to 46,113 lines within cases being managed by all implementing agencies.

The more common errors which have been found during the case closure process are:

1. Incorrect amounts billed.
2. Items shipped but not billed (i.e., logistics data without financial data).
3. Duplicate billings.
4. Lost documentation.
5. Items billed with no logistics data.
6. Transactions billed to the wrong case.
7. Bills received and posted without case line item identification.
8. Contracts have not been audited; therefore, final costs are not available.
9. Open requisitions and unmatched status reports.
10. Discrepancy reports are not resolved.

From a more technical point of view, the Foreign Military Sales Financial Management Improvement Program identified several categories of errors, many of which were generated for the reasons listed above, preventing cases from being closed. Cases containing the following types of errors are considered to have abnormal balances based on the Security Assistance Accounting Center's data base, the Defense Integrated Financial System (DIFS):

Abnormal Balances in DIFS

<u>Error Code</u>	<u>Explanation</u>
A	The progress payments reported to SAAC are in a credit position.
B	The liquidating stock deliveries reported to SAAC are in a credit position.
C	The non-liquidating stock deliveries reported to SAAC are in a credit position.
D	The liquidating deliveries from procurement reported to SAAC are in a credit position.
E	The non-liquidating deliveries from procurement reported to SAAC are in a credit position.
F	The Army and Air Force have reported a greater dollar value in liquidating deliveries than was previously reported in progress payments. The Navy has submitted a greater dollar value for shipments (i.e., logistics data) without financial data than was previously reported in progress payments.

These abnormal balances must be corrected before a case can be closed. Many of these errors can be corrected easily, but doing so requires an individual to have a good basic understanding of the products available from the DIFS data system. For a further explanation of these error conditions one should read the *Handbook On Using the DIF II Output* written by DISAM and provided to students who attend the Case, Financial, or Training Management courses.

CHANGES IN CURRENT PROCEDURES

A forthcoming update in the *FMS Financial Management Manual*, DOD 7290.3-M, will include several changes to the case closure procedure outlined in an OSD memo dated 16 July 1985 which was to be implemented no later than 30 August 1985. A new product will be available for case managers; however, this will not occur until the DIFS is replaced by the new data system currently being developed and known as FABS (Financial Accounting and Billing System). The product is titled "The Case Financial Execution Statement." It should be requested by a case

manager at least annually. The size of the case, the type of case, and the point where the case is in its life cycle will really determine the frequency of requests. The product can be used by case managers to assure that local implementing agency records are in agreement with the central FMS accounting records

Some of the new buzz words in the closure procedures are *minor reconciliation amounts*, *unreconcilable case*, and *omnibus quarterly bills*. When the reconciliation process is complete, but a variance still exists between the Implementing Agency Records and the SAAC records, a case still can be closed by the IA and transferred to an inactive status by SAAC. However, the variance allowed, referred to as a *minor reconciliation amount*, is one percent of net case value, the result of which cannot be greater than \$10,000. Since a variance does exist, future charges or credit identified to an inactive case must be reported to SAAC on a DD-COMP(M)1517 report. Additional charges or credits will be reported to the customer by SAAC through an *omnibus quarterly bill* (see Figure 2).

**FIGURE 2
Omnibus Quarterly Bill**

PCN: FS-07-321

FOREIGN MILITARY SALES BILLING STATEMENT				UNITED STATES OF AMERICA DEPARTMENT OF DEFENSE/ ARMY					
1. TO: BANDARIA ARMY		THIS IS AN OMNIBUS STATEMENT OF ACCOUNT		3. STATEMENT NUMBER: 87-06NA		4. FOR PERIOD ENDED: 87 JUN 30		5. DATE PREPARED: 87 JUL 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	12. TOTAL FINANCIAL REQUIREMENTS	13. CUMULATIVE PAYMENTS RECEIVED	14. AMOUNT DUE AND PAYABLE	
CXY 001	100,000.00 AUTOMTV SUPP AND EQP PTS	100,000.00	500.00	100,500.00					
L6A	3,000.00 ADMINISTRATIVE FEE	3,000.00	15.00	3,015.00					
L00	4,000.00 ACCESSORIAL COSTS	4,000.00		4,000.00					
CASE TOTAL	107,000.00	107,000.00	515.00	107,515.00		107,515.00	107,515.00		
REVIEW PROCESS				EXPLANATORY NOTES					
SIGNATURE				* DENOTES CASES CLOSED IN THE CURRENT PERIOD. This Omnibus Quarterly Billing Statement is used to report minor reconciliatory charges and credits for FMS cases for which a Final Statement of Account was earlier prepared. Normally charges will be funded from the Purchaser's cash holding account. If the holding account contains insufficient funds or if the Purchaser has made other approved arrangements with SAAC, the Omnibus Billing Statement is used to request additional funds.					
ANALYST: _____									
BRANCH CHIEF: _____									
QUALITY ASSURANCE: _____									
AUTHENTICATION									
SIGNATURE									
DIRECTOR, SAAC									

DD FORM 645 (JUN 78) PREVIOUS EDITIONS ARE OBSOLETE

ZZZZ9 SCC

One of the major problems facing the IAs is *unreconcilable FMS cases*, a situation where the variance in case records exceed the *minor reconciliation amounts* authorized and where every effort has been made to identify and correct the variance. The new procedures do offer some relief. The IA faced with this situation should prepare an FMS Case Closure Analysis (see Figure 3) which will show written evidence of the problems discovered during reconciliation (e.g., number of open contracts, amount of discrepancy, and line values unreconciled). The analysis and any

amendments or modifications should be sent to the Defense Security Assistance Agency Comptroller (DSAA-COMPT) for evaluation and disposition. The decision made by the DSAA (COMPT) must be coordinated with the Office of the Assistant Secretary of Defense Comptroller [OASD(C)] and the DSAA General Counsel.

FIGURE 3
FMS Case Closure Analysis

<p><i>Submitting Activity:</i> _____.</p> <p><i>Point of Contact:</i> _____.</p> <ol style="list-style-type: none">1. <i>Country/Case</i>2. <i>Line(s) unreconciled/value of each</i>3. <i>Case implementation date</i>4. <i>Date case supply complete</i>5. <i>Case ordered value</i>6. <i>SAAC recorded expenditure value:</i><ol style="list-style-type: none">a. <i>Articles/services</i>b. <i>Progress payments (disbursed/undelivered)</i>7. <i>Implementing agency billed value</i>8. <i>Amount of discrepancy</i>9. <i>Number of open contracts</i>10. <i>Estimated resources required to complete reconciliation:</i><ol style="list-style-type: none">a. <i>Manhours</i>b. <i>Cost</i> <p><u><i>Narrative Statement:</i></u> <i>(Concise, comprehensive synopsis summarizing the obstacles precluding closure, relative effort expended to date, etc.)</i></p>

FMS cases involved in long-running contracts pose an even greater problem for the IAs. These cases can be closed and reclassified to an inactive status when the contracting officer certifies that no additional costs can be identified or when the only remaining cost to be identified is the final indirect cost rates. Otherwise, the only option is to ensure that final actual costs have been billed. These options certainly do not offer much flexibility to the IAs in such cases. Therefore, improvements are currently being considered to help with this situation.

SUMMARY

Obviously, closing an FMS case is not an easy task. The volume and complexity involved requires a coordinated effort on the part of many people working in a number of different functional areas to be successful. With the emphasis being placed on financial management, especially on case closure, updates in procedures such as described in this article are needed to help the IAs in this process. For more details concerning the new case closure procedures, I strongly recommend that anyone involved in case closure read the forthcoming update to the *FMS Financial Management Manual*, DOD 7290.3-M.

ABOUT THE AUTHOR

Mr. W. David Carey has been with DISAM since 1980, and is an Associate Professor specializing in the FMS case process and financial management. He has a B.S. degree in Business Administration from Eastern Kentucky University and an M.A. degree in Logistics Management from Central Michigan University.