

The Implementation of the United States Security Assistance Program

By

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[The following represents a statement by General Gast in Congressional testimony before the Senate Governmental Affairs Committee on 20 February 1987.]

Mr. Chairman, I am pleased to appear before your committee today to testify regarding the implementation of the Security Assistance Program. In my overview I will discuss the following topics.

- Legislation and the types of programs
- Responsibilities
- Purposes of security assistance
- Policies
- Arms transfer considerations and key decision points
- The FMS process
- Direct commercial sales financed with FMS credits
- Congressional oversight

In the interest of time, I will summarize my discussions of these topics. I will be pleased to expand upon my discussion if my summary is too brief or if you have questions.

The basic legislation which authorizes the Security Assistance Program is:

- The Foreign Assistance Act of 1961 (FAA)
- The Arms Export Control Act of 1976 (AECA) and its annual amendments by International Security and Development Cooperation Acts

These statutes identify the programs encompassed by the security assistance program. They are:

- The Military Assistance Program (MAP) - known as the Grant Aid Program
- The International Military Education and Training (IMET) Program - which provides for grant training
- The Foreign Military Sales (FMS) Program, and
- The Foreign Military Sales Credit (or loan) Program
- The Foreign Military Construction Sales Program

The FAA provides the statutory purposes and guidance for the MAP and IMET programs. The basic authority for FMS and FMS Credit programs is the AECA which has been amended annually since 1976.

Under the AECA, the Secretary of State is responsible for the general direction and policy governing conventional arms transfers. Within the Department of State, this responsibility is

vested in the Bureau of Politico-Military Affairs, which is also responsible for the control of direct commercial sales and export licensing administered by the Office of Munitions Control.

The Department of Defense is responsible for implementing the State Department approved government-to-government MAP, IMET, and FMS programs. The Department of Defense also reviews major requests for export licenses for direct commercial sales of items on the U.S. Munitions List which are referred to the DOD by the Department of State Office of Munitions Control.

The AECA defines the statutory purposes for sales of defense items. It states that the USG is authorized to sell defense articles and defense services to allies and friendly foreign governments:

- In accordance with the restraints and controls specified in law, and
- In furtherance of the security objectives of the United States.

It further states that defense articles and services may be sold for the purposes of:

- Internal security
- Legitimate self-defense
- Participation in regional or collective security arrangements, and to
- Enable foreign military forces to engage in public works

The Congress plays a major role in the review of security assistance programs. It receives reports on all major transactions and on the overall program. It also authorizes and appropriates the funds for the grant programs (MAP and IMET) and for the FMS Credit (loan) Program. The Congress is provided with quarterly reports on most facets of the program and is notified on numerous aspects of the program, as required by the FAA and AECA.

The Secretary of State acts under the direction of the President and provides continuous supervision and direction to both the grant and FMS programs as well as the licensing of exports of commercial sales. He determines whether there should be a program or a sale to a country, and, if so, the value of the program. He is also responsible for the integration of the military assistance programs and sales with other U.S. activities with foreign countries and for foreign policy. He is responsible for review and authorization of all agreements.

Under the AECA the Secretary of Defense is responsible for program implementation for government-to-government programs. This includes:

- The establishment of priorities in procurement, allocation, and delivery of equipment
- The determination of military end-item requirements
- The procurement of military equipment in a manner which permits integration with services programs
- The supervision of grant end-item use
- The supervision of training of foreign military personnel, and
- The movement of and delivery of military equipment

The Defense Security Assistance Agency was organized in 1971 to act as the focal point in the Department of Defense for all security assistance activities. The agency is redelegated the responsibilities and authorities assigned to the Secretary of Defense to administer and execute the security assistance program. As Director of DSAA, I report to the Secretary of Defense through the Under Secretary of Defense for Policy. A primary function of the DSAA is to act as the coordinator of the political considerations of the State Department and the military considerations of the Defense Department. The DSAA is an organization located in the Pentagon of just over one hundred and forty civilian and military employees. Annually, about 7,000 FMS requests are reviewed.

In our implementation of the program we function through our military departments and employ many of the same systems and capabilities we use in support of U.S. forces. Our implementation recognizes the objectives of the FMS program.

Our objectives for the FMS program are:

- First, we want to promote democracy because democratic governments are less likely to become involved in wars of aggression.
- Second, we want to maintain an open, stable world economy and free enterprise so that we can expand our exports and investment.
- Third, by providing assistance to our friends and allies we seek to prevent regional conflicts that threaten our interests, and to enhance the internal stability of friendly countries. Should conflicts occur, we seek to resolve them by helping our friends, rather than resort to the use of American combat forces.

These objectives are supported by our basic policies which provide that:

- Sales will be controlled in accordance with U.S. laws and presidential determinations. Discussions regarding sales are made on a case-by-case basis, consistent with our national foreign policy objectives.
- Sales are not encouraged or promoted. Rather, the DOD will be responsive to the legitimate defense needs of our foreign friends and allies.
- Offers for sales are made only in response to foreign requests. The DOD does not market for defense sales. We rely on the military forces of our friends and allies to provide the bulwark of their own defense. The United States cannot and should not strive to protect its security interests throughout the world solely with U.S. forces, but will respond to the stated needs of our friends.
- Sales must be in the U.S. national interest and meet a valid military requirement. Through FMS we seek to strengthen our own security by strengthening the defense of countries whose security is closely related to our own. We ensure that foreign demands do not impact on the resources of U.S. forces.
- We deal evenhandedly with U.S. firms. We encourage U.S. industry participation in sales and provide assistance consistent with U.S. trade policies. We do not compete with industry for sales, if industry can otherwise complete the sale.

As a matter of policy, the final U.S. government decisions on a specific transfer of defense equipment or services under FMS is reached only after receipt of a request from a foreign government or international organization. Not all requests are approved and many require extensive review and consideration prior to release decision. A purchaser is made eligible to participate in the FMS program only after the President makes a determination pursuant to Section 3(a) of the AECA.

The foreign request to purchase U.S. defense articles may come from one of several sources:

- The foreign Ministry of Defense to the U.S. ambassador
- The foreign countries ambassador to the State Department
- Through U.S. officials during official country visits

- From foreign nations to the U.S. government
- Most requests are received through our security assistance offices overseas who act as our overseas field activities and military advisors. We require that our embassy conduct an assessment of the request and provide their views and support.

The request normally will be for broad planning and review data (P&R) or for more refined price and availability (P&A) estimates. After review of this planning information the country may request a formal letter of offer and acceptance (LOA). In some limited circumstances the country may ask for U.S. advice or a military requirements survey to determine specific requirements to fill specific needs.

We have established procedures for approval of each FMS request. Requests for major items of defense equipment, generally referred to as Major Defense Equipment List (MDEL) items, items of Significant Military Equipment (SME) as defined by the International Traffic in Arms Regulation Munitions List, or items deemed to be of a sensitive nature, are coordinated within State and Defense before authorization of release.

First, approval is sought from the Department of State, then with the Offices of the Assistant Secretaries of Defense for International Security Affairs or International Security Policy. The Joint Chiefs of Staff (JCS) and the Under Secretary of Defense for Acquisition are advised for their considerations.

Within Defense, and the military department review conducted by the Joint Staff, a broad spectrum of considerations will be evaluated: each activity provides a position on policy considerations within its functional area of responsibility, to include:

- U.S. forces effectiveness/readiness aspects
- The recipients military capability and capabilities within the region
- The effect of any compromise of military capability
- The security of the item and special security provisions
- The effects of technology transfer and sensitivity of technology
- The availability of the system and capability/availability of less sensitive or less capable systems
- The capability of the recipient to support and maintain the system

Before release is approved, a consensus recommendation must be obtained from State and all DOD activities.

For compliance with Section 36(b) of the AECA, Congress must be notified of all offers to sell MDE items or services valued at \$14 million or more, and of all sales valued at \$50 million or more. When cases of this nature are requested, DSAA directs the military departments to initiate preparation of the 36(b) data and preparation of the LOA concurrently. The Department of State obtains Presidential approval for the sale, if required, and then furnishes preliminary advance notification of the sale to the Congressional staffs. The advance notification period is 20 days for non-NATO countries. After the expiration of the advance notification period, a formal notification is provided to the Congress.

Each notification identifies the purchaser, the value of the sale, the quantity of items being sold, a description of the items being sold, whether there are agent's fees involved and the amount of the fees or contributions made to promote the sale, the sensitivity of technology proposed to be released, and a detailed justification of the reasons necessitating the sale in view of the sensitivity and level of technology.

If either the Senate Foreign Relations Committee or the House Foreign Affairs Committee have additional questions, Defense will provide whatever additional detailed information is requested concerning the proposed sale.

If the Congress objects to the proposed sale by a joint resolution enacted within 30 days (or 15 days for NATO countries, Japan, Australia, or New Zealand) the LOA will not be issued. The President may provide a certification that an emergency exists which requires the sale in the national security interest of the United States. This certification would provide detailed justification for the determination and a description of the emergency circumstances.

In addition to the information provided by the Sensitivity of Technology Statement which is provided if an exception to the National Disclosure Policy (NDP) has been granted for release of classified or sensitive technology, a further notification or report will be provided to the Congress if the sensitivity of technology or capability as described in the original notification is to be enhanced and upgraded prior to delivery. This notification will be provided before contracting if the cost of the enhancement is above that provided in the original notification.

During the Congressional notification period, the military departments prepare the formal letters of offer (LOA). The letter of offer is provided on a standard form which identifies the items to be transferred, quantity, cost, delivery lead time, and any other data pertinent to the transfer. The LOA provides a complete package for the system being offered, to include the end item, maintenance support, repair parts, tools and identification of publications, training, and all other ancillary equipment required to ensure that the items will be able to be used and maintained properly. The LOA also contains an agreement for the general conditions of the sale. The purchaser agrees:

- To pay the total cost of the sale.
- To provide funds as required by the DOD.
- To use the items for the purpose provided.
- Not to retransfer the items to any person, firm, or government that is not the purchaser's officer, employee, or agent, without written consent of the USG.
- To maintain classification and USG level of security for the items transferred.

Since the Department of Defense does not normally employ the use of agents in its acquisitions, their use on FMS agreements is also discouraged. If the contractor requires the inclusion of an agent, the DOD will also agree to the agent and addition of agent's fees up to the maximum of \$50,000 only, contingent upon the establishment of the *bona fides* of the agent and the recognition of the agent and fees by the foreign purchaser.

Additionally, the DOD does not support the use of offsets in the FMS program, and if offsets are required by the purchaser as a condition of the sale, they are required to be negotiated directly with the contractor and neither the cost of the offsets nor their management are allowed to be included as part of the FMS agreement.

After completion of the congressional review period, the DSAA authorizes release of the LOA to the requesting country for review and acceptance. Normally, the country is authorized a period of 90 days for acceptance without revalidation of the data contained in the offer.

For requests which do not contain major defense equipment, significant military equipment, or values above the levels that require congressional reporting, the military departments prepare the LOAs and provide them to DSAA for staffing, review, and countersignature. Each LOA is approved by State and Defense before it is released to the requesting country.

Acceptance of the FMS offer requires signature of the foreign country representative who accepts the stated terms and conditions. Implementation of the offer also includes the deposit of funds and guarantee of further payments to complete the purchase.

The DSAA performs financial management of the program at the Security Assistance Accounting Center which is co-located with the Air Force Accounting Center in Denver, Colorado. There, each foreign country has a trust fund where their funds are maintained in federal accounts and disbursed as required to meet the countries financial obligations. Most FMS offers are financed with cash.

Based on legislation, the funds which are authorized and appropriated under the Military Assistance Program (MAP) or grant funds, are placed in the foreign country trust fund which is administered by the DSAA, to be used to finance FMS requests. Similarly, for the countries authorized FMS loans, whether repayment is forgiven, if the interest rate is concessional, or if the interest rate is at market rates, the loans are drawn down by DSAA and placed in the country trust fund to finance either FMS transactions or direct commercial sales. None of the funds are provided directly to the countries and they are administered by the DSAA.

One basic requirement of FMS is that DOD appropriations are not used to subsidize the program. The FMS LOAs provide a payment schedule which requires a down payment and quarterly progress payments. The schedule is structured to ensure that the countries funds are on deposit in their trust fund in advance of DOD requirements to fund contractors. Further, the schedule includes an amount to finance contract termination should the country elect to cancel the agreement after acceptance.

The prices cited in the LOAs ensure that all DOD costs are fully financed by the purchasers. For sales from DOD stocks, if the item will not be replaced, the FMS base price is the actual cost of the item to the DOD. If the item requires replacement of stocks, the FMS base price is the cost of the future replacement item. For sales from procurement, the foreign customer agrees to pay the full amount of the DOD contract price and to make payments as required to meet DOD contractual requirements. Additionally, the FMS agreements include charges to reimburse the DOD for quality assurance services, use of any DOD plant, equipment, or facilities, use of military personnel, a pro rata share of the cost of development of the item, a pro rata share of the cost of DOD administration, and any other ancillary services provided by the DOD such as packaging or transportation.

To implement supply action, after the purchaser signs the agreement and fulfills the financial obligation, the agreement is provided to the military department which manages the item for the DOD. The military departments provide for the requirements using the normal defense logistics system. If the items are available, over and above DOD needs, they are provided from stock. In most cases it is necessary to contract for the items. The military departments contract with DOD contractors using the same contractual system employed when the DOD contracts for U.S. forces. They fully employ the provisions of the Competition in Contracting Act and the provisions of the DOD Supplement to the Federal Acquisition Regulation (FAR). To the extent possible, foreign requirements are amalgamated with U.S. forces requirements to obtain the best economy of scale savings and to stabilize production lines.

During the entire case implementation phase, DSAA monitors both supply management and financial management on both a case level and at the overall country level.

Supply and billing actions are maintained until the requirements of the letter of offer and acceptance are fulfilled. This may involve thousands of transactions over a period of several years.

As I indicated earlier, the FMS loans authorized to specified foreign countries may be used to finance direct commercial sales as well as government-to-government foreign military sales.

Annually, together with the Department of State, we develop country plans and determine the defense needs of those countries for whom we desire to provide loans under the provisions of the AECA. We develop our program requests based on the FMS requirements for each country and its specific defense needs. The programs are reviewed by the Congress and adjustments are made to comply with such requirements as the Mid-East peace agreement, commitments made to base rights countries, and the congressionally determined ratio of support provided to Turkey and Greece.

Since the DOD does not compete with U.S. industry for sales, if the foreign country would prefer to enter into a direct commercial contract, on the same terms and conditions the DOD would agree to under FMS, we normally would agree to finance the direct sale just as we would FMS. We require that the country submit their contracts to DSAA for review and earmarking of loan funds. The DOD has established a set of guidelines to assure that the financing is compatible with a similar transaction under FMS, that all U.S. laws and policies are being complied with, and to reduce the extent of DOD vulnerability to waste, fraud, and abuse to the lowest possible levels. Our review of the contracts is conducted in conjunction with the Departments of State, Commerce, and Treasury, as applicable, to determine the validity of the transaction and the individuals included in the sale. While the DOD is not a party to such contracts we do require that certain conditions be met as a condition of financing. They include:

- Use of U.S. firms
- Use of U.S. origin components and services
- Discouraging offsets and no financing of directed offsets (except as agreed for Israel)
- Maximum use of competition and purchase from U.S. manufacturers
- No payments for agent's fees over \$50,000
- No contracting with firms or individuals debarred or suspended from DOD contracting
- Right of USG access to company books
- No payments for freight forwarder services
- No payments for personal expenses of foreign representatives
- That any refunds are in favor of the USG
- That U.S. cargo preference laws are followed

Prior to 1981 we received relatively few commercial contracts for FMS credit financing. Through the period of the Carter Administration commercial sales of defense items were severely restricted. At that time the DOD served primarily as the banker, to finance those contracts which had already been negotiated. During 1984 and early 1985 several of the commercial contracts were determined by DSAA to involve questionable transactions. They were turned over to our investigators and where criminal actions were involved, prosecution was sought through the Department of Justice. At that time, and in conjunction with the overall push by the Secretary of Defense to reduce DOD vulnerability to waste, fraud, and abuse, in conjunction with the DOD Inspector General's Office, we established our financing guidelines. They have been reviewed as required to assure that we have necessary safeguards in place. Not all contracts submitted are approved for financing. Since 1984 we have refused financing on over \$70 million worth of these contracts.

Since we have adopted the guidelines, which have been somewhat controversial with the U.S. defense industries and in some areas of the Congress, and since we have undertaken a stringent review of these contracts, no such similar questionable transactions have been detected.

The DSAA review for financing is completely separate from the Department of State licensing procedure, which must also be complied with for export of defense articles and services.

Since the Department of Defense enters into FMS agreements with the defense ministries of foreign governments, they are regarded as international agreements. As such, the countries with whom we deal are making national commitments regarding their obligations to comply with the provisions of these FMS agreements. We control the material which is released to these countries

though our contracts and configurations control. Our military departments purchase the items and quantities as specified and agreed to in the intentional agreement.

We are constantly on the alert for possible violations of the terms and conditions of these sales, especially proper end use and retransfer. We use numerous leads to control compliance. They include information provided by our security assistance personnel in country, by embassy personnel, by our on-going country program reviews, and official visits, by our interaction with other countries and defense firms, and finally, through our intelligence activities around the world.

The countries to whom we sell under the FMS program recognize our terms and conditions and are aware that we monitor compliance, review allegations of non-compliance, and enforce the terms of our agreements. If there are allegations of non-compliance, the DOD will bring them to the attention of upper levels within the foreign ministries of defense for review and correction. Failing this remedy we may request to have the State Department use diplomatic pressures. Finally, we may elect to cease our programs and relations of cooperation with the country. This latter course of action is very drastic and has only been required in limited circumstances. The possibility of this action is sufficient to ensure that conditions are followed.

In view of our concern over violations of the International Traffic in Arms Regulations (ITAR), we have sponsored legislation to increase the penalties for such violations. For FY 1988 we have a legislative initiative to make any firm or person who has violated the ITAR or has been convicted or debarred under other corporate names to be ineligible for receipt for FMS financing. We will continue to be vigilant of such abuses and violations and will take all possible legal action under purview to maintain the integrity of the program and insure against loss.

In summary, State and Defense conduct a thorough review of each proposed transfer of conventional arms and have established significant controls to ensure that the transfers of arms by the U.S. government fully comply with laws, policies, procedures, and established criteria. These government-to-government transactions are continually monitored by the DOD and by other governmental activities.

Under FMS, sales can only be made to countries determined by the President and "to strengthen the security of the United States and promote world peace." They can be made only for the specified purposes of internal security, legitimate self-defense, military civic action, participation in regional or collective arrangements consistent with the Charter of the U.N. or requested by the U.N. The purchasers must agree to U.S. terms which include paying in U.S. dollars, maintaining security, and not to transfer title without prior U.S. consent in writing. It is with the understanding that sales are made and these conditions are both monitored and enforced by Defense and State. The United States is the only country in the free world that provides a government sponsored and controlled program for meeting the defense needs of its friends and allies through a carefully regulated sales program. To our knowledge in all of the rest of the free world such sales are conducted solely by industry, with few controls or regulations.

FMS promotes our national security by enhancing local defenses, minimizing U.S. involvement, securing access routes, enhancing U.S. defensive capabilities, establishing military-to-military relationships, and establishing U.S. credibility, influence, and resolve. From an economic standpoint it aids in meeting our foreign trade imbalance, assists in meeting our balance of payments, lowers cost of defense for the U.S. through economy of scale acquisition, and presently provides over 375,000 jobs in the U.S. Since this program was started in 1950 there have been few instances of misuse of U.S. defense equipment. The benefits from the security assistance program far surpasses the limited liability we assume with our security assistance program.

Mission and Responsibilities of the Defense Security Assistance Agency

ROLE IN SECURITY ASSISTANCE

The Defense Security Assistance Agency, or "DSAA" as it is more commonly known, was established in August 1971 by DOD Directive 5105.38 which sets forth the Agency's responsibilities, authorities, and related terms of reference. Establishing the Agency was designed to place increased emphasis on the management and control of the DOD portion of the security assistance program. In 1983, the Under Secretary of Defense for Policy (USDP) assumed direct responsibility for DSAA staff supervision and oversight. Under the direction, authority, and control of the USDP, DSAA is the principal organizational element through which the Secretary of Defense carries out his responsibilities for security assistance. Although DSAA is technically identified as an Agency, it is not an autonomous organization. In fact, DSAA is an essential staff element of the OSD policy cluster. The role of DSAA is summarized by the following statement:

DSAA serves as the DOD focal point and clearinghouse for tracking arms transfers, budgetary, legislative, policy, and other security assistance matters through the analysis, coordination, decision, and implementation process. It directs and supervises organization, functions, and staffing of DOD elements in foreign countries responsible for managing security assistance programs. It must be in a position to keep all concerned elements of DOD informed about the status of ongoing security assistance actions and to raise issues through appropriate channels when decisions of higher authority are required.

In order that DSAA may carry out its mission, all authorities conferred on the Secretary of Defense by the Foreign Assistance Act and the Arms Export Control Act and all authorities under those acts delegated by the President to the Secretary of Defense are redelegated to the Director, DSAA.

ORGANIZATION

To do its job, DSAA is authorized 142 personnel who are divided among the Director's Office, a small Congressional liaison staff, a Plans Directorate, an Operations Directorate, and the Office of the Comptroller. In addition, a legal counsel detailed from the Defense Legal Services Agency is resident with DSAA.

OFFICE OF THE DIRECTOR

With a total of eight personnel which includes the Deputy Director, two military assistants, and clerical support personnel, the Director gives general direction to the Agency staff and the overall DOD security assistance effort. The Director and his immediate office are also engaged directly in major policy issues, discussions, and negotiations involving daily contact with key officials and their offices. The Director takes policy direction from the Under Secretary for Policy and, for their regions, the Assistant Secretaries for Defense (ISA and ISP). He is also in contact with other Assistant Secretaries, the Deputy Secretary of Defense, the Secretary of Defense, and their counterparts in the Department of State and other Executive Branch agencies. The Director personally testifies before Congress on security assistance legislation, budgets, and issues. The office is in direct contact with key officials of the JCS, Military Departments, Unified Commands and U.S. industry at the corporate level. The Director and Deputy Director are in daily contact with representatives of other nations and travel frequently to nations with whom we have security assistance programs.

GENERAL COUNSEL

The resident legal counsel, detailed from the Defense Legal Services Agency, is a full-fledged member of the DSAA team and is intimately involved with all DSAA activities. The need for this close relationship is underscored by the unique situation in which security assistance is authorized and controlled by foreign affairs legislation, yet the program must often be executed in compliance with statutes governing DOD activities. In fact, it is an unusual interdepartmental program affected by many different legal and regulatory considerations in such diverse areas as fiscal, personnel, administrative, constitutional, and international law. In addition to giving legal advice and assistance as needed on a case-by-case basis, the General Counsel stays abreast of ongoing activities and alerts the Director and the staff to actual or potential legal problems. The legal counsel role is crucial in drafting and interpreting legislative proposals.

CONGRESSIONAL LIAISON

The Congressional Liaison staff is the principal means through which continuous direct, two-way communications are maintained between DOD and the Congress on security assistance matters. Aside from daily contacts with key members and staffs of appropriate committees and subcommittees, the office works closely with the staffs of the Department of State and the Department of Defense that have interests and responsibilities with respect to security assistance legislation and Congressional relations. Inherent aspects of the office's work are that, to be successful, it must have intimate knowledge of how the program works, must know what is going on, and must be able to sense and interpret attitudes accurately. Thus, it is an essential part of the DSAA "focal point" for DOD's security assistance activities. During FY 1986, this small office of four personnel responded to about 300 Congressional inquiries, made arrangements for, and participated in 25 Congressional hearings, and attended more than 50 inter-agency meetings to discuss legislative matters.

PLANS DIRECTORATE

The Plans Directorate maintains an overview of the entire Security Assistance Program, especially through its participation with the State Department in formulating and presenting to Congress the annual security assistance budget proposal. It also has a special responsibility for arms transfer policy and its implementation in the sales of major weapons systems, especially aircraft, and in issues on the sales of equipment which cut across regions. The Directorate performs security assistance trend and market analysis and seeks ways for creative financing. It manages the Special Defense Acquisition Fund (SDAF). The Plans Directorate has the responsibility of managing U.S. overseas security assistance manpower and staffing. In performing these functions, the Plans Directorate works closely with the other elements of DSAA and with the State Department, and is uniquely positioned to reconcile cross-regional problems within the OSD Policy cluster.

The budget process--run for DOD by the Program Analysis Division within Plans, but also involving the Director of Plans and his Deputy on a constant basis--puts Plans into the unique role of articulating and defending the importance of security assistance, and extending beyond the case-by-case approach to arms assistance to formulate a long-term planning approach with countries. Working closely with the Department of State, the Program Analysis Division helps to put together the budget proposal, secures the approval of regional offices and high-level officials in Defense, helps shepherd the program through Congress by preparing testimony and other public statements, and assists in the painful process of allocating the inevitably reduced funds eventually received from Congress.

The Organization and Manpower Division is intimately involved in the crucial process of selecting and preparing U.S. personnel for security assistance assignments overseas and in the Defense manpower and budget process for setting and adjusting personnel spaces authorized for managing Security Assistance activities in foreign countries. The office monitors quality-of-life aspects of overseas service and presses for improvements. The Division insures nominations for the Chiefs of Security Assistance Organizations (SAOs) are given the fullest review within Defense and State, for those people are the DOD representatives in-country promoting U.S. security assistance-related foreign policy interests and activities. Additionally, the Organization and Manpower Division is responsible for the DSAA oversight of the Defense Institute of Security Assistance Management (DISAM), and the DSAA-owned C-12 aircraft worldwide.

The Weapons Systems Division manages major sales cases, especially of aircraft where there is competition between two U.S. manufacturers. It also engages in anticipatory planning of weapons sales, checking out the worldwide potentialities and implications of new system sales that are likely to involve sensitive policy and technology transfer issues. The Weapons System Division is also the focal point for munitions license and technology release issues, and also serves as the center for DSAA participation in JCS exercises where there is security assistance involvement.

The Special Defense Acquisition Fund (SDF) Division plans, defends, and manages the SDF, which is a fund capitalized by miscellaneous receipts and sustained by revolving funds to buy equipment in anticipation of foreign sales, thus enabling the U.S. to respond to country needs faster than normal lead times permit while protecting the readiness of U.S. forces. Four professionals and a secretary manage this billion dollar program in detail.

The Support Division in Plans seeks out opportunities to support still usable equipment, not of U.S. origin, which is maintained in foreign country inventories.

In summary, the Plans Directorate has a role in each of the major elements of the security assistance program: budgets, people, and equipment. It also undertakes special assignments and new programs. These functions are performed on a worldwide and cross-regional basis. These varied functions allow Plans to point out the broad directions the Security Assistance Program is taking for the Director, the Assistant Secretaries of Defense (ISA and ISP), and the Under Secretary of Defense (Policy), and engages in the search for long-range planning techniques which may provide continuity and stability to the program.

OPERATIONS DIRECTORATE

The Operations Directorate is concerned primarily with directing and supervising the development, coordination, and execution of Foreign Military Sales programs for individual countries and international organizations. Thus, it constitutes the OSD interface between the foreign government and international organizations, with their unique requirements, and the U.S. Military Department and their capabilities to meet these requirements. Working with other key elements of OSD, the JCS, and the Military Departments, the Directorate develops the proposed DOD response to the foreign request, defining, if appropriate, options and their implications. If necessary, the Directorate takes action required to obtain decisions at higher levels. At this stage, other U.S. Governmental agencies, primarily the Department of State, and U.S. industry, may be consulted informally if it is determined that their viewpoints may be significant in arriving at a DOD position.

Once the DOD position is established, the Operations Directorate continues as the DOD focal point for managing formal coordination within the U.S. Government, including Congress, for major cases. This culminates in negotiation of the sales offer with the foreign government or international organization. In some cases where the project is particularly complex, presentation of, and agreement on, the sales offer are preceded by the development and negotiation of a special

Memorandum of Understanding. After agreement is reached with the foreign country or international organization, the Operations Directorate is responsible for overseeing implementation of approved programs by the Military Departments, and problems requiring OSD level attention are directed to it for resolution. The Directorate also is responsible for initiating and coordinating DOD policies and procedures governing development, coordination, and approval of sales programs.

To carry out its responsibilities, the Operations Directorate is organized into four geographically oriented divisions, each with desk officers having specific country assignments, and a functionally oriented division dealing with policy, procedural, and technical matters of general application.

OFFICE OF THE COMPTROLLER

The Comptroller's principal responsibility is overall financial management of security assistance programs. In addition to this basic task, which includes financial policy, fund control, fiscal accounting, data management, and statutory reporting, the organization has two major functions that are not normally considered to be Comptroller responsibilities. These are program control as it pertains to security assistance programs financed with appropriated funds (MAP, IMET, and FMS Credit), and the preparation and coordination of congressional notifications for major arms sales.

The primary focus of the Comptroller staff is on budget execution and program control. To perform these functions, the multi-disciplined Comptroller staff must work closely with the Office of Management and Budget, Treasury, State, and the Military Department Comptroller organizations. It is organized into six divisions--Budget, Training Management, FMS Financial Management, Financial Reports and Credit Programs, Data Management, and FMS Control.

While the Plans Directorate actually formulates and defends country programs for which funds will be requested in the budget, the Budget Division must combine these sensitive requirements with estimates of the associated overhead expenses into comprehensive requirements that must then be placed in the technical budget formats that actually appear in the President's Budget documents. After an appropriation bill has been signed and funds apportioned, the division is responsible for issuing fund allocations to the Military Departments and internally to the Financial Reports and Credit Programs Division to finance program execution. It also manages the FMS Administrative budget and is directly responsible for funding support programs for our overseas security assistance offices. The division monitors obligations and outlays for all DSAA-managed security assistance programs and prepares monthly outlay updates to the Office of Management and Budget.

The Financial Reports and Credit Programs Division (FR&CPD) provides accounting and reporting for all DSAA-managed security assistance programs. These programs include the Military Assistance Program, the International Military Education and Training Program, the Foreign Military Sales Credit Program, the Special Defense Acquisition Fund, and the Guaranty Reserve Fund. It also serves as a major interface with the Washington representatives of most of our FMS customers. This results from the division's responsibility for managing the FMS credit program, a role which is very similar to that of a loan department in a bank. Consistent with this, the FR&CPD also serves as a focal point for all categories of indebtedness to the DOD.

The Training Management Division is responsible for recommending training legislation, formulating training policy for IMET and Foreign Military Sales Training, and insuring that IMET programs are implemented in a controlled and timely manner so that Congressional ceilings on country programs are not exceeded and programs purposes are achieved. This Division is also responsible for maximizing uniform Foreign Military Training procedures among the Military Departments, and for exercising oversight of the DOD Informational Program.

The Data Management Division's (DMD) principal responsibility is to maintain the DSAA management information system which consists of three separate databases: the 1200 FMS System, the 1000 Materiel and Training Programs System, and the DSAA Accounting System. It prepares ADP system specifications in support of security assistance data management requirements and performs quality assurance on the database and the products produced by the systems. The division acts as the technical office for processing ADP equipment and related contract services for systems development, maintenance, and communications support. The DMD prepares and distributes all statutory security assistance reports to Congress and statistical reports such as the FACTS and Fiscal Year Series to a multitude of recipients throughout the USG and private industry. A major seasonal task of this division is final compilation, assembly, and printing of the annual Congressional Presentation Document, the book submitted to the Congress that contains all the justification materials for the President's Budget plus many of the annual security assistance reports required by law.

The FMS Control Division (FMSCD) prepares, coordinates, and submits statutory notifications for prospective major arms sales, lease agreements, and co-production Memorandums of Understanding. The FMSCD must work closely with a broad spectrum of executive branch officials responsible for foreign and national security policy to ensure that these sensitive notifications are properly prepared and coordinated. This division is also responsible for the quality control review of all letters of offer and acceptance before they are countersigned by the Comptroller and released to the country.

The FMS Financial Management Division (FMD) exercises overall surveillance of FMS financial procedures and systems in compliance with DOD 7290.3-M. FMD responsibilities include the financial aspects of pricing, case closure, case management, FMS arrearages and interest assessments, transportation, contract administrative services, delivery performance reporting, foreign currency exchange MOUs, financial reporting accuracy, and obligational authorities. The division conducts a financial management review program to monitor the status of individual country FMS Trust Fund accounts, reviews the financial status of selected country FMS programs to insure that adequate funds are available to pay suppliers and to cover termination liability, and develops financial projections to assist countries in managing available FMS credit and MAP resources and in budgeting for adequate levels of national (cash) funds. FMD serves as the DSAA focal point for DODIG and GAO audits, internal management controls, Brooke Amendment and Section 620Q arrearage sanctions, reprogramming notifications of security assistance funds, financial aspects of old MAP funding, reutilization and redistribution, major items material excess (MIMEX) and FAA sections 506(a) and 516 assistance, and development of the new FMS Accounting and Billing System (FABS).

In summary, the Comptroller organization is involved in security assistance programs from the program formulation stages through reporting of their successful execution to the Congress. The broad range of major functions and technical tasks performed by this office makes its role both interesting and crucial to the effective management of security assistance programs and related activities.

SCOPE AND COMPLEXITY OF THE JOB

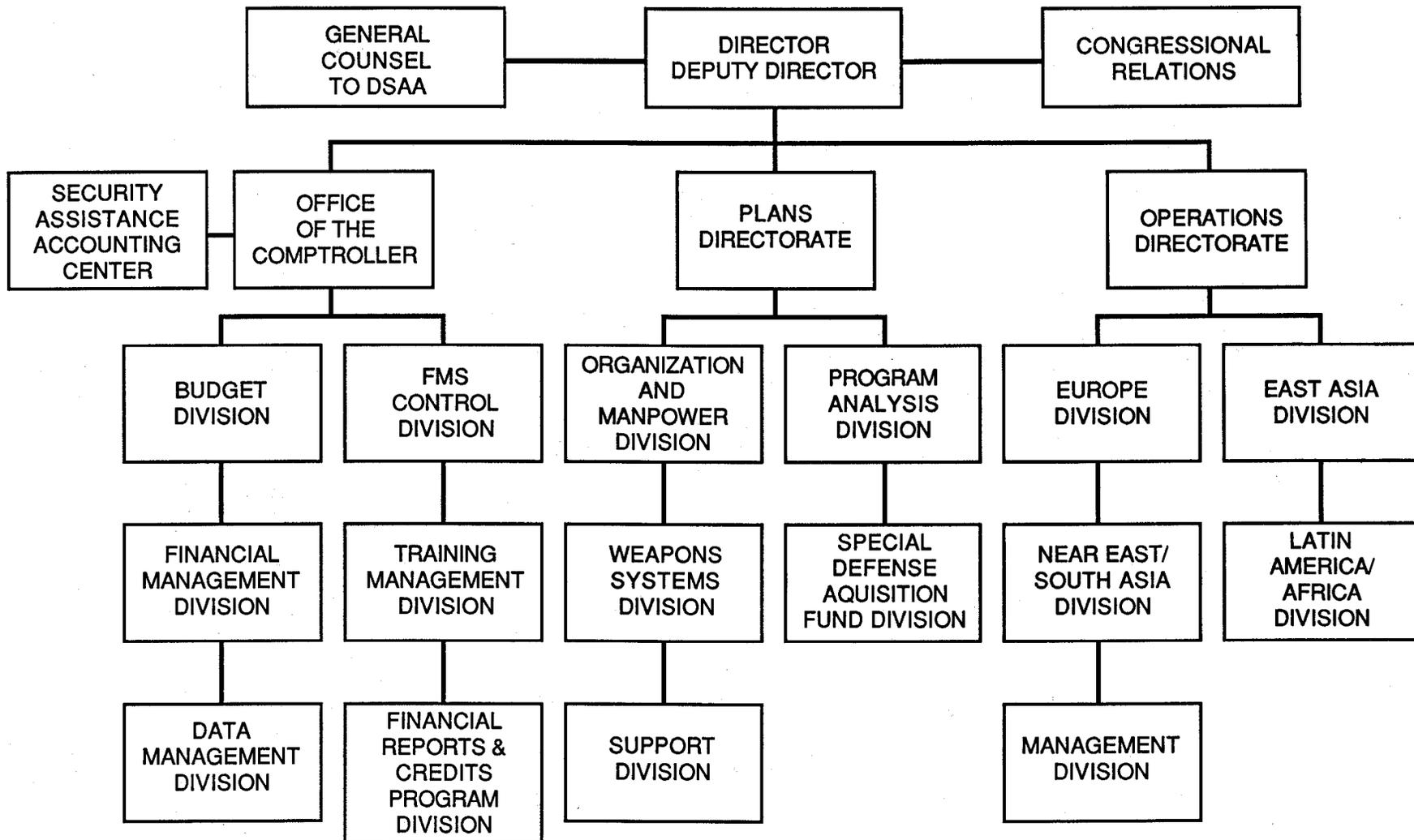
This narrative has been written in an attempt to portray with reasonable brevity the extent to which DSAA is involved in every aspect of planning, developing, and executing DOD's security assistance responsibilities, and how it is organized to do the job. A rough idea of the scope and complexity of its tasks may be gained from a few statistics. DSAA currently oversees programs for 100 foreign countries. Each year, DOD will process about 5,000 sales cases, each of which must be handled at least to some extent by DSAA. Most, of course, are routine and ordinarily do not demand much special attention. Cases that meet Congressional notification thresholds or when

world crises occur, or when a fundamental change in country relations occurs, require much more intensive DSAA effort.

To do the job, the Agency is in daily contact with the Congress and its staff, the State Department, Treasury, OMB, DIA, A&L, FM&P, the OSD Comptroller, OSD General Counsel, the ISA and ISP regional offices, the Joint Staff, the Military Departments, five Unified Commands, 54 overseas Security Assistance Organizations, 17 Defense Attache Offices, some 63 foreign military attaches in Washington, and a long string of U.S. industries.

DSAA handles up to 1,000 pieces of correspondence, messages included, daily. Of these, over 200 require an action and/or response. No effort has been made to count telephone calls, many of which are long distance, through which much of the Agency's business is transacted. To the extent necessary and which can be managed, Agency personnel are in direct contact by staff visits or more formal meetings with other offices and agencies with which the Agency does business. The activities do not include the hours spent in putting the pieces of the puzzle together, laying out rational options for solving the problem, getting the decision, and initiating action to get things underway. Thus, in this brief description, we have only summarized the vastness and complexity of the job and how DSAA is organized and operates to get it done. Following is the DSAA staffing chart.

DEFENSE SECURITY ASSISTANCE AGENCY



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