

CHAPTER 4

CASH MANAGEMENT0401 INTRODUCTION

040101. Objectives. The objective of this chapter is to set forth procedures which will assure that cash necessary to liquidate obligations resulting from the FMS program is available when the need for disbursement arises. FMS orders create contract authority. Funds appropriated by the Congress for defense purposes cannot be used to liquidate obligations resulting from the use of the contract authority. The cash requirements (outlay authority) of each FMS customer must be met by that customer.

040102. Cash Management Characteristics

A. FMS customer cash deposits into the FMS Trust Fund for defense articles and services sold under Sections 21 and 22 of the AECA shall be made in advance of delivery, performance, or progress payments to contractors except as provided in paragraph 040102.A.1. and 2., below. Such advance cash collections to the FMS Trust Fund must also be made from Foreign Military Financing (FMF) appropriations used to finance a sale or special emergency appropriations obtained to finance deliveries under FMS orders when billing upon delivery and payment within 120 days after the date of billing is considered in the national interest.

1. Payment after delivery of defense articles from stock or rendering of in-house defense services, as authorized by Section 21 of the AECA, requires a specific determination by the Director, DSAA, that delayed payment is in the national interest.

2. All cash disbursements for a foreign country or international organization shall be identified by FMS case and shall not exceed the customer's 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" shall not be used to liquidate obligations incurred on behalf of country "Y." A reportable adverse financial condition exists when a single FMS customer level cash summary account is in a deficit position (a credit balance).

3. There are two exceptions to the provisions of subparagraph 2, above.

a. Customer Authorization to Use Cash for Third Party. When a customer has authorized the use of its excess cash deposits to meet the cash requirements of another country an adverse financial condition exists only if the cumulative cash balance of both countries is in a deficit position.

b. Customer or DSAA Direction to Disburse Cash on a Case Basis. When a customer or DSAA has directed that cash be used only to meet disbursement demand of specific cases, then an adverse financial condition exists for each such case that is in a

deficit cash position.

4. An initial deposit shall accompany FMS cases to provide the cash advance required to cover disbursements from the time the case is accepted until the first billing due date. FMS bills are prepared on a quarterly basis in January, April, July, and October. The bill includes the cash requirements for the calendar quarter following the quarter in which the bill is mailed. For example, a bill prepared in January (December cutoff, payment due March 15) is to project cash requirements through June. Thus, the initial deposit for a case accepted in December would be the cash required through June, or six (6) months of advance cash requirements. Chapter 8 contains a full discussion of the FMS billing process.

B. The FMS Trust Fund corpus is managed as a single cash entity, as outlined in subparagraph A above, regardless of the source of the deposits; however, all FMS Trust Fund deposits are accounted for at country and FMS case level by source of financing (MAP Merger, FMS Credit, Foreign Military Financing Credit, non-repayable, or customer national funds).

C. Since the United States Government finds it in its best interest to provide Security Assistance funds annually to selected friends and allies to finance the purchase of U.S. articles and services, it is therefore in the United States Government's interest to properly utilize and manage these limited funds as effectively as possible.

1. In determining the order of funds to be paid into the FMS Trust Fund, DSAA may draw down MAP Merger funds (while available), up to the amount reserved for each case, prior to requesting the FMS customer to draw down FMS credit funds or national funds. Likewise, MAP funds on deposit in the FMS Trust Fund will be accounted for as expended prior to FMS credit or national funds deposits, and credit funds will be considered expended before national funds.

2. Security Assistance funds (MAP Merger/FMS Credits/Foreign Military Financing grants or loans) that become excess due to FMS case reduction or closure may be reapplied to other FMS cases, with DSAA approval, but may not be refunded to the FMS customer.

3. An FMS customer country, with prior DSAA approval, may provide DSAA with a properly executed, separate FMS credit drawdown letter to cover uncollected termination liability for a billing quarter. In such event, it will be necessary to deposit into the FMS Trust Fund only the amount of funds needed to cover contractual progress payments and reimbursements to Implementing Agencies during the billing quarter.

D. The DSAA is authorized to enter into a national funds investment account agreement (Tripartite Agreement) with an FMS customer and the Federal Reserve Bank of New York (FRBNY) for any country which finances all or a significant part of its FMS programs with national funds.

1. To be eligible, the customer's FMS program must be large enough that the total amount of advance cash deposits anticipated to remain in the FRBNY account will

exceed the minimum amount required for investment in short-term, 3-6 month Treasury bills. FRBNY accounts will not normally be considered for a country which finances FMS programs primarily with U.S. Security Assistance funds.

2. Subsequent to the establishment of the investment account, the customer is directed to remit all national funds payments to the FRBNY, identified to specific FMS cases. (NOTE: payments made from U.S. Security Assistance funds normally will not be remitted to the FRBNY account, but will be made directly to the FMS Trust Fund (unless otherwise specified in U.S. law).

3. The SAAC is authorized by the account agreement to make periodic drawdowns, usually monthly, from the FRBNY account into the FMS Trust Fund as needed to provide at all times sufficient funds to make payments during the next thirty days.

040103. Responsibilities

A. Security Assistance Accounting Center (SAAC). The SAAC is responsible for:

1. Timely posting of customer cash deposits and disbursements thereof to FMS case accounting records.

2. Reconciling summary Trust Fund level cash account balances (balance per books) to the Department of Treasury balance (balance per bank).

3. Assuring that approved cash expenditure authorities do not exceed FMS customer cash balances.

4. Identifying developing cash flow problems and alerting OSD management and implementing agencies in a timely manner.

B. Implementing Agencies. The Implementing agency is responsible for:

1. Preparing and updating case payment schedules. Payment schedules shall be updated annually on the anniversary of each major case and/or when the value of a case increases by 10 percent or more.

2. Systematically developing historical cost curves for DoD major weapon systems obtained through procurement, for use in preparing case payment schedules; and reviewing the curves periodically for validity.

3. Continually reviewing case level cash balances to assure that the payment schedule is accurate and cash is available to support any outlay requirements that may materialize for the case. This includes disbursements to reimburse DoD accounts for earned reimbursements and disbursements to contractors for billed costs, contract holdbacks and potential contract termination costs.

a. In the event payment schedules do not adequately meet the cash needs, promptly notifying SAAC of the necessity to bill and collect additional cash advances, and following up on this notification by issuing a revised payment schedule via an LOA modification.

b. In the event payment schedules overstate the cash needs, due to delays in contract award, delivery slippages, or other reasons, issuing a revised payment schedule via an LOA modification.

4. Ensuring receipt of expenditure authority prior to processing a disbursement citing the FMS trust Fund.

0402 ESTIMATING CASH ADVANCE REQUIREMENTS

040201. Method for Calculating Requirements

A. Calculation of Initial estimate. Calculation of the cash requirements for a specific FMS case requires that case costs be subdivided into two broad cost categories. The first category is the portion of case value to be provided under authority of section 21 of the AECA, sales from DoD inventories and the services of DoD personnel. The second category is the portion of case value to be provided under authority of section 22 of the AECA, procurement of hardware or contractor services for the FMS customer. The cash advance for the portion of the case classified as a Section 21 sale shall include the estimated earned reimbursements to be realized by DoD appropriation/fund accounts during the three month period subsequent to the payment due date of the billing statement issued by SAAC. The cash advance for the portion of the case classified as a Section 22 sale shall include estimated disbursements to contractors for contractor invoices and potential disbursements to contractors if additional cash deposits are not made by the customer in a timely manner or the case is unilaterally canceled by the customer. Potential disbursements to contractors include payment of contract holdbacks and termination costs which would result if work were stopped when the cash available to pay contractor invoices is exhausted. The time period covered by the estimate of advance cash required is the three month period subsequent to the payment due date of the billing statement issued by SAAC.

B. Initial Estimates of Cash Required in Support of Section 21 Effort

1. Sales from Inventory. Estimates of earned reimbursements for inventory items shall be on the basis that requisitioned items will be dropped from inventory within 30 days after a requisition for a stocked item is issued. The drop from inventory creates the earned reimbursement. Therefore, the applicable FMS case manager will develop this portion of estimated cash requirements based upon anticipated requisition release dates.

2. Sales of DoD Services. Estimates of earned reimbursement for DoD services provided directly to the FMS customer or in support of a Section 22 contract shall be based on the estimated portion of the services which will be provided in the applicable billing period. Services also include applicable administrative and accessorial surcharges.

3. Recoupment of Nonrecurring Charges. Charges for nonrecurring costs are earned as items are physically delivered to the FMS customer. Therefore, the cash to be collected for these charges should be based upon item delivery schedules.

C. Initial Estimates of Cash Required in Support of Sections 22 and 29 Effort

1. Cash advances required to support procurements for FMS customers shall be based upon normal administrative and procurement lead-times for the type of commodity being procured. Table 402-1 illustrates, in terms of percentage of contract costs, the total required cash advance necessary to support contracts for aircraft and related equipment; the percentages are a function of procurement lead-times. The Table also illustrates the amount of contract value which is being collected as a reserve for potential termination costs and contractor holdback.

a. Potential termination costs or "bailout" costs represent the liability DoD has to contractors in the event termination occurs. Generally, such costs include all accrued direct and indirect costs and profits and subcontracts not covered by progress payments to the contractor, plus any penalty contract termination charges that might be realized. Potential termination costs do not include price increases to other ongoing contracts resulting from reductions in procurement quantities.

b. Contractor holdback represents amounts earned by contractors or suppliers, but held back to ensure future performance. (Normally the result of progress payments authorized at less than 100 percent.)

c. In the absence of a procurement history for a particular system, or a similar system, or cost curves obtained from a prime contractor, Table 402-1 may be used. The percentages in Table 402-1 are for procurement lead-times ranging from 6 months to 60 months. This table may be used for the development of payment schedules included in the LOA. The percentage figures shown in Table 402-1 include all applicable costs, i.e., progress payment amounts, contractor holdback, and potential termination liability. The amount of the cumulative monthly payment applicable to the termination liability and contractor holdback reserve is shown in the second column (% TL) for each procurement lead-time.

2. Table 402-2 illustrates the development of a payment schedule based upon Table 402-1 percentages for the bombs under example C of the DD Form 2061 illustrated in Table 202-3. The percentages in Table 402-1 are applied only to pricing element "CC" or the new procurement value of \$800,000.

a. The figures in Table 402-2 are based on an assumed procurement lead-time of 36 months. Although assumed for the purposes of illustration, in actual practice this lead-time must be furnished by the procuring activity.

b. For purposes of illustration, the table assumes that the Letter of Offer was signed at the end of the quarter after the billing cut-off date, e.g., December

20. The table further assumes an administrative lead-time of three months to go on contract, although it is recognized that many contracts will not be let until much later. Implementing agencies shall insure that realistic contract administrative lead times are used in preparing payment schedules.

c. The initial deposit to accompany the Letter of Offer must include 50 percent of the administrative surcharge expense and the cash advance required between LOA acceptance and the first payment due date. Since the LOA illustrated in Table 402-1 was signed after the billing cut-off date, the time period between acceptance and payment due date will approximate six months (e.g. for a December 20th acceptance, SAAC would not bill until April for a due date of June 15th). Because of the 3-month administrative lead-time, no contract cost will be incurred until April. The initial deposit, therefore, will be necessary only to cover the months of April, May, and June. The cumulative percentage of contract cost for this 3-month period is 1.1%. Applying this percentage to the contract cost yields an initial deposit of \$8,800-due upon acceptance.

d. The April billing would show \$21,600 (\$30,400 - \$8,800) as the amount due on June 15 to cover the months, July, August, and September; the July billing (June cut off) would show \$34,400 (\$64,800 - \$30,400) due on September 15 and so on. The payment schedule would reflect these due dates.

e. The amount of the initial deposit to be reserved for termination liability and contractor holdback is \$352. The amount of the first bill (\$21,600) to be reserved for termination liability and contractor holdback is \$8,768 (\$9,120 - \$352) and for the second bill \$13,560 (\$22,680 - \$9,120).

f. Table 402-3 displays this payment schedule example in the standard Termination Liability Worksheet format. Table 402-1 illustrates a payment schedule that includes Section 21 sales in addition to the procurement items.

TABLE 402-1 CUMULATIVE MONTHLY PAYMENT SCHEDULE AND TERMINATION LIABILITY (TL) PERCENTAGES
(As a percentage of Contract Cost)

Procurement Lead Time	6 months		9 Months		12 Months		15 Months		18 Months		21 Months	
	Month	Cumulative Monthly Payments	% TL	Cumulative Monthly Payments	% TL	Cumulative Monthly Payments	% TL	Cumulative Monthly Payments	% TL	Cumulative Monthly Payments	% TL	Cumulative Monthly Payments
1	5.7	30	2.7	14	1.5	0	1.0	0	0.7	0	0.5	0
2	19.6	35	8.2	38	4.6	30	3.0	20	2.1	14	1.5	9
3	44.8	32	17.7	35	9.4	34	6.0	40	4.2	30	3.1	23
4	74.9	18	32.4	34	16.7	35	10.2	33	7.1	38	5.2	37
5	95.2	2	51.6	29	26.8	35	16.0	35	10.8	34	7.9	36
6	100.0	0	71.9	18	39.9	32	23.7	35	15.7	35	11.3	34
7			88.4	5	54.9	27	33.4	33	21.9	35	15.5	35
8			97.2	1	70.2	18	44.8	30	29.4	34	20.7	35
9			100.0	0	83.5	7	57.2	26	38.3	32	26.9	34
10					92.8	2	69.6	18	48.1	29	34.1	33
11					97.8	0	80.8	9	58.5	24	42.1	30
12					100.0	0	89.6	3	68.7	18	50.8	28
13							95.4	1	78.2	10	59.7	24
14							98.6	0	86.1	5	68.5	18
15							100.0	0	92.2	2	76.8	11
16									96.7	1	84.0	7
17									98.7	0	89.9	3
18									100.0	0	94.3	1
19											97.3	0
20											99.2	0
21											100.0	0

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**TABLE 402-1 CUMULATIVE MONTHLY PAYMENT SCHEDULE
AND TERMINATION LIABILITY (TL) PERCENTAGES (continued)**
(As a percentage of contract cost)

Procurement Lead Time	24 Months		27 Months		30 Months		33 Months		36 Months		39 Months	
Month	Cumulative Monthly Payments	% TL										
1	0.4	0	0.3	0	0.3	0	0.2	0	0.2	0	0.2	0
2	1.2	5	0.9	2	0.8	0	0.6	0	0.5	0	0.5	0
3	2.4	18	1.8	14	1.5	10	1.2	8	1.1	4	1.0	2
4	4.0	30	3.1	24	2.6	20	2.0	17	1.8	14	1.6	10
5	6.0	39	4.7	35	3.9	30	3.1	27	2.7	24	2.4	18
6	8.5	35	6.6	38	5.4	40	4.4	38	3.8	30	3.3	26
7	11.5	34	8.9	34	7.2	37	5.9	37	5.0	39	4.4	34
8	15.2	35	11.7	34	9.4	33	7.6	35	6.5	37	5.6	39
9	19.6	35	15.0	35	11.9	34	9.6	33	8.1	35	7.0	37
10	24.8	35	18.9	35	14.9	35	11.9	34	10.0	34	8.6	35
11	30.7	33	23.4	35	18.3	35	14.6	35	12.2	34	10.4	34
12	37.4	32	28.5	34	22.2	35	17.7	35	14.7	35	12.4	34
13	44.7	29	34.2	32	26.7	34	21.2	35	17.5	35	14.7	35
14	52.4	27	40.4	31	31.6	33	25.1	34	20.6	35	17.3	35
15	60.2	22	47.0	29	36.9	31	29.4	33	24.1	35	20.1	35
16	67.9	18	53.9	27	42.7	30	34.1	32	27.9	34	23.2	35
17	75.3	12	60.9	22	48.8	28	39.2	31	32.1	33	26.6	34
18	81.8	7	67.8	18	55.0	26	44.6	29	36.6	32	30.3	33
19	87.4	4	74.4	13	61.3	22	50.2	28	41.3	30	34.3	32
20	91.9	2	80.4	8	67.5	18	55.9	25	46.3	29	38.6	32
21	95.2	1	85.7	5	73.5	13	61.6	22	51.5	27	43.1	29
22	97.5	0	90.1	2	79.0	9	67.2	18	56.7	25	47.8	27
23	99.1	0	93.6	1	83.9	6	72.6	14	62.0	22	52.6	27
24	100.0	0	96.2	1	88.2	3	77.7	10	67.2	18	57.5	24

25			98.1	0	91.7	2	82.3	7	72.2	14	62.4	21
26			99.4	0	94.5	1	86.4	4	76.9	11	67.2	18
27			100.0	0	96.6	1	89.9	2	81.3	7	71.8	14
28					98.1	0	92.8	1	85.2	5	76.2	11
29					99.3	0	95.1	1	88.6	3	80.3	9
30					100.0	0	96.9	0	91.5	2	84.0	6
31							98.2	0	93.9	1	87.3	3
32							99.2	0	95.9	1	90.2	2
33							100.0	0	97.4	0	92.7	2
34									98.5	0	94.7	1
35									99.4	0	96.3	1
36									100.0	0	97.6	0
37											98.6	0
38											99.4	0
39											100	0

Table 402-1

**TABLE 402-1 CUMULATIVE MONTHLY PAYMENT SCHEDULE AND TERMINATION
LIABILITY (TL) PERCENTAGES (CONTINUED)
(As a percentage of Contract Cost)**

Procurement Lead Time	42 Months		45 Months		48 Months		51 Months		54 Months		57 Months		60 Months	
Mo26nth	Cumulative Monthly Payments	% TL												
1	0.1	0	0.1	0	0.1	0	0.1	0	0.1	0	0.1	0	0.1	0
2	0.4	0	0.3	0	0.3	0	0.3	0	0.2	0	0.2	0	0.2	0
3	0.8	2	0.6	0	0.6	0	0.6	0	0.5	0	0.4	0	0.4	0
4	1.3	8	1.1	6	1.0	5	0.9	4	0.8	2	0.7	1	0.6	0
5	2.0	16	1.7	12	1.5	10	1.3	9	1.2	8	1.1	6	1.0	3
6	2.8	23	2.4	20	2.1	18	1.8	15	1.7	14	1.5	12	1.4	10
7	3.8	30	3.2	26	2.8	24	2.4	22	2.3	10	2.0	17	1.8	15
8	4.8	38	4.1	32	3.7	30	3.1	27	2.9	24	2.6	22	2.3	20
9	6.0	38	5.1	40	4.6	36	3.9	32	3.6	30	3.2	27	2.9	25
10	7.3	36	6.3	38	5.6	39	4.8	39	4.4	35	3.9	33	3.6	30
11	8.8	34	7.6	36	6.7	37	5.8	38	5.3	40	4.7	38	4.3	35
12	10.5	34	9.0	33	8.0	35	6.9	36	6.3	38	5.6	39	5.1	40
13	12.4	34	10.6	34	9.4	33	8.1	35	7.3	36	6.6	37	5.9	38
14	14.5	35	12.4	34	10.9	34	9.4	33	8.5	34	7.6	35	6.9	36
15	16.9	35	14.2	35	12.6	34	10.8	34	8.7	33	8.7	33	7.9	35
16	19.5	35	16.6	35	14.4	35	12.3	34	11.2	34	9.9	33	9.0	33
17	22.3	35	19.0	35	16.5	35	14.0	35	12.7	34	10.2	34	10.1	33
18	25.5	34	21.6	35	18.7	35	15.8	35	14.3	35	12.6	34	11.4	34
19	28.8	34	24.4	34	21.1	35	17.8	35	16.1	35	14.2	35	12.8	35
20	32.5	33	27.5	34	23.7	35	19.9	35	18.1	35	15.9	35	14.3	35
21	36.3	32	30.8	33	26.5	34	22.2	35	20.2	35	17.7	35	15.9	35
22	40.4	30	34.3	32	29.6	33	24.7	34	22.4	35	19.7	35	17.6	35
23	44.6	29	38.0	31	32.8	33	27.3	33	24.8	35	21.8	35	19.4	35
24	49.0	28	41.9	30	36.1	32	30.1	33	27.4	34	24.0	34	21.4	35
25	53.5	26	45.9	28	39.7	31	33.1	32	30.1	33	26.4	34	23.5	35

26	58.0	23	50.0	27	43.4	30	36.2	31	33.0	32	28.9	33	25.7	34
27	62.5	22	54.2	26	47.2	28	39.5	30	36.0	32	31.6	33	28.1	33
28	66.9	18	58.4	24	51.0	27	42.9	29	39.1	31	34.4	32	30.6	33
29	71.2	14	62.6	22	55.0	26	46.4	28	42.4	30	37.3	32	33.2	32
30	75.4	11	66.7	18	58.9	23	50.6	27	45.7	20	40.3	31	35.9	31
31	79.2	9	70.7	15	62.9	20	53.6	26	49.1	23	43.4	29	38.7	31
32	82.8	6	74.6	12	66.7	18	57.2	23	52.6	27	46.6	28	41.6	30
33	86.1	4	78.3	9	70.5	15	60.9	20	56.1	26	49.9	27	44.6	29
34	88.9	3	81.7	6	74.2	13	64.5	18	59.6	22	53.2	26	47.6	28
35	91.4	2	84.8	4	77.7	9	68.1	15	63.1	20	56.5	24	50.7	27
36	93.5	1	87.6	3	80.9	7	71.6	13	66.6	18	59.8	22	53.9	26
37	95.3	1	90.1	2	84.0	6	75.0	10	70.0	15	63.1	20	57.0	24
38	96.7	1	92.2	2	86.7	4	78.2	8	73.3	13	66.4	18	60.2	22
39	97.8	0	94.0	1	89.2	3	81.2	6	76.4	10	69.6	16	63.4	20
40	98.8	0	95.5	1	91.3	2	84.0	4	79.4	8	72.7	13	66.5	18
41	99.5	0	96.8	1	93.2	2	86.6	3	82.2	6	75.7	10	69.5	16
42	100.0	0	97.8	0	94.8	1	88.9	2	84.8	5	78.6	9	72.5	13
43			98.6	0	96.2	1	91.0	2	87.2	3	81.3	7	75.4	11
44			99.3	0	97.3	1	92.8	1	89.4	2	83.8	6	78.1	9
45			100.0	0	98.2	0	94.4	1	91.3	2	86.1	4	80.7	7
46					98.9	0	95.8	1	93.0	1	88.2	3	83.2	6
47					99.6	0	97.0	0	94.4	1	90.1	2	85.5	4
48					100.0	0	98.0	0	95.7	1	91.8	2	87.6	3
49							98.8	0	96.8	1	93.3	1	89.5	2
50							99.5	0	97.7	0	94.6	1	91.2	2
51							100	0	98.4	0	95.7	1	92.8	1
52									99.1	0	96.7	0	94.1	1
53									99.6	0	97.5	0	95.3	1
54									100.0	0	98.2	0	96.3	1
55											98.8	0	97.2	0
56											99.3	0	98.0	0
57											100.00	0	98.6	0
58													99.2	0
59													99.6	0
60													100.0	0

TABLE 402-2 ILLUSTRATION ON USE OF PERCENTAGES TO ESTIMATE CASH ADVANCE REQUIREMENTS

(Assume Contract Cost of \$800,000 LOA Accepted 12/20/84¹)

Month	Gross %	Amount of Contract			Payment Schedule ²	
		Cost	TL %	TL Dollars	Current Quarter	Cumulative
Dec 1984 (Intl Dep)	0	0	0	0	8,800	8,800
Jan 1985 ³	0	0	0	0	0	0
Feb 1985	0	0	0	0	0	0
Mar 1985 ³	0	0	0	0	0	0
Apr 1985 ⁴	.2	1,600	0	0	0	0
May 1985	.5	4,000	0	0	0	0
Jun 1985	1.1	8,800	4	352	21,600	30,400
Jul 1985	1.8	14,400	14	2,016	0	0
Aug 1985	2.7	21,600	24	5,184	0	0
Sep 1985	3.8	30,400	30	9,120	34,400	64,800
Oct 1985	5.0	40,000	39	15,600	0	0
Nov 1985	6.5	52,000	37	19,240	0	0
Dec 1985	8.1	64,800	35	22,680	52,800	117,600
Jan 1986	10.0	80,000	34	27,200	0	0
Feb 1986	12.2	97,600	34	33,184	0	0
Mar 1986	14.7	117,600	35	41,160	75,200	192,800
Apr 1986	17.5	140,000	35	49,000	0	0
May 1986	20.6	164,800	35	57,680	0	0
Jun 1986	24.1	192,800	35	67,480	100,000	292,800
Jul 1986	27.9	223,800	34	75,888	0	0
Aug 1986	32.1	256,800	33	84,744	0	0
Sep 1986	36.6	292,800	32	93,696	119,200	412,000
Oct 1986	41.3	330,400	30	99,120	0	0
Nov 1986	46.3	370,400	29	107,416	0	0
Dec 1986	51.5	412,000	27	111,240	125,600	537,600
Jan 1987	56.7	453,600	25	113,400	0	0
Feb 1987	62.0	496,000	22	109,120	0	0
Mar 1987	67.2	537,600	18	96,768	112,800	650,400
Apr 1987	72.2	577,600	14	80,864	0	0
May 1987	76.9	615,200	11	67,672	0	0
Jun 1987	81.3	650,400	7	45,528	81,600	732,000
Jul 1987	85.2	681,600	5	34,080	0	0
Aug 1987	88.6	708,800	3	21,264	0	0
Sep 1987	81.5	732,000	2	14,640	47,200	779,200
Oct 1987	93.9	751,200	1	7,512	0	0
Nov 1987	95.9	767,200	1	7,672	0	0
Dec 1987	97.4	779,200	0	0	20,800	800,000

¹ The Administrative Charge (50% initial drawdown) and accessorials will be additive to the cash advance requirements illustrated here.

² Date payment due at the DFAS-AY/DE.

³ Administrative lead-time.

⁴ Start of 36 months procurement lead-time.

Jan 1988	98.5	788,000	0	0	0	0
Feb 1988	99.4	795,200	0	0	0	0
Mar 1988	100.0	800,000	0	0	0	800,000

**TABLE 402-3 ILLUSTRATION OF TABLE 4-2 PAYMENT SCHEDULE
IN TERMINATION LIABILITY WORKSHEET FORMAT**(Assume Contract Cost of \$800,000 LOA Accepted 12/20/99)
(No AECA Sec 21 Sales in LOA)

<u>Date</u>	<u>Total Payment</u>		<u>Estimated Disbursements</u>		<u>Termination Liability/ Contractor Holdback</u>	
	<u>Qtr</u> (a)	<u>Cum</u> (b)	<u>Qtr</u> (c)	<u>Cum</u> (d)	<u>Qtr</u> (e)	<u>Cum</u> (f)
Initial						
Deposit	8,800	8,800	8,448	8,448	352	352
15 Jun 85	21,600	30,400	12,832	21,280	8,768	9,120
15 Sep 85	34,400	64,800	20,840	42,120	13,560	22,680
15 Dec 85	52,800	117,600	34,320	76,440	18,480	41,160
15 Mar 86	75,200	192,800	48,880	125,320	26,320	67,480
15 Jun 86	100,000	292,800	73,784	199,104	26,216	93,696
15 Sep 86	119,200	412,000	101,656	300,760	17,544	111,240
15 Dec 86	125,600	537,600	140,072	440,832	(14,472)	96,768
15 Mar 87	112,800	650,400	164,040	604,872	(51,240)	45,528
15 Jun 87	81,600	732,000	112,488	717,360	(30,888)	14,640
15 Sep 87	47,200	779,200	61,840	779,200	(14,640)	0
15 Dec 87	20,800	800,000	20,800	800,000	0	0

Notes:

- Columns a and b should be identical to payment schedule in the LOA.
- Column a = c+e.
- Column b = d+f.
- At end of schedule, column b = column d; column f must be zero.
- This analysis of TL must be performed for all contracts regardless of value and shall be a part of the case file. In addition, when the case value is over \$25 million, the TL schedule shall accompany the LOA. See subparagraph 030104.F. of this chapter.

**TABLE 402-3 ILLUSTRATION OF TABLE 4-2 PAYMENT SCHEDULE
IN TERMINATION LIABILITY WORKSHEET FORMAT**Contract Cost of \$800,000 LOA accepted 12/20/84
(No Sec 21 Sales in LOA)

<u>Date</u>	<u>Total Payment</u>		<u>Estimated Disbursements</u>		<u>Termination Liability/ Contractor Holdback</u>	
	<u>Qtr</u> (a)	<u>Cum</u> (b)	<u>Qtr</u> (c)	<u>Cum</u> (d)	<u>Qtr</u> (e)	<u>Cum</u> (f)
Initial						
Deposit	8,800	8,800	8,448	8,448	352	352
15 Jun 85	21,600	30,400	12,832	21,280	8,768	9,120
15 Sep 85	34,400	64,800	20,840	42,120	13,560	22,680
15 Dec 85	52,800	117,600	34,320	76,440	18,480	41,160
15 Mar 86	75,200	192,800	48,880	125,320	26,320	67,480
15 Jun 86	100,000	292,800	73,784	199,104	26,216	93,696
15 Sep 86	119,200	412,000	101,656	300,760	17,544	111,240
15 Dec 86	125,600	537,600	140,072	440,832	(14,472)	96,768
15 Mar 87	112,800	650,400	164,040	604,872	(51,240)	45,528

15 Jun 87	81,600	732,000	112,488	717,360	(30,888)	14,640
15 Sep 87	47,200	779,200	61,840	779,200	(14,640)	0
15 Dec 87	20,800	800,000	20,800	800,000	0	0

NOTES

1. Columns a and b should be identical to payment schedule in the LOA.
2. Column a = c+e.
3. Column b = d+f.
4. At end of schedule, column b = column d; by end of schedule, column f must be zero.
6. Reserves for termination liability/contractor holdback are the same as Table 4-3 schedule; however, total payment and estimated disbursements are greater due to AECA sec 21 articles/services in case.
6. This example only requires an initial deposit for one quarter (reference paragraph 040302 of this volume).

0403 PAYMENT SCHEDULES

040301. Policy. It is DoD policy that FMS purchasers be requested to pay amounts reflected in LOA payment schedules--except in those instances where potential cash disbursements are anticipated to exceed the current payment schedule. Assurance that cash is available when the necessity for disbursement arises requires that implementing DoD Components continually monitor case level cash advances and validate the accuracy of payment schedules.

040302. General. Payment schedules are a consolidated formal presentation to the FMS customer of the estimates of cash requirements resulting from application of the procedures contained in Section 402. If initial deposits are required upon acceptance of a sales agreement, the amount of initial deposits should be equal to one half of the administrative surcharge plus sufficient funds to cover all costs and contingencies (e.g., contract holdback, potential termination liability) anticipated to be incurred until the first billing statement can be rendered and monies collected. As a standard, new sales agreements can enter the billing system at the SAAC through the 10th day of the last month of the calendar quarter. Therefore, if a new agreement is anticipated to be accepted by the purchaser and received by the SAAC after the 10th day of the last month of the quarter, then the DoD Component should require an initial deposit for the first two calendar quarters of the agreement.

040303. LOA Payments

A. LOA Payment requirements will be included in each LOA in the format required by the SAMM [reference (e)]. The payment schedule portion of the LOA should be reissued via a modification when costs are expected to vary more than \$500,000 during any 12-month period covered by the payment schedule. Smaller thresholds should be established where total case value warrants.

B. Termination Liability Worksheets will be furnished to DSAA in accordance with the SAMM [reference (e)]. DSAA will retain one copy and forward one copy to the SAAC. SAAC will record the amount of termination liability specified on the worksheets.

040304. Preparation. Any revision to the LOA payment schedule shall be prepared in the manner prescribed in this Volume.

A. It is essential that payment schedule revisions be prepared in such a manner that they are consistent with the parameters of the FMS billing cycle and their contents are clearly understood by the implementing agency, SAAC, and the FMS customer. Since the payment schedule is used by SAAC as the basis for billing the FMS purchaser, there must be an "audit trail" between the original payment schedule and any revision(s).

B. The payment dates shown on the revised payment schedule must be compatible with the FMS billing cycle. The following guidance is applicable:

Anticipated offer

Earliest payment date

expiration/implementation date	shown in payment schedule	For costs to be incurred in
Mar 11 - Jun 10	Sep15	Oct-Dec
Jun 11 - Sep10	Dec15	Jan-Mar
Sep 11 - Dec 10	Mar 15	Apr-Jun
Dec 11 - Mar 10	Jun 15	Jul-Sep

On an emergency basis, a revised payment schedule may be provided to SAAC by message or the committed values for requisition cases report (see paragraphs 040308 and 080102). However, this means of notification should be used only if a properly executed modification cannot reach SAAC within the above timeframes. Message notification must be immediately followed by a payment schedule modification.

C. In as much as payment schedules are intended to reflect "financial requirements" (which in turn relate to Column 12, Total Financial Requirements, of the DD Form 645), cumulative collections/actual payments received from the FMS purchaser (as reflected in Column 13 of the DD Form 645) should not be used in the preparation of revised payment schedules. This caveat is especially pertinent since the FMS purchaser may over or under pay its financial requirements for a given FMS case. In the process of preparing the revised payment schedule, the following guidelines regarding specific entries are applicable (refer to the illustration in Table 403-2):

1. The "Cumulative to Date (with date specified)" entry is mandatory and must correspond with the original payment schedule in the absence of a prior revision; otherwise, the "Cumulative to Date" entry should correspond to the last revision. This entry ensures that all concerned (i.e., implementing agency, SAAC, FMS customer) have a clear understanding of the relationship between the original and revised payment schedules.

2. In the event the implementing agency desires to decrease the existing total financial requirements of the FMS case, the "Revised Cumulative to Date" entry is used. This entry will adjust the amount reflected in Column 12 (Total Financial Requirements) of the DD Form 645.

3. If an "Initial Deposit" is appropriate, such as in the instance of an amendment which increases the number of items being sold, this entry should also be shown.

4. The remaining payment date entries and associated quarterly and cumulative amounts are shown, as necessary. The implementing agency should ensure that these final entries correspond to the revised total case value (i.e., Block 13 of amendments and modifications).

040305. Forecasting Procedures. Exceptional forecasting procedures will be used for requisition cases (i.e., Supply Support Arrangement, FMSO II, and other repair parts cases). Experience has shown that most payment schedules for these cases tend to be overstated because of variations in both requisitioning and supply actions. Therefore, to preclude substantial overbilling, each implementing agency shall provide the SAAC with a "Quarterly Forecast of

Financial Requirements for In-Process Cases" report and cards (or card images). These inputs are submitted to the SAAC by the 15th day of the last month of each calendar quarter (i.e., March 15, June 15, September 15, and December 15), and reflect the most recent status of logistical commitments (on-hand unfilled requisitions). If there are no unfilled orders on the requisition case, the implementing agency should report "zero" commitment value-- a report should be submitted for all requisition cases. See Table 403-1 for instructions for preparing the FICS "BK" transaction used for the report.

040306. Committed Values. The committed (unfilled order) values for requisition cases is compared by the SAAC to the case payment schedule quarterly amounts. If the committed value for the case is less than the quarterly amount from the payment schedule, the committed value is used for the forecasted requirement in Column 11 of the DD Form 645 in lieu of the payment schedule amount.

040307. Accurate Payment Schedules. This procedure does not preclude the requirement for an accurate payment schedule to be included in the LOA for a requisition type case. If an out-of-balance condition continues to exist between quarterly payment schedule amounts and the committed value provided each quarter, a new payment schedule should be issued by the implementing agency.

040308. Delivery Status. It is a requirement that the financial and delivery status of each FMS case be reviewed periodically by the implementing agency. This review is to ascertain whether the payment schedule will provide sufficient cash to meet the requirements established in paragraph 040102 of this Volume. If not, it shall be necessary to provide SAAC a quarterly forecast of fund requirements that contains the case level data normally required as back-up to the payment schedule.

040309. Revising Case Payment Schedules. Implementing agencies will establish formal procedures for the review and revision of FMS case payment schedules as follows:

A. The payment schedule should be evaluated each time an amendment or modification is issued that affects case or line values.

B. Payment schedules for cases with performance extending beyond two years should be reviewed as indicated below:

<u>Total Case Value</u>	<u>Review Frequency</u>
1. \$100 million or less	Annually
2. \$100-\$500 million	Semi-annually
3. \$500 million and above	Quarterly

C. If the review discloses that actual disbursements and payables (see Table 402-2 column "Amount of Contract Cost") vary from estimated disbursements by more than 10%, implementing agencies should give priority to revising applicable payment schedules.

TABLE 403-1 INSTRUCTIONS FOR PREPARING “BK” TRANSACTIONS QUARTERLY FORECAST OF FINANCIAL REQUIREMENTS FOR IN-PROCESS CASES

Data Element Description and Element Abbreviation	Format/ No. of Position	FICS TRC	Edit/Validations of: BKI Input--MILDEP to SAAC BKF Feedback--SAAC to MILDEP
Document Identifier Code (DIC)	X(3)		
Case Budgetary Requirements (Input)	'1-3	'002	Originator to recipient; must be BKI if not, reject.
Case Budgetary Requirements (Feedback)	'1-3		“BKI” - a machine generated duplicate of the BKI transaction appended by the Positive Transaction Control (PTC)
Transaction Control No.	X(13) '4-16	'152	Must be numeric (0-9)
		'152	YYMMDD must be equal to or less than current date
		'249	Version Number (V) must be “0” if Action Code is “A” (add)
		'248	Version Number (v) must be 1 thru 9 if Action Code is “C” (change) and must be one greater than suspense version No.
		'251	If Action Code is “C” (change) or “D” (delete), Transaction Control number (TCN) (excluding V) must equal suspense file. (YYMMDDNNNNNNV)
Action Code	X(1) 17	'003	Must be “A”, “C”, or “D”, otherwise invalid. A=Add; C=Change; D=Delete
Country Code (CC)	X(2) 18-19	'037	Must be on Country Code (CC) Table. If not, reject.
Implementing Agency Code (IA)	X(1) 20	'038	If Site Cite = 5 or 6, IA Code must be on Implementing Agency (IA) Table.
Case Designator	X(3) 21-23	'039	MUST be a valid case; if not reject. Case must be on the Active Case control file (I) or closed (C) when case is a valid case.
Date Forecasted (YYMM) for Fiscal Year	X(4) 24-27		
Amount Open Requisition	S9(12) V99 28-39		
THE POSITIVE TRANSACTION CONTROL FEEDBACK CONTAINS THE ORIGINAL BKI TRANSACTION PLUS THE FOLLOWING DATA ELEMENTS FOR THE BKF TRANSACTION			
Transaction Reply Code (TRC)	X(15) 40-54		FEEDBACK TRANSACTIONS ONLY. This 15 character element is appended to the feedback format of all interface transactions by the recipient system. This area will contain 1 to 5, 3-digit transaction reply codes to communicate back to the originator system the result of processing the transaction. (Left justified/space filled).

TABLE 403-2 ILLUSTRATIONS OF PAYMENT SCHEDULE REVISIONS

A. Original Estimated Payment Schedule

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Initial Deposit	\$100,000	\$100,000
Mar 15, 198X	90,000	190,000
Jun 15, 198X	80,000	270,000
Sep 15, 198X	70,000	340,000
Dec 15, 198X	60,000	400,000
Mar 15, 198Y	50,000	450,000
Jun 15, 198Y	40,000	490,000
Sep 15, 198Y	30,000	520,000
Dec 15, 198Y	20,000	540,000

B. Revision No. 1 - Upward Adjustment (Note 1)

<u>Payment</u>	<u>Quarterly</u>	<u>Cumulative</u>
Cumulative to Date (15 Sep 1198X)	N/A	\$340,000
Initial Deposit (this amendment)	85,000	425,000
15 Dec 198X	65,000	490,000
15 Mar 198Y	55,000	545,000
15 Jun 198Y	45,000	625,000
15 Sep 198Y	35,000	485,000
15 Dec 198Y	25,000	650,000

C. Revision No. 2 - Downward Adjustment (Note 2)

<u>Payment</u>	<u>Quarterly</u>	<u>Cumulative</u>
Cumulative to Date (15 June 198Y)	N/A	\$590,000
Revised Cumulative to Date	N/A	550,000
15 Sep 198Y	15,000	565,000
15 Dec 198Y	10,000	575,000

NOTE:

- In Revision No. 1 (due at SAAC not less than 10 Sep 198X), the Cumulative to Date amount of \$340,000 corresponds to the 15 Sep 198 cumulative amount on the original payment schedule. Since there is no adjustment to the Cumulative to Date amount, there is no need for a Revised Cumulative to Date entry. However, an initial deposit (reflected on the DD 1513-1) is requested and is therefore shown.
- In Revision No. 2 (due at SAAC not later than 10 Jun 198Y), the Cumulative to Date amount of \$590,000 corresponds to the 15 Jun 198Y entry contained in Revision No. 1. Since the implementing agency desires to reduce this amount by \$50,000, a Revised Cumulative to Date entry (\$550,000) is shown.

0404 CONTRACTOR REQUEST FOR PROGRESS PAYMENTS AND REIMBURSEMENT OF COSTS UNDER CONTRACTS INCLUDING FMS REQUIREMENTS

040401. General. Current contracting procedures permit the consolidation of DoD and FMS customer(s) requirements into a single contract. To implement FMS cash flow requirements it is necessary that an allocation be made of the amount billed to DoD and to each FMS customer. The portion of the bill which is applicable to an FMS customer can be paid only to the extent that the specific customer has deposited a cash advance into the Department of the Treasury.

040402. Contractor Allocations. The DoD FAR Supplement Clause 252.232-7002, Progress Payments for Foreign Military Sales Acquisitions, requires that if DoD contracts include FMS requirements that the contractor shall:

- A. Submit a separate progress payment request for each progress payment rate; and
- B. Submit a supporting schedule showing:
 - 1. The amount of each request distributed to each country's requirements; and
 - 2. Total price per contract line item applicable to each progress payment rate.
- C. Identify in each progress payment request the contract requirements to which it applies (i.e., FMS or U.S.);
- D. Calculate each request on the basis of the prices, costs (including costs to complete), subcontractor progress payments, and progress payment liquidations of the contract requirements to which it applies; and
- E. Distribute costs among contract line items and countries in a manner acceptable to the Administrative Contracting Officer.

040403. Administrative Contracting Officer Allocations. To the extent that a contractual requirement has not been established and the contractor does not allocate costs to the foreign countries or international organization, the administrative contracting office shall make such allocations before approving payment. When allocations are required, such allocations should normally be on the basis of actual performance. If it is impractical to estimate actual performance, the allocation shall be on the basis of simple dollar relationships as described in subparagraphs A. through C. below.

A. The authorized progress payment percentages will be applied to the overall contract cost to determine the amount of permissible progress payments. This amount

will not be exceeded.

B. Determine the percentage relationship of the unliquidated obligations (ULO) of each accounting classification reference number (ACRN) to the total ULO of the contract. Progress payments will be allocated among the various funds based upon these percentages.

1. For example, contract has a ULO of \$600,000. ULO of ACRNs assigned are as follows:

- AA \$ 50,000
- AB 50,000
- AC 100,000
- AD 100,000
- AE 300,000

2. The applicable percentages to be used are:

- AA 50/600 or 8.3%
- AB 50/600 or 8.3%
- AC 100/600 or 16.7%
- AD 100/600 or 16.7%
- AE 300/600 or 50.0%

3. Contract has a progress payment percentage of 90%. The contractor requests a payment in the amount of \$54,000 based on accrued costs of \$60,000. The payment would be processed as follows:

- AA $\$54,000 \times 8.3\% = \$ 4,500$
- AB $54,000 \times 8.3\% = 4,500$
- AC $54,000 \times 16.7\% = 9,000$
- AD $54,000 \times 16.7\% = 9,000$
- AE $54,000 \times 50.0\% = 27,000$

C. Recoupment will be applied first against the line the deliveries are applicable to and the remainder against the outstanding work in process (WIP) on a percentage basis. For example, using the figures above an assuming the recoupment percentage is 90%, the contractor ships and invoices for \$30,000; \$20,000 is applicable to ACRN AD and \$10,000 is applicable to ACRN AE. As 90% of \$20,000 or \$18,000 exceeds the outstanding WIP on ACRN AD, only \$9,000 can be recouped against ACRN AD. Ninety percent of \$10,000 for ACRN AE or \$9,000 for AE can be recouped. The remaining \$9,000 to be recouped is prorated against the ACRNs with outstanding WIPs on a percentage basis as follows:

<u>ACRN</u>	<u>Original WIP Less Initial Recoupment</u>	<u>WIP Remaining</u>
-------------	---	--------------------------

AA	4,500 less 0	=	\$ 4,500
AB	4,500 less 0	=	4,500
AC	9,000 less 0	=	9,000
AD	9,000 less 9,000	=	0
AE	27,000 less 9,000	=	<u>18,000</u>

Computation of Percentages

AA	4,500/36,000	=	12.5%
AB	4,500/36,000	=	12.5%
AC	9,000/36,000	=	25.0%
AD	0/36,000	=	0.0%
AE	18,000/36,000	=	50.0%

The total recoupment for this transaction would be as follows:

AA	12.5% of 9,000	=	\$ 1,125
AB	12.5% of 9,000	=	1,125
AC	25.0% of 9,000	=	2,250
AD	0.0 + 9,000	=	9,000
AE	50.0% of 9,000 +9,000	=	<u>13,500</u>
Total			\$27,000

0405 DEPOSIT OF CUSTOMER CASH INTO TREASURY ACCOUNTS

040501. General. DD Form 645 and LOA financial instructions direct that foreign customer's payments (initial deposits or billing statement payments) be forwarded by wire transfer or check to the Security Assistance Accounting Center (SAAC), Defense Finance and Accounting Service-Denver Center, Denver, CO 80279-5000. However, these payments are sometimes misrouted to Office of the Secretary of Defense, Military Departments' headquarters, international logistics centers, commodity commands, etc.

040502. Receipt of Checks. Any recipient of a check from an FMS customer is responsible for depositing the check into a Treasury account within one working day after receipt. When a recipient other than SAAC is making the deposit, the deposit shall be processed as a courtesy deposit for SAAC. The following procedures apply:

A. Prepare a Treasury Deposit SF 215 deposit ticket using DSSN 3801 in block 3, Disbursing Office Symbol (example is at Table 405-1).

B. Notify the SAAC Reports and Cash Management Division (IR), DSN 926-6006, that a courtesy deposit is being accomplished. Provide the money amount, paying FMS customer (for example, Germany), and FMS case number (if available).

C. Process the deposit through a Federal Reserve Bank or supporting member bank. (Note: Endorse the check showing DSSN 3801 as the collecting organization.)

D. Send a copy of the “confirmed copy” of the SF 215 to DFAS-DE/I (SAAC), 6760 East Irvington Place, Denver, CO 80279-2000. Attach supporting documentation that was received with the misrouted payment.

E. SAAC shall voucher the collection into the FMS Trust Fund upon receipt of the SF 215.

040503. Wire Transfers. In the event inquiries are received regarding wire transfer of funds to SAAC or misrouted funds to be wire transferred, the following information pertains:

A. Wire transfers should be sent to the Department of Treasury Account at the Federal Reserve Bank of New York City, using the standard Federal Reserve Funds Transfer (FRFT) format. Wire transfers shall be accepted by the Federal Reserve System (FRS) only from banks that are members of the FRS. Foreign banks must go through a U.S. correspondent bank that is a member of the FRS.

B. The member bank shall prepare the FRFT form as outlined in Table 405-2. This information shall be provided to ensure prompt and correct application of the remittance.

C. SAAC retrieves wire transfers daily from the Treasury Financial Communications Systems (TFCS) and prepares collection vouchers from this data for crediting FMS customers.

TABLE 405-1 DEPOSIT TICKET (SF 215)

STANDARD FORM 215 (REV 5 78)		DEPOSIT TICKET		DEPARTMENT OF THE TREASURY
PRESCRIBED BY DEPT OF TREASURY				BUREAU OF GOVERNMENT FINANCIAL OPERATIONS
1 TRFM 3-3000				
DEPOSIT NUMBER	DATE PRESENTED OR MAILED TO BANK	8-DIGIT OR 4-DIGIT AGENCY LOCATION CODE (ALC)	AMOUNT	
7 48818	13-03-78	13-01-2003	7 70.24	
8. AGENCY USE				
123-681 (SEE APPROP DATA)				
U.S. DEPT. OF LABOR-OASAM 3635 MARKET ST., RM 14230 PHILA., PA. 19104			(17) NAME AND ADDRESS OF DEPOSITARY	
			FEDERAL RESERVE BANK PHILA., PA. 19105	
			(18)	
			M M D D Y Y	
(9) DEPOSITORS TITLE DEPARTMENT OR AGENCY AND ADDRESS			AUTHORIZED SIGNATURE	
(10) DEPOSITORS FORWARD THIS DOCUMENT WITH STATEMENT OR TRANSCRIPTION OF THE U.S. TREASURY ACCOUNT OR THE SAVE DATE			CONFIRMED DATE	
			ORIGINAL	
(11) DEPOSITORS RETAINS THIS COPY WHEN MAKING DEPOSIT. AFTER RECEIVING CONFIRMED COPY FROM BANK INSERT THE CONFIRMED DATE IN BLOACK NO 18 ABOVE ON THIS COPY AND SUBMIT THIS COPY WITH YOUR MONTHLY REP THE DEPARTMENT OF THE TREASURY			MEMORANDUM COPY	
(11) DEPOSITOR RETAIN THIS COPY			DEPOSITORY COPY	
(11) DEPOSITOR RETAIN THIS COPY FOR INTERNAL USE DO NOT SUBMIT THIS COPY TO DEPOSITARY			AGENCY COPY	
(11) DEPOSITARY DATE SIGN AND RETURN THIS COPY TO DEPOSITOR			CONFIRMED COPY	

TABLE 405-2 FEDERAL RESERVE FUND TRANSFER FORMAT

- (1) To
 (2) Type
 (3) 021030004 From
 (4) REF
 (5) Amount
 (6) Amount of this transfer Ordering Bank and Related Data
 (7)
 (8) (9) (10)
 TREAS NYC (3801) DFAS-DE/IR
 (11).

Appropriate information to identify the reason for this funds transfer
 Message Acknowledgement

FORMAT FOR FEDERAL RESERVE FUND TRANSFER

Detailed below are the critical data (items 2, 6, 8, 9, 10, 11) the FMS customer or its local bank must supply to the member bank. It is also shown in the exact way it must appear on the standardFRFT format. Items 1, 3, 4, 5, and 7 will be completed by the member bank in accordance with accepted Federal Reserve fund transfer procedures.

Item 1.	<u>Priority Code</u> The priority code will be provided by the member bank.
Item 2.	<u>Treasury Department Code</u> The nine-digit identifier, 021030004, is the symbol of the Federal Reserve Bank of New York City.
Item 3.	<u>Type Code</u> The type code will be provided by the member bank.
Item 4.	<u>Sending Bank Code</u> This nine-digit identifier will be provided by the member bank.
Item 5.	<u>Reference Number</u> The reference number may be inserted by the member bank to identify the transaction.
Item 6.	<u>Amount</u> The amount will include the dollar sign and the appropriate punctuation, including cents digits. This item will be provided by the FMS customer or its local bank.
Item 7.	<u>Sending Bank Name</u> The telegraphic abbreviation which corresponds to item 4 will be provided by the sending bank.
Item 8.	<u>Treasury Department Name</u> The telegraphic abbreviation, TREAS NYC, is a constant and is required for all funds transfer messages sent to Denver. This item must be followed by a slash (/).
Item 9.	<u>Agency Location Code</u> This code refers to a numeric symbol used to identify Federal Government entities (e.g., accounting offices, disbursing, and collecting offices). The agency's unique code must be specified in the funds transfer message in order for the funds to be correctly classified to the respective agency. The code for SAAC is: (3801) Defense Finance and Accounting Service.
Item 10.	<u>Agency Name</u> Enter: DFAS-DE/IR immediately after the Agency Location Code.
Item 11.	<u>Third Party Information</u> The appropriate information to identify the reason for the funds transfer should be provided by the member bank to the FRB. This data must be provided the member bank by the customer or its local bank. For the USAF F-16 program, incoming wires for currency exchange transactions should also show the originating contractor and what organization is to receive exchange proceeds.

0406 EXPENDITURE AUTHORITY

040601. General. Any disbursement of Trust Fund cash by an organization other than the Security Assistance Accounting Center (SAAC) shall be made only pursuant to an expenditure authorization issued by SAAC. When SAAC issues an expenditure authorization, the cash necessary to liquidate the expenditure authorization is formally segregated in the SAAC accounting records and the cash is available for no other purpose. Normally, procurements accomplished on a reimbursable basis shall be supported by a self-reimbursement expenditure authorization. However, a cash advance to an appropriation account must be obtained when a cash disbursement for an FMS contract would, if made, result in the applicable appropriation account being placed in a negative cash position.

040602. Self-Reimbursement Expenditure Authorizations

A. The SAAC shall issue expenditure authorizations to disbursing activities when authorization to self-reimburse an appropriation fund account has been requested and approved. Each disbursing activity shall establish internal controls to ensure that reimbursable payments from the financing appropriation do not exceed the current self-reimbursement expenditure authorization. If an invoice applicable to FMS requirements is to be processed as a "transaction for others," expenditure authority shall be obtained by the disbursing activity. Accumulate and summarize all FMS payments for reimbursable work from each financing appropriation account through the use of "no check SFs 1080." Forward disbursement and supporting delivery transactions to SAAC not later than 16 days after the last day of the month in which self-reimbursement occurs.

B. Each DoD Component receiving contractor invoices shall establish internal controls to ensure that payments to contractors from the financing appropriation account do not exceed the current country-level self-reimbursement expenditure authorization. If an invoice applicable to FMS requirements is to be processed as a "transaction for others," expenditure authority must be obtained from the holder of the self-reimbursement expenditure authorization before disbursement.

040603. Direct Cite Expenditure Authorizations

A. The SAAC shall issue expenditure authorizations to the disbursing activity. Any unused expenditure authority shall be returned to SAAC by the third work day of the following month. Each DoD Component receiving contractor invoices for contracts which reflect the FMS Trust Fund as the financing source shall establish internal controls to ensure that payments do not exceed the current country level expenditure authorization. If the invoice is to be processed as a "transaction for others," expenditure authority must be obtained from the holder of the expenditure authorization prior to disbursement.

B. The status-of-allotment report to be submitted by holders of an allotment for direct cite of the FMS Trust Fund (11X8242) on contractual documents provides for the identification of disbursements by FMS case and is to be supported by delivery transactions. A reconciliation statement must accompany the status-of allotment report to identify disbursements

that have been made but not included in the status of allotment report.

040604. Procedures. As a minimum, when expenditure authorization procedures are used, Heads of DoD Components shall:

A. Ensure procurement instruments state that disbursement of funds is not authorized until clearance has been obtained from the holder of the expenditure authorization.

B. Identify the holder of the expenditure authorization in the procurement instrument or other correspondence, if payments are processed on a "transaction for others" basis.

C. Ensure that paying activities request authorization prior to making FMS-related disbursements. Telephone clearance may be used provided the holder of the expenditure authorization formally confirms the authorization within 48 hours. Formal confirmation includes memoranda, electronic message, data fax, or overnight mail.

D. Establish internal controls to ensure that payments (direct citation or reimbursable financing) do not exceed the current country (customer) level authorization.

E. Identify disbursements to a specific FMS Case, reimbursement code, record serial number, dollar value and such other information as necessary to match disbursements to the applicable delivery transactions.

F. Ensure that procurement accounts are reimbursed within 10 working days after the disbursement has been recorded in the accounting activity's official expenditure records.

040605. Cash Advances. When cash advances are required, they shall be processed on an "as required" basis. The amount requested shall be equal to anticipated disbursing demands for a 30-day period. Liquidation of outstanding advances (earning the advance through payment to contractors) shall be reported to SAAC monthly. The objective is to limit the amount and length of time that outstanding advances remain against the Trust Fund.

040606. Cash Flow Problems. In the event a cash flow problem results in SAAC's inability to provide cash advances or expenditure authorizations and contractor billings cannot be paid by the due date, the provisions of paragraph 070403.B. of Chapter 7 of this Volume shall be followed.

040607. Automated Formats. Table 406-1 is an example of the automated format used to request/ authorize expenditure authority. The "SZF" (feedback) provides positive transaction control. Other "S" formats in the series are used to process and control disbursement data. Included in Table 406-1 are particulars of the edits performed on the data. Specific details and instructions on how this format is used are contained in the FMS Integrated Control System (FICS) document.

**TABLE 406-1 EXAMPLE OF NOTIFICATION OF
EXPENDITURE AUTHORITY REQUEST/FEEDBACK**

Data Element Description and Element Abbreviation	Format/ No. of Position	FICS TRC	Edit/Validations of: SZI Input--MILDEP to SAAC SZF Feedback--SAAC to MILDEP
Document Identifier Code (DIC)	X(3)	'002	Must be "SZI"--MILDEP to SAAC. Originator to recipient SZI.
Notification of Expenditure Authority (Input)	'1-3		
Notification of Expenditure Authority (Feedback)	'1-3		SZFI" A machine generated mirror image of the SZI transaction and appended with Transaction Reply codes by the Positive Control to become the SZF transaction.
Transaction Control No. (YYMMDDNNNNNV)	X(13) '4-16	'152	Must be numeric
		'152	YYMMDD must be equal to or less than current date
		'249	Version Number (V) must be "0" if Action Code is "A" (add)
		'248	Version Number (v) must be 1 thru 9 if Action Code is "C" (change) and must be one greater than suspense version No.
		'251	If Action Code is "C" (change) or "D" (delete), Transaction Control number (TCN) (excluding V) must equal suspense file. (YYMMDDNNNNNV)
Action Code	X(1) 17	'003	Must be "A", "C", or "D", A=Add; C=Change; D=Delete
Country Code (CC)	X(2)	'037	Must equal "OO", "JF", "EP", "FG", "79", "82", or be on SAAC's Country Code Table 2.
Implementing Agency Code (IA)	X(1)	'038	Must be on SAAC's IA Code Table #7 Cannot be "9" or "S".
Case Designator	X(3) 21-23	'039	"91X", "93X", or "94X" or be on the Active Case Control History
Date Accounting Month (DT-ACCT-MO) (YYMM)	X(4) 24-27	'281	YYMM must equal to current date or one of two prior months If last five days of current month, YYMM may be
Disbursing Station Symbol Number (DSSN)	X(4) '28-31		No Edit
Accounting Station Symbol Number (ASSN)	X(6) '32-37		No Edit

Amount of Expenditure Authority Requested	S9(12) V99 38-51	'156	Must be numeric
		'161	Negative amounts must be processed first. There must be sufficient cash in General Ledger Account 1001, Available Cash, at Country Level Account 1001 is the second occurrence of money field on General Ledger
Date of Disbursement Accounting Month	X(4) 52-55	'320	YYMM must be equal to or less than current date. Cannot exceed dt-acct-mo. MM must be 01 thru 12. If last five days of current month YYMM may be next month.
Disburser's Implementing Agency`	X(1) 56	'038	Must be on SAAC's IA Code Table #3 Cannot be "9" or "S"
Reserve Indicator Year	X(1) 56		No Edit
THE POSITIVE TRANSACTION CONTROL FEEDBACK CONTAINS THE ORIGINAL SZI TRANSACTION PLUS THE FOLLOWING DATA ELEMENTS FOR THE SZF TRANSACTION			
Transaction Reply code (TRC)	X(15) 58072		FEEDBACK TRANSACTIONS ONLY. This 15 (TRC) 58-72 character element is appended to the feedback format of all interface transactions by the recipient system. This area will contain 1 to 5, 3-digit transaction reply codes to communicate back to the originator system the result of processing the transaction. (Left justified/space filled)