INTRODUCTION

The administration of the foreign military sales (FMS) program involves the management of substantial amounts of funds. The fact that FMS operates under a legislatively mandated “no-loss” concept and an administratively mandated “no-gain” policy, enforces the requirement for effective financial planning and accountability, and has caused the creation of FMS–peculiar data collecting and reporting systems. Financial management involvement is far-reaching and includes operational and logistical managers throughout the security assistance community. Management at all levels must assure the proper implementation of Department of Defense (DoD) fiduciary responsibilities resulting from the acceptance of FMS cases. References in this chapter refer to DoD 7000.14-R, Volume 15 Financial Management Regulation (FMR) and DoD 5105.38-M Security Assistance Management Manual (SAMM), and the DoD 5105-65-M Reconciliation and Closure Manual (RCM).

FINANCIAL MANAGEMENT RESPONSIBILITIES

Under Secretary of Defense (Comptroller)

It is the responsibility of the under secretary of defense (comptroller) (USD(C)) to establish policies and procedures involving financial management, fiscal matters, accounting, pricing, auditing, and the international balance of payments as these matters relate to security assistance.

Defense Finance and Accounting Service

Defense Finance and Accounting Service (DFAS), located in Washington, D.C., is the organization responsible for the implementation of all accounting and finance activities within the DoD. See FMR 020102C.

Defense Security Cooperation Agency

The primary functions of Defense Security Cooperation Agency (DSCA), as prescribed by DoD Directive 5105.38, are discussed in Chapter 4, “Security Assistance Organizations Overseas,” of this text. The financial elements of those duties include the financial oversight of all FMS programs to include management of the FMS trust fund. The DSCA comptroller supervises the financial implementation of all FMS cases and countersigns those letters of offer and acceptance (LOA) requiring countersignatures. DSCA is also responsible for managing the foreign military financing program (FMFP), the international military education and training (IMET) program, and the FMS administrative fund. DSCA also has waiver authority for most of the FMS related costs described in this chapter.

Defense Finance and Accounting Service Center-Indianapolis Deputate for Security Assistance

Defense Finance and Accounting Service Center-Indianapolis (DFAS-IN) located in Indianapolis, Indiana has the following financial responsibilities as they relate to the security assistance programs within DoD. [Editor’s Note. The DFAS Deputate for security assistance is transitioning from DFAS-
DE (Denver, Colorado) to DFAS-IN (Indianapolis, Indiana) at the time of this publication. Some functions listed under DFAS-IN may still be retained at DFAS-DE for an interim period.]

- Operate the defense integrated financial system (DIFS) for centralized DoD-wide FMS delivery reporting, collecting, forecasting, and billing
- Prepare, review, and dispatch all FMS billing and holding account statements
- Account for the daily operations and fund transfers to and from the FMS trust fund
- Perform continuing cash analysis to assure sufficient cash is available to pay DoD suppliers and military departments (MILDEPs)
- Provide assistance to, and interact with, DoD components regarding FMS logistical and financial systems, projects, policies, and procedures
- Participate with MILDEPs, as required, in FMS reviews within and outside the United States (U.S.)
- Provide obligation and expenditure authority to DoD components for the financial execution of the FMS program
- Perform final accounting actions and render final accounting statements

Implementing Agencies

A discussion of each MILDEP’s organization for FMS is included in other chapters of the text. The following types of organizational components have a financial role in FMS:

- Service headquarters reviews and in some instances, prepare the LOA, issue implementing directives/letters, and provide service-wide policy and oversight
- Systems/logistics/training commands prepare the LOA data, and acquire defense articles and services upon implementation of the LOA
- International logistics control organizations (ILCOs) maintain the detailed case records for accounting and logistics reporting

In the past, the MILDEPs and DoD agencies utilized a variety of automated systems to compute LOA prices and payment schedules. Currently, all military departments and many DoD agencies utilize the defense security assistance management system (DSAMS) for this purpose.

**Funds Management for Foreign Military Sales**

As a ready reference, Figure 12-1 presents a block diagram, flow of funds. It provides the big picture relating to funds flow. Details and interfaces are omitted to emphasize concepts. The following is a brief explanation of how to interpret the flow diagram.

**Requirements**

The funds flow process starts with the U.S. government (USG) placing financial requirements on the foreign purchaser. These requirements are generally of two forms:

- The initial deposit requirement, if applicable, which is reflected in the LOA
Quarterly payment requirements, which are contained in the estimated payment schedule of the LOA and subsequently incorporated in the DFAS-IN, issued DD Form 645, Quarterly FMS Billing Statement. The DD Form 645 reflects performance against FMS orders reported by the implementing agencies (IAs), based on monthly delivery transactions.

**Purchaser Sources of Funds**

Based on USG financial requirements, the purchaser must respond by providing the funds requested. The purchaser normally has had two sources of financing: cash and USG credit (i.e., grants or loans). From a USG perspective, cash financing by the purchaser means the absence of USG grants or loans. [See SAMM C9.7]

Purchasers may pay DFAS-DE directly by wire transfer or by check. Direct cash payments are mailed or wire transferred to DFAS-DE in accordance with instructions provided with paragraph 4, LOA information and the quarterly billing statement. [Editor’s Note. Until further notice ID and quarterly payments will go to DFAS-DE.]

**Foreign Military Sales Trust Fund**

The FMS country trust fund is a U.S. Treasury account credited with receipts, earmarked by law and held in a fiduciary capacity by the USG, to carry out specific purposes and programs. The FMS trust fund (accounting classification 97-8242) represents the aggregation (corpus) of cash received from purchaser countries and international organizations. DSCA is responsible for management of the trust fund. DFAS-IN is responsible for accountability of the trust fund. FMS customer cash deposits for defense articles and services sold under Sections 21 and 22, Arms Export Control Act (AECA), are made in advance of delivery or performance and for making progress payments to contractors. DFAS-IN exercises stringent controls over the FMS trust fund to insure proper visibility and accountability are maintained for all payments made by a customer for every FMS case. Certain established principles guide the management of the trust fund. The integrity of customer country
monies must be strictly observed. All cash disbursements for a foreign country or international
organization are identified by FMS case and should not exceed the customer’s total cash deposits. A
specific case may be in a deficit cash position with the deficit being funded by the customer’s cash
advances on other cases. However, the cash deposited by country “X” will not be used to liquidate
obligations incurred on behalf of country “Y.” A reportable adverse financial condition exists when the
country level cash summary accounts are in a deficit position. Dollars placed in the FMS trust fund are
subject to U.S. Treasury accounting system controls from the date of receipt to the date of expenditure
or refund. [FMR C4 and SAMM C9.3.5 and C9.11.1]

**Holding Account**

At the time of case closure, there may be funds that are in excess of the final case value. Also,
purchaser funds are occasionally received at DFAS-IN prior to receipt of an accepted LOA and/or funds are received at DFAS-IN that are not identified to a particular case. These excess funds and unidentified funds are deposited in a holding account pending the purchaser’s instructions. These types of funds may be retained in the holding account or returned at the purchaser’s request, provided there are no collection delinquencies for other FMS cases. Normally, funds on deposit in a purchaser’s holding account are not removed without the consent of the purchaser. The holding account is also used by DFAS-IN for other purposes. For example, cross-leveling transactions, interest bearing account drawdown, military assistance program (MAP) merger funds, third country recoupments, buybacks, and credit funds may be processed through the holding account, as applicable.

**Flow to Department of Defense Components**

The DoD component having implementation responsibility for a given FMS case or cases will
request obligational authority (OA) and expenditure authority (EA) from DFAS-IN at the appropriate
times. DFAS paying stations also request EA to make contract payments and progress payments. OA
and EA may be requested and accounted for by one of two methods:

- The direct citation of the FMS trust fund method
- The reimbursable method.

**Obligational Authority**

Obligational authority (OA) is a financial authority normally requested from DFAS-IN by the
LOA implementing agency (IA), which allows obligations to be incurred in an amount not to exceed
the value of the case OA granted by DFAS-IN. The term “obligation” relates to orders placed, contracts
awarded, requisitions, services received, and similar transactions during a given period that will require
payments during the same or future period.

**Expenditure Authority**

Expenditure authority (EA) is unique to FMS accounting and was established in order to ensure
compliance with the AECA requirement that DoD funds not be used to provide interim financing of
FMS requirements. Expenditure authority ensures that customer funds are on deposit in the FMS
trust fund before authority is granted to make disbursements against it. Once the purchaser has
accepted an LOA, funds have been provided to DFAS-IN, and the IA has received OA, requisitions
may be processed and contracts awarded. The IA requires customer funds to pay for stock deliveries,
work orders, and contractor billings. Expenditure authority is an FMS country level authority, which
allows expenditures to be incurred against obligations previously recorded against a country’s trust
fund account. Before expenditure can be made, the dollars normally must first be on deposit in the
trust fund. In the most basic sense, the term “expenditure” may be thought of as a cash disbursement such as a payment to a contractor. Expenditure authority is further discussed in the SAMM C9.12.2 and the FMR 0406.

Terms of Sale and Type of Assistance Codes

Terms of sale and related type of assistance/finance codes indicate whether the sale of an article or service is from DoD stocks or new procurement and the applicable AECA statutory authority. An LOA for the sale of defense articles, defense services, or design and construction services may involve one or more of the following sections of the AECA. Terms of sale indicate when payments are required and whether the agreement has been or is to be financed on a cash, FMS credit (repayable or non-repayable), or MAP funding basis. The value of an FMS case may influence the term of sale. [SAMM C9.T10] The IA enters the appropriate term(s) of sale on page one of the LOA. If an LOA involves more than one term of sale, the IA will cite on the LOA all of the applicable terms (except for FMSO-I, and cash with acceptance LOAs). Terms of sale used on the LOA. [See SAMM C9.T8]

Cash with Acceptance

This term applies when the initial cash deposit equals the total estimated cost line on the LOA.

Cash Prior to Delivery

Under this term, the USG collects cash in advance of delivery of defense articles and rendering of defense services from DoD resources.

Dependable Undertaking

Under this term, the USG collects cash in advance of procurement payment requirements. Sections 22(a) and 29, AECA apply. Section 22(a) allows the president to enter into contracts for the procurement of defense articles or defense services for sale to a country or international organization after the USG is provided with a dependable undertaking. Section 29 authorizes the president to enter into contracts for the procurement of design and construction services for sale to eligible foreign countries or international organizations if such country or organization provides the USG with a dependable undertaking. A dependable undertaking is a firm commitment by the purchaser to pay the full amount of a contract, which assures the USG against any loss on the contract. The purchaser agrees to make funds available in such amounts and at such times to meet the payments required by the contract and any damages and costs that may accrue from the cancellation of such contract, in advance of the time such payments, damages or costs are due.

For a list of those foreign governments and international organizations authorized direct arrangements for a dependable undertaking see SAMM C4.T2.

Payment on Delivery

Under this term of sale, the USG bills the purchaser at the time of delivery of defense articles or the rendering of defense services from DoD resources. Section 21(d), AECA, advises that if the president determines it to be in the national interest, billings may be dated and issued upon delivery and interest shall be charged on any net amount due and payable which is not paid within 60 days after the date of such billing. The president may extend the 60-day period to 120 days if he determines an emergency exists. The IA may use this term only pursuant to a written statutory determination by the director, DSCA that it is in the national interest to do so.
Foreign Military Sales Credit

This term of sale currently applies to payment for an FMS case in whole or in part from FMFP credits (i.e., repayable loans or non-repayable grants extended by DoD under Section 23, AECA). Currently, non-repayable loans/credits are provided in the form of a grant agreement. Repayable credits currently are in the form of direct, market interest rate loans. The amount of the initial deposit for cases financed with FMF grant funds will be equal to the estimated total costs of the LOA except for Egypt and Israel.

Type of Assistance Codes

Type of assistance (TA) codes (also known as type of finance codes) indicate the applicable section of the AECA and the source of supply, and are reflected on the LOA in column (5), SC/MOS/TA, or note, along with planned source of supply codes (SC). TA codes are also a part of the document number for requisitions and performance reporting. [For a listing and explanation of SC and TA codes see the letter of offer and acceptance information section of Appendix 1, “Case Document Package,” or the SAMM C5.F4 and FMR 080402I5.]

Financial Forecasting

It is DoD policy that FMS purchasers pay amounts shown in the LOA estimated payment schedule, except in those instances where potential cash disbursements are anticipated to exceed the current payment schedule. Implementing DoD components are expected to continually monitor case level cash advances and validate the accuracy of payment schedules. The estimated payment schedule normally includes specific dates when each payment is due and consists of two financial categories:

• An initial deposit
• Estimated quarterly billing amounts

The initial deposit relates to the costs anticipated to be incurred from case acceptance until the first DD Form 645 is rendered and monies collected. With respect to quarterly billing amounts, the payment schedule should reflect payments due as of the 15th day of the last month of each calendar quarter. For instance, an FMS case having an estimated total cost of $150,000 reflected on line (13) of the LOA might have a payment schedule as follows:

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Quarterly</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Deposit</td>
<td>$45,000</td>
<td>$45,000</td>
</tr>
<tr>
<td>15 March 2007</td>
<td>$40,000</td>
<td>$85,000</td>
</tr>
<tr>
<td>15 June 2007</td>
<td>$35,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>15 September 2007</td>
<td>$30,000</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

Payment Schedule Content

The initial deposit and any quarterly payments thereafter should be sufficient to cover all costs and contingencies anticipated to be incurred by the IA on the FMS purchaser’s behalf during the quarter immediately following the payment due date. For example, a purchaser’s payment due on 15 March should provide funds for applicable cost of materiel, progress payments, services, deliveries from procurement, deliveries from stock, administrative charges, accessorial charges, contractor hold back, termination liability (T/L), and any other estimated costs for the period 1 April through 30 June. [FMR 0402, 0403 and SAMM C9.9.1] Some of the terms used deserve special comment.
• Initial Deposit. The initial deposit is a financial requirement collected from the customer at the time they accept the LOA. The initial deposit is required to implement the case and is used to cover the outlays and or deliveries anticipated between the offer expiration data on the LOA and the first payment due date reflected on the payment schedule. [FMR C.040303] SAMM C9.T9 defines the initial deposit time frame based on offer expiration dates. The initial deposit includes but is not limited to:
  • 50% of the administrative fee
  • 100% of the administrative surcharge if the surcharge is $30,000 or less
  • Anticipated deliveries from stock
  • Progress payments
  • (T/L) and contractor holdback
  • Anticipated deliveries from procurement

[For more information on the initial deposits see SAMM C9.9.1.5.1, and FMR Chapter 4.]

• Progress payments are made to contractors or DoD industrial fund activities as work progresses under a contract, based on costs incurred or percentage of completion, or of a particular stage of completion, accomplished prior to actual delivery and acceptance of contract items.

• Contractor hold back is the amount earned by contractors or suppliers during the period but held back to ensure future performance of the contractor.

• T/L reserve is the amount collected from a purchaser and held in escrow in anticipation of any liability that would accrue to the USG should a purchaser terminate a particular case or program prior to the normal completion of the contract. The reserve is not a constant amount and must be adjusted regularly as contracts are awarded, work progresses, payment are received, and deliveries are made. Payment schedules are built upon assumptions such as source of supply, lead-time, delivery schedules, period of performance, progress payment schedules etc. Payment schedules for all cases with two or more lines will be calculated at the line level. When a standby letter of credit applies, the payment schedule will be developed without T/L. In the event an amendment or modification of the basic LOA is processed, the previous payment schedule assumptions must be revalidated and the payment schedule adjusted as appropriate. In addition, revised payment schedules should be reviewed against collections and disbursements prior to revising the payment schedule.

Payment Schedule Reviews

On 13 December 1999, the deputy secretary of defense issued a memorandum concerning FMS financial management mandating the periodic revision of payment schedules and describing the reconciliation requirements for major cases. [DSCA Memo 01-22]

Case Reviews

SAMM Chapter 6.5.2 requires that all FMS cases be reviewed at least annually using one of the following:
• On the anniversary of basic case implementation
• In preparation for a formal review with the FMS customer
• With a ten percent or more change in case value

Attachment 2B of the DSCA memo provides the minimum review items that, taken together, constitute a review of an FMS case. The IAs should develop checklists that incorporate the Attachment 2B case review items, and issue detailed procedural guidance that provides supplementary information unique to each IA. Each checklist shall be signed and dated by the case manager conducting the review, and shall become an official document within the applicable case file.

Additional Major Case Requirement

In addition to the guidance specified above, a quarterly payment schedule variance report (PSVR) was developed to signify major cases for which discrepancies between the payment schedule and financial requirements appear to exist. The report is comprised of two sections:

• The universe of all open FMS cases
• The filtered version identifies only those cases meeting the following criteria:
  • Is a major case, the TA code is not equal to “3” (i.e., cash with acceptance) “U” (FMSO-I)
  • Expenditures do not exceed 80 percent of the total LOA value
  • The variance between the payment schedule and financial requirements exceeds 25 percent for the average of the past three quarters

This filtered version should be considered as the actionable version. It will be generated and distributed by DSCA. The IAs will use this report to issue workflow tasks in DSAMS that will bring these variances to the attention of case managers for their analysis and, as appropriate, revision to the corresponding payment schedules via a modification or (if a scope adjustment is being done concurrently) an amendment.

Foreign Military Sales Billing Cycle

Figure 12-2 is the diagram of an FMS billing cycle. This cycle must be taken into consideration during the computation of the initial deposit period and any quarterly payments thereafter.
If the anticipated FMS case acceptance date is between 11 October and 10 December, the initial deposit should cover the forecast of expenditures from the date of acceptance through 31 March. If the acceptance date is between 11-31 December, the initial deposit coverage period is from the date of acceptance through 30 June.

The DD Form 645, FMS Billing Statement, for the period ending 31 December (in addition to the January-March estimated expenditures and the April-June forecast) would contain delivery transaction data provided to DFAS-IN in October, November, and December. The delivery transaction data is due to DFAS-IN from the MILDEP by the 16th day of the month following the month being reported. For example, the aforementioned October delivery transaction data should consist primarily of the previous month’s (September) deliveries/performance together with a smattering of old, prior month’s deliveries/performance that were late in arriving at DFAS-IN.

The payment due date (15 March in the above example) shown in the DD Form 645 is the payment date as contained in the estimated payment schedule of the LOA

Department of Defense Financial Controls

In addition to preparation of the LOA package and required DSCA, DFAS-IN documents, the IA should provide budget authority data to DFAS-IN for incorporation into the DIFS. The following discussion concerns the creation of budget authority, obligational authority, methods of funding, and automated financial control systems.

Budget Authority

FMS budget authority is created through the IAs preparation and processing of five forms, as applicable:

- LOAs
- LOA modifications
- LOA amendments
- DD Form 2060 FMS Obligation Authority
- DD Form 2061 FMS Planning Directive

[For an in-depth explanation of FMS budget authority and the preparation and processing of DD Forms 2060 and 2061, see FMR 0201 and 0202.]

Budgetary control of an FMS agreement begins after acceptance of the sales offer by the purchaser. After the purchaser has forwarded a signed copy of the accepted LOA (with any required initial deposit), DFAS-IN records acceptance of the LOA and then releases to the IA specific values of obligational authority as requested by the IA. The IA must account for, control, and report all obligations and expenditures (disbursements) incurred against the authority received.

Methods of Funding

At the time the initial DD Forms 2061 and 2060 are prepared, it is necessary to determine the planned funding source. The two funding authorities identified on DD Forms 2061 and 2060 are direct cite and reimbursable.

Direct citation method involves entering and maintaining an FMS trust fund accounting citation on documents relating to FMS transactions. For example, the trust fund accounting data is shown on
Reimbursable method is used when the MILDEP or DoD agency cites its performing appropriation as the funding source (for example, the U.S. Army’s missiles procurement appropriation). The DoD component’s performing appropriation is subsequently reimbursed by DFAS-IN from case funds. [FMR 010303]

**Purchaser Payments to the Foreign Military Sale Trust Fund**

In response to the initial deposit and quarterly billing requirements, a purchaser may make payments to the DFAS-IN FMS trust fund or, if authorized, to a separate interest bearing account.

**Federal Reserve Bank, New York Accounts**

Some countries may establish an account with the federal reserve bank (FRB), New York, for their FMS deposits. An agreement between the FMS purchaser’s defense organization, the purchaser’s central bank, FRB New York and DSCA identifies the terms, conditions, and mechanics of the account’s operation. Countries receiving FMFP funds must maintain their interest bearing account in the FRB.

**Commercial Banking Account**

Some countries may establish an account with a commercial bank for FMS deposits. Two agreements are required:

- An agreement between the FMS purchaser and the participating commercial bank
- A separate agreement between the FMS purchaser and DSCA. Commercial accounts do not include FMFP funds

A country cannot have both an FRB New York account and a commercial banking account. While T/L reserves, in some cases, can be maintained in a customer’s FRB New York account, they cannot be maintained in a commercial banking account. [See DSCA Policy 04-02 for more on these accounts.]

**Standby Letter of Credit**

The standby letter of credit (SBLC) is in lieu of the T/L prepayment requirements under the FMS program. Instead of T/L prepayments being deposited into the FMS purchaser’s FRB account or the FMS trust fund, an equivalent amount is guaranteed under the SBLC. Other financial requirements owed the USG are not covered by this arrangement. DSCA is the beneficiary of the SBLC in the event of FMS case termination. The DSCA comptroller performs the FMS trust fund manager functions and duties. In regards to the SBLC, DFAS-IN will record the deposit of funds from the issuing or confirming bank(s) to the FMS purchaser’s government or organization. The FMS purchaser may initiate a request for participation in the SBLC for a FMS program. All requests must be sent to the DSCA comptroller in writing and signed by an official authorized to accept the SBLC documents on behalf of the purchaser’s government or organization. The SBLC is binding when issued. The LOA terms and conditions agreement is considered implemented when all parties signed all copies of the documents and the corresponding SBLC is issued.

**Foreign Military Financing Program**

The FMFP facilitates the purchase by many allies and friendly countries of U.S. military equipment, spare parts, and training. The following discussion identifies the various terms used in
financing programs and briefly discusses policies and procedures. For an in-depth review of FMFP direct credit and guaranteed loan financing. [SAMM C9.7].

Department of State Role

The secretary of state, under Section 2, AECA, is responsible for the continuous supervision and general direction of sales and exports of defense articles and services. In accordance with this AECA authority and by executive order, the secretary of state determines which countries will receive grants/loans, unless Congress has enacted specific country/amount determinations (i.e., earmarks), prohibitions, or ceilings into law.

Defense Security Cooperation Agency Role

The president has delegated to the secretary of defense the authority to issue and guarantee loans to eligible recipients. The secretary of defense has delegated this authority to the director, DSCA to administer the credit program and ensuring that such funds (following Department of State (DoS) approval as to their use) are used only to buy authorized materiel and services.

General Policies and Procedures

FMFP credit financing will normally be extended when it has been determined that purchases of defense items cannot be financed reasonably by other means, taking into account any U.S. military and economic assistance that such countries may be receiving, and indigenous private financing. In addition to being evaluated for consistency with U.S. foreign policy interests (including human rights), proposed arms purchases by the country and the suitability of items being purchased will be taken into account. Of particular attention are the level of weapons sophistication and the capability of the country to maintain, support, and employ the items effectively. FMFP credit assistance will not be extended solely to consummate a sale.

DSCA does not generally make approved loan or grant agreement funds directly available to the borrowing country. Rather, the country must submit invoice documentation (i.e., an LOA requiring an initial deposit or a DD Form 645 requesting payment, or a commercial invoice) to DFAS-IN, along with a request for advance of funds. Once DFAS-IN certifies/approves the request, funds are disbursed as appropriate. For direct commercial sales, the borrowing country must submit to DFAS-IN copies of contracts or purchase orders relating to the commercial purchase and a request for advance of funds.

Direct Commercial Sales

Prohibitions contained in the annual foreign operations appropriations act limit the use of FMFP funds for commercial procurements to only those countries for which FMFP assistance was justified in the fiscal year 1989 congressional presentation document for foreign operations: Egypt, Greece, Israel, Jordan, Morocco, Pakistan, Portugal, Tunisia, Turkey, and Yemen. To employ FMFP credit financing for purchases directly from U.S. commercial suppliers, the purchaser must make a formal request through DSCA. A copy of the proposed contract must accompany the request. Materiel and services purchased must be of U.S. origin and the contract must be between the purchaser and a U.S. firm incorporated and actively doing business in the U.S. prior to disbursement of FMFP loan funds, the contractor must certify those items and/or services supplied are U.S. source products. DSCA policy precludes the use of FMFP credit funds for direct commercial purchases of less than $100,000. Formal guidelines and contractor certification may be found in the SAMM C9.7.4.
Denial of Financing

FMFP credit financing shall not normally be approved when the transaction would:

- Place an undesirable burden on a purchasing country’s foreign exchange resources, create excessive claims on future budgets (e.g., induced expenditures for maintenance, spare parts, replacement, and indirect support and organizational costs), or otherwise materially interfere with development
- Be used to finance production or co-assembly/co-production projects overseas
- Have an unreasonable expectation of loan repayment

Commitment Period

The commitment period of a loan is the period of time that DSCA agrees to make the loan amount available for use by a borrower to apply on FMS LOAs or direct commercial sales contracts. DoD direct credit loans normally have a commitment period of two years from the date the loan has been signed. Theoretically, after the two-year commitment period has expired, DSCA will no longer accept new LOAs/contracts against the loan. There have been exceptions. Once loan funds have been committed to specific LOAs/contracts, the funds may be disbursed over an indefinite period.

Repayment Period Procedures

Section 23, AECA, requires that loans be repaid within a period not to exceed twelve years after the delivery of such articles or the rendering of such services. However, most loans mature and are repaid over a period of five to nine years following a grace period of one or two years on the repayment of principal. The repayment schedule usually requires payments semi-annually. In lieu of the normal repayment period, a thirty-year payback has occasionally been authorized, with a grace period on the repayment of principal the first ten years of the thirty-year period. [SAMM C9.7.2.1.2]


DSCA is responsible for monitoring the requirements for and the availability of funds to support FMS programs. The financial management review program constitutes a country-level review of an FMS customer’s total program, taking into account current and projected requirements and anticipated resources, including FMS credits, MAP grants, and budgeted purchaser funds. Each quarter, DSCA selects up to four FMS customer programs for review and requests selected financial data in the form of a case worksheet and tasking letter [DSCA RCN 1150] from applicable IAs. Following consolidation and analysis of the data, DSCA meets or corresponds with IAs, as appropriate, to follow-up on recommended actions. [SAMM C9.14]

FOREIGN MILITARY SALES PRICING

The methodology employed in developing an FMS price depends upon whether that price is placed on a LOA as a cost estimate or, whether it is the price later reported in the billing system as the result of the constructive delivery of an article or service. The prices entered on an LOA are estimates of the expected costs of articles and services to be delivered some time in the future. The objective of these estimates, developed using cost analysis techniques, is to provide the FMS purchaser with an accurate prediction of a future cost. Prices entered into the billing system represent the actual prices of the article at the time it is dropped from inventory or the wage or salary rate at the time the service is performed. In the case of articles coming from new procurement, the prices reported will be those incurred for progress payments made to defense contractors on behalf of the purchaser. However, the
exact final cost of major procurements may not be determined until all the contracts for all systems obtained under such procurements are complete. Consequently, estimates are entered into the billing system to be replaced by the actual costs when they are determined. The important thing to remember is that the components of an FMS price should be the same whether entered on an LOA or entered into the billing system. The price on the LOA is an estimate of what the USG believes its cost will be. The price reported in the billing system is the reporting of the actual cost incurred.

**Foreign Military Sales Pricing Elements**

Figure 12-3 illustrates the basic pricing concept used to structure and compute an FMS price. The elements of an FMS price can be combined into two major component categories: base price and other authorized charges. The base price generally refers to the cost of the item or service, i.e., contract price, inventory price, replacement price, etc. The authorized charges, on the other hand, relate to the application of a cost (often on a percentage or pro rata basis) that is dependent to some degree on the value of a base price(s) or other pricing combinations. In the following discussion, both of these categories will be addressed.

**Base Price Computation**

**Training Pricing.** The Foreign Assistance Act (FAA) and AECA prescribes a multi-tier pricing structure for training provided under the U.S. security assistance program. The present pricing structure for security assistance training provides for five separate tuition rates: FMS, FMS/NATO, FMS incremental, FMS/nonrecurring cost (NRC), and FMS/grant and IMET. Rates for the same course differ because various cost elements have been authorized by law to be excluded from some rates and others are charged only on an incremental cost basis. For details on tuition pricing see FMR 0711 and T 710-1. Because of the shortage of training spaces and the difficulty experienced by the MILDEPs in adjusting to changes in student input, DoD has instituted a penalty charge for no-shows and for late-notice cancellations. [See FMR 071004 for details on cancellation fees.]

An attrition charge is applicable to all training cases. An attrition rate of 1 percent for flying and/or non-flying training courses is included in tuition rates whenever the training or education course includes the use of operational equipment as training aids. If another percentage is considered warranted, the deviation must be approved by the office of the DoD comptroller.

**Personnel Services.** Many FMS cases that contain personnel support costs such as technical services, training, etc. These services must be priced to recover all USG costs. As of 1 August 2006,
program management lines were eliminated from new LOAs. These services, if required, will be included as separate, well-defined lines on the FMS case. [DSCA Memo 06-14] The base pricing for both civilians and military that includes wages, acceleration factors, and TDY/PCS costs can be found in the FMR 0702. For determination of how manpower on FMS cases should be priced. [SAMM C5.4.9 and C5.T6]

U.S. military pay and entitlements (other than Coast Guard) are excluded from all services lines on cases wholly financed by MAP or FMFP. This exclusion includes training, design and construction services, and case/program management efforts.

PCS costs are included in the composite standard pay rates and are subject to the acceleration factors beneath the published pay tables. Indigenous personnel services are priced at actual costs or at standard pay rates. Standard pay rates shall not be used when known to be less than actual costs. Both actual costs and the standard pay rate are to include an estimated amount to cover such benefits as sick leave, maternity leave, death, accident, unemployment, and retirement (separation) when such benefits are paid to indigenous employees or specifically required by the laws of the foreign government.

Travel, per diem, living allowance payments, and other entitlements for DoD personnel working on FMS cases are to be identical to the payments and entitlements of DoD personnel working on direct DoD mission assignments at similar locations. Personnel services lines must be priced to recover not only the appropriate personnel costs, but also all travel costs, per diem, and applicable entitlements.

**Materiel Funded from the Defense Working Capital Fund.** Typically, the DoD through a revolving cost account purchases most secondary items in DoD inventories. The goal of this revolving cost account or the defense working capital fund (DWCF) is to recoup the full retail costs of obtaining an item and maintaining it in the DoD inventory. There are four main funds, the Army WCF, the Navy WCF, the Air Force WCF, and the Defense-Wide WCF. Thus, the base cost of a non-major inventory item should be the same for a FMS or USG domestic customer.

This means that packaging, crating, and handling (PC&H), logistics support charge (LSC), and transportation to the continental U.S. pickup points of the FMS customer’s freight forwarder are included in the item price and not added onto the basic cost of FMS materiel funded through the WCFs. [FMR 070302B and T703-1]

A small percentage of secondary items are not included in the DWCFs, such as munitions, cryptology items, tanks, racks, adaptors, and pylons, publications, maps and charts, and classified items. The pricing methodology for these items will include a base price plus surcharges for PC&H, and transportation.

**Major and Principal Items from Inventory.** The FMS base price established for a major item (e.g., ship, aircraft, tank, etc.) or a principal item (e.g., component of a major item, such as an aircraft engine) depends upon whether the item is to be replaced or not, and if replaced, whether it will be “in kind” or with an “improved” item.

The computation for an item not to be replaced is based on the most recent procurement cost plus any modifications. Reductions in price can be made for the items age or condition. See FMR 0703C1 and T703-2.

The computation for an item to be replaced is determined by whether the item will be replaced “in kind” or replaced with an “improved” item as these prices will be different. As above, reductions in price can be made for the sale item’s age or condition. [FMR 0702C2 and T703-3]
**Excess Materiel.** Excess defense articles which are excess to the approved force acquisition and approved force retention stock requirements of all DoD components. A determination of “excess” is made either by the military service system or by the item manager. Excess defense articles are sold in an “as is-where is” condition. The cost of excess items is the highest of market value as hardware, scrap value, or fair value. Military articles are not sold for less than scrap value. If the item is repaired, rehabilitated, or modified for transfer, this extra cost will be also applied to indicate the final price of the item. Fair value is based on the condition codes:

<table>
<thead>
<tr>
<th>Federal Condition Code*</th>
<th>Percentage of Inventory Price of Materiel</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1 (serviceable, excellent)</td>
<td>50</td>
</tr>
<tr>
<td>A4 (serviceable, usable)</td>
<td>40</td>
</tr>
<tr>
<td>B1,C1,D1,B4,C4,D4</td>
<td>30</td>
</tr>
<tr>
<td>(serviceable w/qualification, materiel is either unused in fair condition or used in good condition).</td>
<td>20</td>
</tr>
<tr>
<td>D7,E7,F7,G7</td>
<td>10</td>
</tr>
<tr>
<td>(serviceable w/qualification; if unused, in fair condition, if used, in good condition). (Also includes unserviceable items which are in good condition but require minor repairs.)</td>
<td>5</td>
</tr>
<tr>
<td>H7</td>
<td></td>
</tr>
<tr>
<td>(unserviceable, in poor condition, item requires major repairs)</td>
<td>5</td>
</tr>
<tr>
<td>FS,FX,GS,HS,HX</td>
<td></td>
</tr>
<tr>
<td>(unserviceable, condemned for scrap or salvage, might be repairable)</td>
<td>5</td>
</tr>
</tbody>
</table>

*See DoD Operating Manual 4160.21-M for specific definitions. See FMR 070304 and T 703-6, 7, 8.

**New Procurement.** Defense articles procured for direct delivery are priced to recover full contract cost plus applicable surcharges. Revised costs may need to be reflected from time-to-time in order to indicate increases due to escalation of labor-materiel and/or to reflect other changes in procurement costs. The cost principles utilized, in general, are the same as those used in pricing defense contracts covering items for DoD use. The LOA total cost, column (4)(b), for a line item from new procurement may be composed of the contract cost plus applicable charges for nonrecurring production and research, development, test, and evaluation (RDT&E), government furnished materiel, contract administration, and other special considerations such as the cost of implementing an offset program. [FMR 0704]

**Authorized Charges**

**Nonrecurring Costs.** DoD policy since the early 1960s has required that non-USG purchasers pay a fair price for the value of the DoD nonrecurring investment in the development and production of defense articles and/or the development of related technology. In accordance with DoDD 2140.2, recoupment of these costs is required on all cash sales unless a specific waiver has been authorized. These charges are not applicable to FMS cases that are wholly financed with MAP grant and/or non-repayable FMS credit funds. NC on major defense equipment (MDE) for DCS are not recouped. Nonrecurring charges are currently applicable to FMS sales of significant military equipment having a nonrecurring RDT&E cost of more than $50 million or a total production cost of more than $200 million regardless of the source of supply of the item. For a current listing equipment and approved
pro rata, charges see SAMM Appendix 1. When the price of an item being sold is reduced because of age, condition or supply status, the same percentage reduction shall be applied to the pro rata nonrecurring costs. NC are not itemized or listed separately on either the LOA or the customer billing. [See SAMM C9.T2 and FMR 070305 for details on NC. For waiver details, see SAMM C9.6.3.]

**Contract Administration Services.** Contract administration service (CAS) is a cost incurred by contract administration offices in accomplishing contract administration, quality control, and contract audit, before and after a procurement contract is awarded. The CAS surcharge is added to the LOA blocks (4)(a) and (4)(b) unit and extended costs for all articles and services from procurement. For pricing the LOA, the surcharge is based on the estimated contract cost; at billing, the surcharge will be applied to the actual contract cost. The contract administration surcharge is subject to waiver in whole or in part for the North Atlantic Treaty Organization (NATO) countries and NATO infrastructure programs. For details on CAS, see SAMM C9.T2 and FMR 070405. For waiver details, see SAMM C9.6.2, C9.T3, C9.T4, and C9.T5.

The DoD comptroller determines the applicable contract administration surcharge by dividing the cost of doing contract administration for FMS by anticipated disbursements to contractors, which will be reported to DFAS-IN current charges are:

- Quality assurance and inspection: 0.65%
- Other contract administrative services: 0.65%
- Contract audit: 0.20%
- Overseas CAS: 0.20%
- Total: 1.70%

**Administrative Charges**

Administrative charges are added to all FMS cases to recover expenses of sales negotiations, case implementation, program control, computer programming, accounting and budgeting, and general administrative support of the FMS program. Administrative charges do not include the administration of FMS training cases at the installation level, since such charges are included in tuition rates. The estimated administrative expenses are on Line (10) of the LOA. [For details on administrative costs or rates, see SAMM C9.T2 and FMR 0706.] This charge also covers the standard level of service (SLS) for more information on case related manpower function and their source of funding. [See SAMM C5.T6] The standard administrative charges are:

- Cooperative Logistics Supply Support Arrangement. Five percent of the basic sales price of initial “on-hand” items Foreign Military Sales Order I.

**Non-standard Articles.** The administrative fee for non-standard support has been reduced to 3.8 percent of the basic sales price as of 1 August 2006. A nonstandard article is one that DoD does not actively manage, either because it has been retired from inventory, or was never purchased for DoD components. 3.8 percent also applies to non-standard procurement executed by personnel funded on a case/program management line, or by a service contracted procurement authority (PROS/SNAP).

**All Other Foreign Military Sales Orders.** 3.8 percent of the cost or price (including training) for the procurement of new items or sales from stock. The charge was 2.5 percent for cases implemented between June 1999 and 31 July 2006, 3 percent on cases implemented prior to June 1999. As lines on these cases are amended or modified, the rate remains the same, if new lines are added to the case the new line rate will be 3.8 percent. If the administrative charge is waived, the administrative fee is funded from the current operation and maintenance appropriation of the IA.
Small Case Management Line. Effective 1 August 2006 a minimum administrative surcharge of $15,000 per case is collected to insure costs to prepare and implement the case are recovered. This charge will be reflected by the addition of a line to the case with a generic code of R9C. [DSCA Memos 06-14 and 06-19]

Accessorial Costs. Accessorial costs represent expenses incident to issues, sales, and transfers of materiel that are not included in the standard price or contract cost of materiel. It is important to note at this point that there have been several changes to the application of these accessorial costs to stock funded items. The base price computation of DWCF materiel section of this chapter has more detailed information on the application of surcharges.

Packing, Crating, and Handling. PC&H costs are those costs at DoD facilities for labor, materials, and services to take articles from storage, prepare them for shipment, and process the documentation. The PC&H charges are not applicable to items released from DoD stocks funded through a working capital fund. The PC&H charges are shown on Line (9) of the LOA. Further, PC&H costs do not apply to sales from procurement unless the item is processed through a DoD depot/distribution center. The PC&H charges are shown on line (9) of the LOA.

Transportation Costs. Transportation costs are the costs of DoD provided or financed transportation (land, air, inland and coastal waterways) in the U.S. (for non-DWCF items) and outside the U.S. and overseas transportation by vessel or air (including parcel post via surface or air). These costs are not applicable to FMS customers who use commercial modes of transportation since this transportation is performed on collect commercial bills of lading (CCBL). Letters of offer and acceptance, which require use of the defense transportation system (DTS), will use look-up table rates for those items included in the table; otherwise, percentage surcharge rates as shown in Figure 12-4 may be applicable.

<table>
<thead>
<tr>
<th>Rate Area</th>
<th>DoD Movement Point of Origin To Destination</th>
<th>DTC 4 CONUS Exit TBC D, K, L</th>
<th>DTC 5 CONUS Exit TBC A, B, E</th>
<th>DTC 6 Overseas Discharged TBC A, B, E</th>
<th>DTC 7 Overseas Destination TBC G, Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Europe Central America¹ Mediterranean</td>
<td>0</td>
<td>3.75</td>
<td>6.25 2.50</td>
<td>11.25 7.50</td>
</tr>
<tr>
<td>2</td>
<td>Newfoundland Labrador Thule, Iceland South America², Far East, Africa, Near East</td>
<td>6.25 2.50</td>
<td>12.25 8.50</td>
<td>13.25 9.50</td>
<td>16.25 12.50</td>
</tr>
</tbody>
</table>

Notes:
1. “Central America” includes east and west coasts of Central America, all Caribbean Islands, and ocean ports of Venezuela, Guyana, Suriname, French Guiana, and Colombia.
2. “South America” includes all ports on the east and west coasts of South America, Pacific Island possessions of South American countries, and ocean ports south of French Guiana to Cape Horn.
Percentage based transportation rates are assessed when the DTS provides transportation for FMS materiel, when items are shipped on a government bill of lading, and when packages are shipped prepaid through the U.S. Postal Service (excluding DWCF materiel). The transportation costs are shown on line (11) of the LOA. For the application and percentages to be applied to the FMS selling price of materiel. [SAMM C9.T2, C7.18 and FMR 070503, and T705-1.] The transportation cost look-up table, published by DSCA, is based on rates determined by the services for selected items. For details and rates on the look-up table see SAMM Appendix 2. Figure 12-5 provides a sample of the cost look-up table.

Figure 12-5
CY-07 Transportation Cost Look-Up Table
Army Annex

<table>
<thead>
<tr>
<th>MSN</th>
<th>Item</th>
<th>Code 8 Estimated Actual Total</th>
<th>Code 8 Estimated Actual Total</th>
<th>Code 9 Estimated Actual Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>APACHE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1615-01-252-6376</td>
<td>TRANSMISSION</td>
<td>$1,171</td>
<td>$1,029</td>
<td>$16,857</td>
</tr>
<tr>
<td>1615-01-306-6948</td>
<td>HEAD, ROTARY WING</td>
<td>$1,389</td>
<td>$1,106</td>
<td>$24,739</td>
</tr>
<tr>
<td>1615-01-310-4978</td>
<td>BLADE, ROTARY WING</td>
<td>$1,171</td>
<td>$1,029</td>
<td>$9,411</td>
</tr>
<tr>
<td>1650-01-273-7608</td>
<td>SERVOCYLINDER</td>
<td>$961</td>
<td>$955</td>
<td>$1,650</td>
</tr>
<tr>
<td>2835-01-172-6200</td>
<td>ENGINE GAS TURBINE</td>
<td>$1,032</td>
<td>$980</td>
<td>$4,210</td>
</tr>
<tr>
<td>ATACMS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1427-01-274-3904</td>
<td>GUIDED MSL, AND LAUNCH POD ASSEMBLY, M39</td>
<td>$2,375</td>
<td>$1,318</td>
<td>$36,004</td>
</tr>
<tr>
<td>1427-01-445-3758</td>
<td>GUIDED MSL AND LAUNCH POD ASSEMBLY</td>
<td>$2,415</td>
<td>$1,326</td>
<td>$38,164</td>
</tr>
<tr>
<td>1427-01-494-1457</td>
<td>GUIDED MSL AND LAUNCH POD ASSEMBLY, M39A1</td>
<td>2,375</td>
<td>$1,318</td>
<td>$34,738</td>
</tr>
</tbody>
</table>

A logistics support charge (LSC) was collected on case line before October 1, 2007 for spare parts, supplies, and maintenance of customer owned equipment to recoup an appropriate share of the cost incurred in the logistics support area. LSC is not applicable to items funded by the DWCF since the logistics support functions are included in the price of the items. If applicable, the logistics support charge is part of the cost of the item supplied and is not shown as a separate add-on charge in the delivery listing on the DD Form 645, Foreign Military Sales Billing Statement, provided to the FMS customer. DFAS-IN recovers earned logistics support expenses by applying a 3.1 percent factor to delivery transactions on designated FMS case lines based on generic codes. For applicability and administration of LSC. [SAMM C9.T2 and FMR 0722]

Effective 1 October 2007, the 3.1 percent LSC was eliminated. This includes both application to a new LOA and items delivery reported after that date even if they were originally priced to include the charge. [DSCA Memo 06-14]
FOREIGN MILITARY SALES BILLING

Sections 21 and 22, of the AECA, provides the legal basis for FMS billing policies and procedures. FMS case billing involves many actions, but can be viewed as one of two processes. First, the agency providing a commodity or service, from either organic or contractual sources, bills the FMS customer’s account managed by DFAS-IN via the FMS delivery transaction. Second, DFAS-IN sends the international purchaser the DD Form 645, Foreign Military Sales Billing Statement.

Foreign Military Sales Delivery Transaction

IAs must report the performance and execution (e.g., deliveries from stock, progress payments, etc.) of the FMS program to DFAS-IN on a monthly basis via an FMS delivery transaction the basic source document for the detailed entries which appear in the FMS delivery listing, and prompts reimbursement/liquidation of transactions reported by the IA. The delivery transaction equates to an 80-position document, the format of which is explained in the FMR 0804 and T804-1.

Among other things, the delivery transaction reflects a Military Standard Requisitioning and Issue Procedure (MILSTRIP):

- Document number
- Stock or part number,
- Quantity
- Mode of shipment
- Delivery source
- Transportation bill code
- Dollar value

For FMS cases, such as blanket order and FMSO-II hundreds of delivery transaction inputs are received by DFAS-IN on a monthly basis. The delivery transaction report provides data enabling DFAS, via DIFS, to compute and bill FMS customers for accrued expenditures including the application of various charges, such as administration, contract administration, packing, crating, handling, and transportation.

The delivery transaction is the basic source document for the detailed entries which appear in the FMS delivery listing, and it also prompts reimbursement or liquidation of transactions reported by the IAs. [Attachment 12-1-1 provides additional information regarding the delivery transaction and an example of the format.

Billing Cycle

DFAS-IN issues quarterly billing statements (DD Form 645) to FMS customers based on the LOA payment schedule prepared by the applicable IA. DFAS-IN bills the customer for costs related to defense articles, services, and training that have been sold pursuant to the AECA. After the FMS customer accepts the offer and provides DFAS-IN with signed copies of the LOA and the applicable initial deposit, DFAS-IN updates the DIFS. The FMS case is implemented in DIFS and the system is prepared to receive IA delivery transactions. The initial deposit accompanying most FMS cases provides sufficient cash to cover disbursements from the time the case is implemented until the first billing payment due date. Billing statements are prepared and forwarded to the FMS purchaser on a
Foreign Military Sales Financial Management

Foreign Military Sales Billing Statement

The FMS Billing Statement, DD Form 645, Figure 12-6, prepared by DFAS-IN represents the official claim for payment by the USG referred to in LOA. It also furnishes an accounting to the FMS purchaser for costs incurred under each agreement. In addition to identifying deliveries (or performance of services) made on the FMS purchaser’s behalf, the DD Form 645 also reflects the forecasted costs which relate to a given FMS case. These forecasted costs may include anticipated progress payments/advances, contractor hold backs, T/L reserve, accrued and future deliveries, pro-rata share of NRC, contract administration costs, and administrative/accessorial costs. [For more on the DD 645 see FMR 0802, 080203, and T802-1.]

Figure 12-6
DD Form 645

<table>
<thead>
<tr>
<th>Period/Quarter Ending</th>
<th>Projected Mailing Date</th>
<th>Payment Due to DFAS-IN</th>
<th>Forecast Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 MAR</td>
<td>15 APR</td>
<td>15 JUN</td>
<td>JUL-SEP</td>
</tr>
<tr>
<td>30 JUN</td>
<td>15 JUL</td>
<td>15 SEP</td>
<td>OCT-DEC</td>
</tr>
<tr>
<td>30 SEP</td>
<td>15 OCT</td>
<td>15 DEC</td>
<td>JAN-MAR</td>
</tr>
<tr>
<td>31 DEC</td>
<td>15 JAN</td>
<td>15 MAR</td>
<td>APR-JUN</td>
</tr>
</tbody>
</table>

quarterly basis (i.e., for quarters ending March, June, September, and December). The following is a sample billing cycle.
DD Form 645 Supporting Documentation

In addition to the DD Form 645, the purchaser is provided certain attachments, as applicable, which contain information of a more detailed nature. Included are the following five supporting documents:

**Foreign Military Sales Delivery Listing**

The delivery listing, Figure 12-7, is detailed information of the performance reporting of articles, services, supply discrepancy reports (SDRs), and notices of actions taken or to be taken, which have been reported to DFAS-IN by the MILDEPs and IAs, supporting Column 9 of the DD 645. It provides delivery information at delivery source code (DSC) level by case and line number regarding articles/services transactions, administrative/accessorial transactions, and a summary of delivery costs for each item number. For an FMS delivery listing explanation, see FMR 080204 and T802-2.

**Figure 12-7**

**Foreign Military Sales Delivery Listing**

![Image of Foreign Military Sales Delivery Listing](image_url)

<table>
<thead>
<tr>
<th>DOC</th>
<th>ID</th>
<th>DSC</th>
<th>UNIT</th>
<th>QUAN</th>
<th>CONTRACT ACR</th>
<th>ACTS</th>
<th>TYPE OF</th>
<th>PERCENT</th>
<th>TOTAL VALUE</th>
<th>ADMINopper</th>
<th>DSC</th>
<th>UNIT</th>
<th>EXTENDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAX</td>
<td>B14</td>
<td>A</td>
<td>02201512</td>
<td>400</td>
<td>309</td>
<td>S2Z56R</td>
<td>UIRK</td>
<td>9911</td>
<td>D</td>
<td>49338</td>
<td>5.00</td>
<td>255.50</td>
<td></td>
</tr>
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<td>5.00</td>
<td>255.50</td>
<td></td>
</tr>
</tbody>
</table>

**Administrative/Accessorial Transactions**

<table>
<thead>
<tr>
<th>DOC</th>
<th>ID</th>
<th>GENERIC</th>
<th>CODE</th>
<th>DESCRIPTION</th>
<th>NUMBER</th>
<th>ARC</th>
<th>ACTS</th>
<th>TYPE OF</th>
<th>FACTOR</th>
<th>COST</th>
<th>APPLIED</th>
<th>COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAX</td>
<td>L1A</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>003</td>
<td>003</td>
<td>120</td>
<td>201</td>
<td>201</td>
<td>120</td>
<td>201</td>
</tr>
<tr>
<td>FAX</td>
<td>L1A</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>003</td>
<td>003</td>
<td>201</td>
<td>201</td>
<td>201</td>
<td>201</td>
<td>201</td>
</tr>
<tr>
<td>FAX</td>
<td>L1A</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>003</td>
<td>003</td>
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<td>201</td>
<td>201</td>
<td>201</td>
<td>201</td>
</tr>
<tr>
<td>FAX</td>
<td>L1A</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>003</td>
<td>003</td>
<td>201</td>
<td>201</td>
<td>201</td>
<td>201</td>
<td>201</td>
</tr>
<tr>
<td>FAX</td>
<td>L1A</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>ADMIN-COSTS</td>
<td>003</td>
<td>003</td>
<td>003</td>
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<td>201</td>
<td>201</td>
<td>201</td>
<td>201</td>
</tr>
</tbody>
</table>
Foreign Military Sales Reply Listing to Customer Requests for Adjustments

The reply listing, Figure 12-8, reflects transactions relating to the final disposition/action taken with respect to SDRs. All responses to SDRs are listed separately for each country, service, case, and item number. The reply listing is prepared in the same basic sequence as the billing statement and FMS delivery listing. All SDRs appearing on the reply listing are included in the FMS delivery listing. A sample FMS reply listing to a customer request for adjustments and explanation are contained in FMR 0803 and T803-1.

Figure 12-8
Foreign Military Sales Reply Listing to Customer Requests for Adjustments

<table>
<thead>
<tr>
<th>DOC</th>
<th>PRC</th>
<th>ROID</th>
<th>SERIAL*</th>
<th>UNIT</th>
<th>QUAN</th>
<th>ISSUE</th>
<th>SHIP</th>
<th>DOCUMENT**</th>
<th>DOC</th>
<th>SUPL</th>
<th>M</th>
<th>ACTG</th>
<th>UNIT</th>
<th>EXTENDED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FKB</td>
<td>B14</td>
<td>A</td>
<td>C0001BDURK</td>
<td>EA</td>
<td>5</td>
<td>BBNC4421003004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>70.00</td>
<td>350.00 CR</td>
<td></td>
</tr>
</tbody>
</table>

NOTES:

* EXTRACTED FROM THE STOCK NUMBER DATA FIELD OF THE RELATED FKA/FKB TRANSACTION IN THE FMS DELIVERY LISTING.

** NOTE THAT THE DOCUMENT NUMBER IN THE FMS REPLY LISTING AND THE FMS DELIVERY LISTING ARE IDENTICAL AND CAN BE IDENTIFIED BACK TO THE INITIAL REQUIREMENT.

*** ARC MAY BE THE RESULT OF NON-RSDR ADJUSTMENTS. FMS CUSTOMER SHOULD REVIEW THE LINE ENTRY IN ITS ENTIRETY TO DETERMINE IF A REPLY (ARC) IS BEING PROVIDED WITHOUT IDENTIFICATION BY SDR SERIAL NUMBER.
Foreign Military Sales Financial Forecast

This document reflects forecast amounts of payments due, by quarter, for up to nineteen quarters of an FMS case. It essentially portrays the same information as the LOA estimated payment schedule. A sample FMS financial forecast is contained in Figure 12-9.

Figure 12-9
Foreign Military Sales Financial Forecast

<table>
<thead>
<tr>
<th>CASE</th>
<th>FORECAST BY QUARTER:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1ST</td>
</tr>
<tr>
<td>CXY</td>
<td>12000</td>
</tr>
<tr>
<td>URK</td>
<td>7000</td>
</tr>
<tr>
<td>TOTAL STATEMENT</td>
<td>19000</td>
</tr>
</tbody>
</table>

Holding Account Statement

As a convenience to the FMS purchaser, DFAS maintains a purchaser holding account. The holding account is a sub account of monies not identified to a specific FMS case. The FMS customer may request DFAS draw upon its country holding account for transfers to specific cases as a need arises. The holding account balances are not included in the totals of the DD Form 645. A separate statement is provided to the country showing deposits and withdrawals to the holding account and is considered an off-line billing statement. Figure 12-10 is an example of a holding account statement.

Figure 12-10
Holding Account Statement

<table>
<thead>
<tr>
<th>Date</th>
<th>Detail</th>
<th>Deposit</th>
<th>Withdrawals</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Sep 99</td>
<td>Balance brought forward</td>
<td></td>
<td></td>
<td>$3,000.00</td>
</tr>
<tr>
<td>25 Oct 99</td>
<td>Funds transferred to 1BD Holding Account</td>
<td></td>
<td></td>
<td>$200.00</td>
</tr>
<tr>
<td>14 Nov 99</td>
<td>Excess funds from closed case P-JAC</td>
<td></td>
<td>$90.00</td>
<td></td>
</tr>
<tr>
<td>29 Dec 99</td>
<td>Cross-leveling transactions per letter, Embassy of Bandaria, D-KAB</td>
<td>$50.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29 Dec 99</td>
<td>Cross-leveling transactions per letter, Embassy of Bandaria, 15 Sep 96 from cases: D-KBU</td>
<td></td>
<td></td>
<td>$100.00</td>
</tr>
<tr>
<td>29 Dec 99</td>
<td>Cross-leveling transactions per letter, Embassy of Bandaria, 15 Sep 96 from cases: D-KBW</td>
<td>$25.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 Dec 99</td>
<td>Balance</td>
<td></td>
<td></td>
<td>$2,890.00</td>
</tr>
</tbody>
</table>
The FMS customer must advise DFAS-IN of its desires relative to the controls over holding account transactions. For example, DFAS needs to know if the customer desires automatic refunds, or if the customer wants to request refunds on a case-by-case basis.

**Suspense Account Statement**

For those countries participating in accelerated case closure procedures, a statement of the country’s suspense account will be provided with each quarterly bill. This account statement is similar to the holding account statement in that it summarizes activity, by case, for the current quarter. The statement also shows the previous and current quarter balances for the account. A sample suspense account statement is included in Figure 12-11. It is important to note that the described supporting documents are only produced when there are appropriate transactions to be recorded during the reporting period.

**Figure 12-11**

Accelerated Case Closure Suspense Account

<table>
<thead>
<tr>
<th>CC</th>
<th>IA</th>
<th>CASE</th>
<th>NEW CLSR</th>
<th>PREVIOUS QTR BAL</th>
<th>CURRENT QTR ACTIVITY</th>
<th>CURRENT QTR BAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>BN</td>
<td>D</td>
<td>CBT</td>
<td>95090</td>
<td>$5,574.76</td>
<td>$0.00</td>
<td>$5,574.76</td>
</tr>
<tr>
<td>BN</td>
<td>D</td>
<td>GAX</td>
<td>9350</td>
<td>$8,566.65</td>
<td>$0.00</td>
<td>$8,566.65</td>
</tr>
<tr>
<td>BN</td>
<td>D</td>
<td>GBF</td>
<td>94322</td>
<td>$16,284.51</td>
<td>$0.00</td>
<td>$16,284.51</td>
</tr>
<tr>
<td>BN</td>
<td>D</td>
<td>GBJ</td>
<td>94318</td>
<td>$343.95</td>
<td>$0.00</td>
<td>$343.95</td>
</tr>
<tr>
<td>BN</td>
<td>D</td>
<td>GBU</td>
<td>*99156</td>
<td>$0.00</td>
<td>$1,677.24</td>
<td>$1,677.24</td>
</tr>
<tr>
<td>BN</td>
<td>D</td>
<td>MBL</td>
<td>92050</td>
<td>$1,781.70-</td>
<td>$0.00</td>
<td>$1,781.70-</td>
</tr>
</tbody>
</table>

**SUBTOTAL BY IA**

$28,988.17 $1,677.24 $30,665.41

*An asterisk in the New CLSR Column means the case was closed in the current quarter.

**Cross-Leveling**

Cross-leveling is an accounting technique by which DFAS-IN transfers funds from one FMS case to another for the same country. This transfer permits the FMS purchaser to minimize payments due on a billing by fully utilizing all funds previously paid on FMS cases. There are two methods through which cross-leveling may be accomplished. In the first method, the customer conducts a cash analysis and, in a letter (usually with a payment), requests DFAS-IN make specific cash transfers among designated FMS cases. The second method authorizes automatic cross-leveling between cases based upon case needs. In this method, there must be a written agreement between DFAS-IN and the FMS customer. In order to provide the FMS customer with a complete record of cross-leveling transactions, the transfer of excess cash is processed to the country holding account and then withdrawn from the holding account to be applied to a case requiring payment.

**Special Billing**

In much the same manner as cross-leveling, customers may be able to minimize cash flow using collections for all cases and average cash flows on a country (vice case) basis via a process known as special billing. Since requirements and procedures are unique to each country, they are normally established in an agreement between the customer country, DSCA, and the appropriate banking
Foreign Military Sales Financial Management

institutions in the U.S. and the purchaser’s country. As noted, since each agreement is unique, the DSCA Comptroller should be contacted if additional information is desired.

DFAS-IN Performance/Delivery Reporting Feedback to Implementing Agencies

In accordance with DoD 7000.14-R, Vol. 15, IA earned reimbursements are to be paid by DFAS-IN within 20 working days from the date of receipt at DFAS-IN. DFAS-IN provides several products to the IAs to assist in reconciling their accounts. The following is a list of selected DFAS-IN products and some of the data provided by each product. DFAS-IN normally provides these products on electronic media to the IAs.

**Foreign Military Sales Command Pay List**

This report identifies the total amount of deliveries charged to FMS cases excluding accounts payable (i.e., country account in a deficit position) and IA delivery reports rejected by DFAS-IN. The report also includes the additional charges that were mechanically computed by DFAS-IN. The FMS command pay list summarizes deliveries reported by case and country for each reporting activity. The last line of the list, total reimbursable to this payee, should equal the amount the payee receives by check.

**Foreign Military Sales Implementing Agency Performance Report Transaction Register**

This computer printout is available for IAs to use in reconciling their reported deliveries to the deliveries processed by DFAS-IN. The register contains transactions submitted by the IA that could not be processed by DFAS-IN because of invalid data and/or suspected problem areas. DFAS-IN also provides information on transactions inputted by DFAS on the IA’s behalf, transactions modified by DFAS-IN, and transactions deleted by DFAS-IN.

**Foreign Military Sales Accounts Payable List**

This report indicates transactions delivery reported by the IAs, but not paid to the reporting activity because the purchaser’s funds were frozen or the purchaser did not have enough cash available, or the amount of credit deliveries outweighed the debits. The list contains a total of all transactions that are reimbursable and non-reimbursable to the reporting activity.

**Case Reconciliation and Closure**

Case reconciliation is not a single action. Rather, it is a series of actions, which commence with the implementation of an FMS case and conclude when the case is closed.

**Foreign Military Sales Case Reconciliation and Closure Manual**

DoD 5105.65-M, FMS RCM, August 2004, is the authoritative FMS policy source concerning case review, reconciliation, and closure. It consolidates reconciliation and closure policies into a single policy reference. This Manual complements and expands on DoD 7000.14-R, FMR, and DoD 5105.38-M, SAMM. It is intended to identify all policies and procedures, and ease actions by simplifying efforts to research the associated business rules. Every effort is made to ensure this document is user-friendly, comprehensive, relevant, and concise.

**Case Reconciliation**

Several important reconciliation actions facilitate case closure. These include:

- Continuous, periodic reconciliation of essential financial data to allow for error detection, correction, and future actions at the earliest possible point in the case life cycle.
• Establishing a comprehensive file of all transactions pertaining to the case. For some cases, this file could be quite large, filling several rooms if the files are maintained in their original form. However, large files may be reduced by the use of electronic media. The data files must also be filed and accessible to case managers and those responsible for final case reconciliation.

• Recording case data with objective evidence. This simply means that every financial transaction, every cost, must be recorded. The recording of financial data in source documents will provide an audit trail which can assure the safeguarding of customer and USG funds.

• Ensuring case identifiers are recorded in all financial transactions.

• When the DoD accepts an FMS case it also accepts a fiduciary responsibility, which is, completed once final reconciliation is effected. Those cases where reconciliation cannot be achieved should be referred to the DSCA case closure executive committee.

Case Closure

An FMS case becomes a candidate for closure when:

• Ordered items have been physically delivered
• Ordered services have been performed
• SDRs have been resolved
• Financial requirements are complete (collections, disbursements, deliveries and obligations are equal)
• Records maintained by the IA and DFAS-IN are in agreement

IAs then perform final case reconciliation actions and submit closure certificates to DFAS-IN where an audit is accomplished and final statements of account are issued.

Accelerated Case Closure

One of the major hindrances to case closure, under the above procedures, is the final settlement of long-running contracts in which the FMS case is a part. An alternative process to close FMS cases is called accelerated case closure (ACC). This procedure allows these cases to be closed in the customer’s records in advance of final contract settlement, and as a result, FMS customers electing to participate in the process will have their cases closed more expeditiously (goal - within two years of supply/services completion). While these cases are closed as far as the customers are concerned, as evidenced by the customer receipt of a final statement of account, the cases continue to be accounted for in both the MILDEP and DFAS-IN records. Final closure in DoD records only occurs when all contracts or other unliquidated obligations are completely settled. The closure certificate process under these accelerated procedures will be in two phases. For those cases closed with unliquidated obligations, an interim closure certificate is submitted. Based on this interim certificate, DFAS-IN will issue a final statement of account to the FMS customer. Subsequently, a final closure certificate is submitted by the IA when all contract issues are finalized and all obligations liquidated.

Enhanced Accelerated Case Closure

Enhanced accelerated case closure (EACC) is a process by which DSCA, based on a number of sources (program reviews, customer requests, etc.) identifies specific cases, which are to be closed
using ACC procedures within the next 180 days (two quarters). DSCA also provides the MILDEPs with the opportunity to provide any justification for removing the case from the EACC listing. Along with each 180-day notification, a revised listing of cases selected for closure in the next 90 days is provided. As a final option, DSCA may direct DFAS-IN to “force close” a specific case within DIFS. This will preclude any future transactions by the IA without DFAS-IN re-opening the case. DSCA Memo 03-05 of March 2003 established the DSCA case closure executive committee to complete closure of particularly unreconciliable cases.

**Summary**

Proper FMS funds management requires the FMS manager to acquire an understanding of a myriad of policies and procedures. Each LOA must reflect easily understood payment terminology. This is accomplished using terms of sale and the payment schedule. For a case to be implemented, IAs must request obligation authority, and the OA in turn must be passed from DFAS-IN to the applicable IA. OA allows items to be released from DoD inventories and contracts to be awarded on the purchaser’s behalf. Expenditure authority must be requested by the IA from DFAS-IN in order to pay contractor invoices.

The methodology employed in determining an FMS price depends on whether the price is to be developed before the fact as an estimate on the LOA, or after the fact as the reporting of a cost in the billing system. In either case DoD personnel responsible for pricing and reporting costs must refer to current policy and procedures. The basic methodology involves the determination of a base cost (e.g., stock, inventory, procurement) plus other costs (e.g., administrative charge, accessorial charges etc.). Although the pricing methodology is relatively simple, estimating the cost elements i.e., “how much” or “to what extent” for allocation to an FMS price can be difficult.

FMS billing provides a mechanism for complying with the requirements of the AECA in that FMS is to be conducted in a “no loss” manner to the USG and that payments are to be made in advance of USG expenditures on the purchaser’s behalf. IAs report the cost of DoD services, inventory, and new procurement sales to DFAS-IN using the “Delivery Transaction.” The basic FMS billing document is the DD Form 645, which is prepared at the end of each calendar quarter. The DD Form 645 serves as both a billing document and a statement of account. Numerous attachments, as applicable, accompany the DD Form 645, to include the “FMS Delivery Listing,” the “FMS Reply Listing to Customer Request for Adjustments,” the “FMS Financial Forecast,” and the “Holding Account Statement.”

**References**


ATTACHMENT 12-1
FOREIGN MILITARY SALES DELIVERY TRANSACTION

The FMS Delivery Transaction identifies accrued MILDEP/IA FMS expenditures (work in process) and physical deliveries of inventory/new procurement articles and services. Based on the data contained in the delivery transaction, DFAS-IN will compute applicable surcharges and report the transactions to the purchaser through the FMS delivery listing attachment to the DD Form 645 FMS Billing Statement. [A Delivery Transaction Report example is shown in Figure 12-1-1.]

Figure 12-1-1
Foreign Military Sales Delivery Listing

The importance of accurate and timely performance reporting is self-evident. For example, transaction position 3, Monitor Code and positions 4-6, Routing Identifier Code identify the activity to which the case is assigned for action and which is to be reimbursed as well as the shipping depot or activity performing the service delivery. An “E” in transaction position 7, Price Code advises the customer that delivery is at an estimated price and “A”, actual costs, will be reported at a later date.

Transaction position 34 DTC indicates the responsibility, DoD or purchaser, for transportation of FMS articles. For example, DTC “8” advises the purchaser that the DoD planned to transport the article(s) to a CONUS port of exit and provide loading, handling, and storage aboard a vessel at the port of exit. Transaction position 35, type of assistance identifies the supply source, type of sale or
type of assistance, such as sale of DoD inventory or services, a cash sale from procurement, a shipment from a customers supply support arrangement.

Transaction positions 55 and 56 DSC provide an audit trail between performance and the pricing of the LOA. The DSC is also used by DFAS to recognize:

- IA earnings for administration of a case
- PC&H
- Contract administration services
- Certain transportation charges

For example, a DSC beginning with the alpha “A” indicates delivery from DoD inventory and a DSC beginning with the alpha “D” indicates work in process on FMS customer procurements and deliveries from procurement. The second alpha of a DSC beginning with a “D” identifies government furnished materiel, nonrecurring charges, a requirement for DFAS-IN to collect for contract administration, etc. [See Figure 12-1-2 for a listing of DSC, and Figure 12-1-3 for the applicable charge matrix based upon the delivery source code.]

Transaction position 59 TBC is a very important code. It is used by DFAS-IN to recognize DoD earnings for transportation of materiel. If this position is left blank, DFAS will compute transportation costs using the DTC previously discussed. However, at present, DTCs do not identify small package shipments (parcel post and United Parcel Service) and DFAS-IN computer is not programmed to consult the mode of shipment code for MILDEP deliveries. Consequently, without a TBC identifying DoD small package shipments the customer is not billed for costs and the MILDEP is not reimbursed.

Transaction position 60 (Stock Fund/Non-Stock Fund) identifies the DoD financing appropriation or stock fund. The reporting activity may use transaction positions 77-79, appropriation/fund budget code, to identify its appropriation/fund to be reimbursed, if applicable.

Transaction positions 65-73 (Extended Value) represent the total dollar value of the delivery transaction report. DFAS will divide this value by the quantity shown in transaction positions 25-29 to determine the unit price as reported in the FMS delivery listing to the purchaser.

Under the positive transaction control performance reporting process, additional data fields are added to the basic 80-column format to provide tracking and suspense monitor. One of the data fields added is an element called the transaction control number, a unique 13-position code assigned by the MILDEP financial integrated control system (FICS) to each transaction submitted. The transaction can then be tracked until its final disposition posting to the DIFS performance reporting subsystem or deletion from the financial records. If there are several transactions against one single document number, each one can be monitored separately. In-depth explanation of all transaction positions may be found in DoD 7000.14-R, Volume 15. As can readily be seen, errors in any codes can, and do, cause serious difficulties in the proper billing of purchasers and reimbursement of costs. Delays in submission of delivery transaction reports by the MILDEPs/IAS result in late reporting of transactions to purchasers, and the erroneous appearance of excessively large purchaser trust fund balances as well as other related problems.
Attachment 12-2-1
Delivery Source Codes

Sale of DoD Articles under Sec. 21, AECA

DWCFs non-excess items, including technical data packages and publications, from inventory

1. Matured FMSO
   2. Other than matured FMSO

DWCFs nonexcess items diverted from procurement initiated to maintain stock fund inventory

1. Matured FMSO
   2. Other than matured FMSO

Procurement funded item (including technical data packages and publications) from inventory that requires replacement.

Procurement funded item (including technical data packages and publications) from inventory that do not require replacement.

Excess Working Capital Funds Item

1. Matured FMSO
   2. Other than matured FMSO

Excess Procurement Funded Item from inventory PC&H computed on original acquisition cost of item and submitted by IA.

Any item other than DWCF Items sold from inventory that are not subject to normal PC&H charge. This code shall only be used with the case contains a transportation line or a packing, crating and handling line, or a pricing exception has been granted by the Office of the Under Secretary of Defense (Comptroller).

Performance of DoD Services under Sec. 21 or 22, AECA

Training Course

1. DoD
   2. Contractor

Repair or replace customer equipment. IAs shall include actual PC&H and transportation for materiel consumed in overhaul in reported costs.

Other DoD services. Does not include “above-the-line” transportation or “above-the-line” PC&H&T associated with the repair or modification of customer-owned equipment that is included in repair cost reported using code “BC”.

Storage charge (for other than FMSO cases )

Leases

1. Depreciation
   2. LOA sales of articles and services in connection with lease, prior to, during, or after lease period (includes transportation, PC&H, refurbishment )

Actual PC&H charge. This report must accompany delivery transactions for items sold from inventory with DSCs AK and AL
## Delivery Source Codes

### “Above-the-line” Transportation

“Above-the-line” transportation to FMS customers that is included in management line(s). Code includes “high-flight” or special airlift. Code does not include “above-the-line” transportation cost that is included in the selling price of an item or service.

<table>
<thead>
<tr>
<th>Position</th>
<th>1st Position</th>
<th>2nd Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>T</td>
<td></td>
</tr>
</tbody>
</table>

### Unique FMSO Charges

- **FMSO I** materiel used to support system obsolete to DoD use (buy out of unique repair parts to support obsolete end-items).
  - **Position** C
  - **First Position** A

- Annual inventory maintenance and storage cost. Charge annually on current FMSO II case. The FMSO I case manager shall input the FMS detail delivery transaction. There is no annual charge for DWCF items for CLSSAs, as the DWCF standard stabilized price recoups all costs.
  - **Position** C
  - **First Position** B

- Normal inventory loss on procurement appropriation funded secondary items (physical inventory gain or loss, expiring shelf life, and damage of stored parts). Charge assessed annually on current FMSO II case. The FMSO I case manager shall input the delivery transactions.
  - **Position** C
  - **First Position** C

- Cash advances for on-hand portion of FMSO I.
  - **Position** C
  - **First Position** D

### Procurement for FMS Customers under Sec. 22, AECA

Codes DE through DL represent Work-in-Process (WIP) transactions. The break-down of these charges provides audit trail visibility for pricing purposes. The DFAS-IN shall treat them as progress payments and report them as such to the FMS customer. These charges shall be liquidated by one of the contract delivery codes DA through DD in combination with reimbursement code “N”.

1. Contractor services (other than training)
   - **Position** D
   - **First Position** A
2. DWCF item, TDP, or publications from contractor
   - **Position** D
   - **First Position** B
3. Procurement appropriation funded secondary item from contractor
   - **Position** D
   - **First Position** C
4. Procurement funded principal or major item from contractor
   - **Position** D
   - **First Position** D
5. Progress payment to contractor
   - **Position** D
   - **First Position** E
6. DoD services in support of procurement. (This code was applied to actual CAS hours prior to establishment of the charge. It now applies to other than CAS services).
   - **Position** D
   - **First Position** F
7. Nonrecurring Cost Recoupment Charge (R&D and Production).
   - **Position** D
   - **First Position** G
8. Government-furnished materiel (GFM)
   a. Shipped from inventory
      - **Position** D
      - **First Position** J
   b. Shipped from another contractor
      - **Position** D
      - **First Position** K
   c. PC&H&T applicable to procurement funded GFM
      - **Position** D
      - **First Position** L
9. Contractor effort in overseas locations which is supported by an FMS management line rather than through normal CAS effort.
   - **Position** D
   - **First Position** X
### Attachment 12-1-2 (Continued)
#### Delivery Source Codes

<table>
<thead>
<tr>
<th>DSC 1st Position</th>
<th>DSC 2nd Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Miscellaneous Charges</strong></td>
<td></td>
</tr>
<tr>
<td>1. Royalty charge (USG TDP)</td>
<td>E</td>
</tr>
<tr>
<td>2. Other federal agency shipment</td>
<td></td>
</tr>
<tr>
<td>a. From stock</td>
<td>E</td>
</tr>
<tr>
<td>b. From contractor</td>
<td>E</td>
</tr>
<tr>
<td>3. NATO POL</td>
<td>E</td>
</tr>
<tr>
<td>4. Redistributable MAP property</td>
<td>E</td>
</tr>
<tr>
<td>5. Collection on nonrecurring production charge or license fee on behalf of a third country</td>
<td>E</td>
</tr>
<tr>
<td>6. Prepositioning costs</td>
<td>E</td>
</tr>
<tr>
<td>7. Interest on arrearage computed in accordance with Volume 6, Chapter 12, DoD 7000.14-R, Volume 15. “Collecting and Reporting of Foreign Indebtedness Within the Department of Defense.” Restricted to use by the DFAS-IN</td>
<td>E</td>
</tr>
<tr>
<td>8. Nonrecurring cost recoupment charges</td>
<td>E</td>
</tr>
</tbody>
</table>

### Special Defense Acquisition Fund (SDAF)

- This code shall be used for SDAF sales of items originally purchased from DoD DWCF inventories.

- This code shall be used for SDAF sales of items originally purchased from DoD inventories other than defense business operations fund.

- This code shall be used for SDAF sales of items procured from contractors for the fund.

- This code shall be used for SDAF sales of items procured from contractors and shipped directly from the contractor to the FMS customer, providing there is no requirement for any special PC&H.
### Attachment 12-3-1

**Delivery Source Code Matrix**

**Accessorial Computation Matrix**  \([N = \text{No}; Y = \text{Yes}]\)

<table>
<thead>
<tr>
<th>Delivery Source Code</th>
<th>Contract Administration</th>
<th>PC&amp;H</th>
<th>Administration</th>
<th>Transportation Parcel Post</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
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<td>AB</td>
<td>N</td>
<td>N</td>
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<td>Y</td>
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<td>N</td>
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<td>Y</td>
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**Notes:**

1. DFAS-IN will compute CAS (unless statutory waiver of contract administration has been made) if price code is “N” and reimbursement code is other than “N.”
2. PC&H does not apply to stock fund or DWCF items with ship dates after 1 October 1990.
3. Included in actual or estimated actual repair cost.
4. Administrative costs will be computed unless administrative costs have been waived pursuant to statute.
5. Transportation costs will be computed using the transportation bill code in position 59 of the delivery transaction. However, if this position is blank, transportation costs will be computed using the DTC (position 34).
6. The inland CONUS transportation charge of 3.75 percent does not apply to DWCF shipments with shipping dates subsequent to 1 October 1990. Computation for generic codes L1D and L1E for DWCF items was discontinued on items with shipping dates from October 1991. See DoD 7000.14-R for additional information regarding transportation charges.