

CHAPTER 01

GENERAL INFORMATION**0101** INTRODUCTION

010101. Purpose. The purpose of this Volume is to:

A. Establish the accounting, pricing, budgeting, and reporting policies and procedures which are necessary to implement the financial management requirements of the Arms Export Control Act [reference (a)], hereinafter referred to as the AECA.

B. Establish the accounting, financing, and billing procedures for foreign military sales (FMS) transactions in the Trust Fund (Advances Foreign Military Sales, Executive) and in the performing appropriations when FMS orders are executed on a reimbursable basis.

C. Establish the pricing and costing criteria for FMS sales of Defense articles and Defense services (including training) and construction services furnished to friendly foreign governments and international organizations under authority of the AECA.

D. Ensure that the pricing policies are applied in situations where a contractor, involved in direct sales to a foreign government, acts as an agent of the foreign government in executing a purchase agreement with the U.S. Government for Department of Defense (DoD) materiel and services. The policies apply where coproduction, codevelopment, cooperative production or cooperative development agreements are entered into with foreign governments.

010102. Authority. This Regulation is issued under authority of DoD Instruction 7000.14, "DoD Financial Management Policy and Procedures," [reference (b)]. DoD Instruction 7290.3, "Foreign Military Sales Finance and Accounting" [reference (c)] is canceled.

010103. Applicability. The provisions of this Volume apply to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff and the Joint Staff, and Defense Agencies (hereinafter referred to collectively as "DoD Components"). Unless specifically exempted, FMS transactions should follow DoD accounting guidance contained elsewhere in the Regulation.

010104. Objectives. The general objectives of this Volume are to:

A. Assure full compliance with the financial management and pricing requirements of the AECA, as amended.

B. Provide an integrated accounting and financial control system that will record all financial transactions related to an FMS case from the time it is accepted until it is completed.

C. Provide complete accounting support for the budget schedules and budget concepts as reflected in the DoD Budget Guidance Manual [reference (d)].

D. Provide an accounting and financial control pattern for FMS work which gives appropriate recognition to the fact that the budget authority resulting from accepted FMS cases is not necessarily recorded for obligation in the year in which the case is accepted by the FMS customer.

E. Ensure that Trust Fund and performing appropriation accounting, reporting, and budget schedules are properly interfaced.

F. Facilitate budgeting, financial planning, and cost estimating for FMS transactions.

G. Ensure compliance with all requirements for the administrative control of

funds and provide a Trust Fund accounting system that will meet General Accounting Office (GAO) standards.

010105. Volume Organization and Maintenance

A. Organization. This Volume consists of chapters which are organized in terms of major categories of interest. For example, Chapter 2, Finance, provides the procedures to be followed in recognizing budget authority by various DoD Components involved in execution of an FMS case. Paragraph 020102 explains the responsibilities of the various DoD Components, paragraph 020103 explains the documents required for creation of budget authority, and paragraph 020104 establishes policies for recognition of budget authority in the FMS Trust Fund.

B. Identification System

1. Each of the chapters is subdivided into sections that are numbered consecutively in the hundred series identified by the chapter number. For example, Section 0101 is the first section in Chapter 1, Section 0201 is the first section in Chapter 2, etc.

2. Paragraphs are numbered consecutively with a six-digit number consisting of the chapter number (two digits), the section number (two digits), and a two-digit paragraph identity. For example, the first paragraph in Section 0101 is numbered 010101 and the fourth paragraph in Section 0101 is numbered 010104. Subparagraphs and subdivisions thereof are identified, in turn as necessary, by upper-case letters, arabic numerals, lower-case letters, arabic numerals in parentheses, lower-case letters in parentheses, underlined arabic numerals and underlined lower-case letters. Thus, a subparagraph might be referred to as subparagraph 010101.A.1.a.(1)(a)1.a. Lower-case Roman numerals in parentheses will be used to identify lists of items within the text of a paragraph or subparagraph.

3. Page numbers are listed consecutively.

4. Table numbers consist of a two-part number. The first part will be the

chapter and section number and the second part will be an arabic number assigned to the table (e.g., 101-1, 101-2, etc.).

5. Appendix numbers consist of a two-part number. The first part will be the consecutive letter of the alphabet and the second part will be the page number (e.g., A-1, B-2, etc.).

C. Basic Publication and Changes. This Volume will be published in a format similar to a telephone book and each change to the Volume after the basic publication will be distributed by a DoD Publication System Change Transmittal, SD Form 106-2. Changes to the Volume will be made to the extent feasible by reissuance. Revised guidance issued by Department of Defense (Comptroller) (DoD(C)) memorandum in advance of a formal change to the Volume will be canceled and incorporated in a formal change as soon as possible after issuance of the memorandum.

D. Distribution. This Volume and changes thereto will be distributed in accordance with provisions of the DoD Directives System.

E. Syntax. The use of the virgule, commonly know as a slash (/) mark, throughout this Regulation is to denote alternatives, as in "and/or."

010106. Interpretations, Recommendations, and Deviations. Requests for clarification, interpretation of, or changes to, the provisions of this Volume will be submitted through comptroller channels to the Defense Finance and Accounting Service, Deputy Director for Accounting (DFAS-HQ/A). Recommended changes to Chapter 7 will be forwarded to the DoD Deputy Comptroller (Management Systems) who is the office of prime responsibility for this chapter. Any guidance contained in this Volume that appears to be in conflict with other DoD issuances or the governing statutes and regulations will be reported to the DFAS-HQ/A. Deviations from the finance and accounting policies prescribed in this Volume may not be implemented without the prior approval of the DoD Principal Deputy Comptroller.

010107. Effective Date and Implementation

A. The provisions of this Volume are effective immediately.

B. The DoD Components will, when necessary, proceed to design or modify their reporting systems and pricing regulations in a manner that is consistent with the policies and procedures contained herein.

0102 LEGAL BACKGROUND

(This section has been moved to paragraph 070104)

0103 TREASURY ACCOUNTS

010301. Treasury Accounts Applicable to FMS Trust Fund Operations. The Treasury Department has established the following Trust Fund receipt and expenditure accounts to be used to account for cash collections, budget authority, and cash disbursements resulting from the FMS Program:

A. Cash Collections. Cash collected for Sections 21, 22, and 29 sales is deposited into Treasury Account 8242, "Deposits, Advances, Foreign Military Sales." Cash collections into this account include cash transfers from appropriations provided by the U.S. Government to finance Section 23 credit sales and the proceeds of Section 24 guaranteed commercial loans.

B. Budget Authority. The budget authority resulting from FMS orders is recognized in Treasury Account 97-11X8242, "Advances, Foreign Military Sales, Executive." Budget authority is recognized only to the extent it is estimated that orders will be executed during a year. The portion of the order which cannot be executed is classified as an uncommitted acceptance.

C. Cash Disbursements. Cash disbursements to contractors (when direct cite procedures are used) and to DoD Components for services, items from inventory, and procurements financed by DoD appropriations/fund accounts are made from account 97-11X8242, "Advances, Foreign Military Sales, Executive."

010302. Treasury Accounts Applicable to Appropriations Made Available to Finance Credit Sales and Guaranties Under Sections 23 and 24 of the AECA

A. Receipt and Utilization of Appropriations. Account 11X1082, "Foreign Military Credit Sales, Executive," has been established to record the receipt and use of funds appropriated by the Congress to finance Section 23 credit sales and Section 24 guaranties.

B. Cash Collections. Three Miscellaneous Receipts Accounts are used to account for collections made from foreign countries and international organizations as a result of credit sales and guaranties.

1. Account 2968, "Repayment of Loans, Foreign Military Credit Sales." This account is used exclusively for AECA transactions.

2. Account 1468, "Interest on Foreign Military Credit Sales, Executive." This account is used exclusively for AECA transactions.

3. Account 2499, "Other Fees and Charges for Miscellaneous Services, Executive." This is a multi-use account (it contains AECA and other transactions). The 1/4 of 1 percent commercial loan guaranty charge is deposited into this account.

010303. Treasury Accounts Applicable to Foreign Assistance Act of 1961 Credit Sales

A. Prior to June 20, 1968, Foreign Military Credit Sales were authorized to be made from a revolving fund established under Section 524 (formerly Section 508) of the Foreign Assistance Act of 1961, as amended. The revolving fund was terminated as of June 30, 1968, by amendments in 1967 to the Foreign Assistance Act. On the termination date, the assets of the revolving fund were transferred to a special (liquidation) account, which is now available solely for the purpose of discharging the outstanding liabilities and obligations arising out of credit sales arrangements and guaranties issued prior to that date.

B. To provide continuity the Treasury Department assigned the same account symbol to the liquidation account as had been in effect for the revolving fund. The account symbol is 11X4117, "Liquidation of Foreign Military Sales Fund, Executive." The DSAA Comptroller is to continually monitor the account and transfer unnecessary funds to the general fund of the Treasury.

0104 TYPES OF FINANCING

010401. General. There are two types of financing associated with FMS: reimbursable and direct cite. The detailed budgeting and accounting requirements for each type are discussed throughout the remainder of this Volume.

010402. Reimbursable Financing. Section 21 and those Section 22 sales on which the President has determined it in the national interest to bill for defense articles and services on or after delivery shall be accomplished using reimburs-

able financing. In other words, if deferred payment is authorized, then the appropriation accounts must be used to initially finance any outlays until FMS customer payment is made.

010403. Direct Cite Financing. New procurements initiated as a result of FMS orders under Section 22 and 29 of the AECA (except as exempted above) should be accomplished to the maximum extent feasible and appropriate through direct citation of the FMS Trust Fund (97-11X8242) on applicable contractual documents.

010404. Accounting Classification Codes of the FMS Trust Fund. Accounting classification codes of the FMS Trust Fund are shown in Table 104-1.

0105 CREDITING OF EARNED REIMBURSEMENTS

(This section has been moved to paragraph 070105)

TABLE 104-1 FMS TRUST FUND ACCOUNTING CLASSIFICATION CODES

<u>Appropriation/ Limit</u>	<u>Agency Code</u>	<u>Agency Name</u>
97-11X8242.XXX1	B	Army
97-11X8242.XXXC	C	Defense Information Systems Agency
97-11X8242.XXX2	D	Air Force
97-11X8242.XXXG	G	Defense Finance and Accounting Service
97-11X8242.XXXX	K	Marine Corps
97-11X8242.28XX	P	Navy and Marine Corps (MISIL)
97-11X8242.XXXX	P	Navy (STARS)
97-11X8242.XXX9	Q	Defense Security Assistance Agency
97-11X8242.XXXE	E	Corps of Engineers (Effective May 1, 1987, the Corps of Engineers uses the "B" Agency Code)
97-11X8242.XXXM	M	Army - Other
97-11X8242.XXXR	R	Defense Logistics Agency
97-11X8242.XXXU	U	Defense Mapping Agency
97-11X8242.XXXV	V	Defense Contract Audit Agency
97-11X8242.XXXW	W	Defense Advanced Research Projects Agency
97-11X8242.XXXZ	Z	Defense Nuclear Agency