

## DEPARTMENT OF DEFENSE

## FINANCIAL MANAGEMENT REGULATION

## **VOLUME 15: "SECURITY COOPERATION POLICY"**

UNDER SECRETARY OF DEFENSE (COMPTROLLER)

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# VOLUME 15, CHAPTER 1: "GENERAL INFORMATION" SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by bold, italic, blue, and underlined font.

The previous version dated September 2021is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION  | PURPOSE  |
|-----------|---|----------|
| All       | Updated hyperlinks and formatting to comply with current administrative instructions.   | Revision |
| 1.1.3     | Removed reference to Building Partner Capacity (BPC) program administration within the Foreign Military Sales (FMS) Trust Fund and the Economy Act as the legal authority.  | Deletion |
| 2.2.2     | Added clarification that excess or residual funds from the sale of defense articles not intended to be replaced, executed under the authority of Section 21 of the Arms Control Export Act, are to be credited to the Special Defense Acquisition Fund (SDAF). Funds collected from transfers pursuant to Title 10 or Title 22 BPC authorities should be deposited into Miscellaneous Receipts. | Addition |
| Table 1-1 | Updated and renamed Miscellaneous Receipts to Prior SDAF Account Crosswalk pursuant to Defense Security Cooperation Agency (DSCA) Memorandum "Offsetting Collection Vouchers to the SDAF, DSCA Policy 21-49," dated September, 29, 2021.  | Revision |
| Table 1-2 | Added Miscellaneous Receipts to SDAF Account Crosswalk with Standard Financial Information Structure Attributes, pursuant to DSCA Memorandum "Offsetting Collection Vouchers to the SDAF, DSCA Policy 21-49," dated September, 29, 2021.  | Addition |
| Table 1-4 | Added table of "Accounting Classification Codes of the FMS Administrative Fund" consistent with Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Memorandum, "Improved Sub-Allocation Holder Identifier Management Process," January 22, 2018.  | Addition |

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#### CHAPTER 1

#### **GENERAL INFORMATION**

- 1.0 GENERAL
- 1.1 Overview
- 1.1.1. Security Cooperation (SC). SC, which includes DoD-administered Security Assistance (SA) programs and international armaments cooperation, is undertaken to achieve specific ends in support of defense and national security strategy, rather than serving as an end unto itself. SC will be used to develop allied and partner defense and security capabilities and capacity for self-defense and multinational operations, provide the U.S. forces with peacetime and contingency access to host nations, build defense relationships that promote specific U.S. security interests, and take other actions in support of U.S. objectives. Abbreviations and acronyms commonly used in SC policies can be found in the Defense Security Cooperation Agency (DSCA) 5105.38-M. "Security Assistance Management Manual" (SAMM), "ESAMM Acronyms," and in Appendix 7, "Case Reconciliation and Closure Guide" (RCG). Commonly used definitions can be found in the SAMM, "ESAMM Glossary," and in Appendix 7, RCG, "RCG Definitions." See **DoD Directive 5132.03**, "DoD Policy and Responsibilities Relating to Security Cooperation," for more detailed information.
- 1.1.2. <u>SA</u>. SA refers to a group of programs authorized by Title 22, U.S. Code (U.S.C.), <u>Foreign Relations and Intercourse</u>, or other legal authorities under which the United States provides defense articles, military training, and other defense-related services by grant, loan, credit, cash sales, or lease, in furtherance of national policies and objectives. DoD does not administer all SA programs. Those SA programs administered by DoD are a subset of SC. The SAMM provides guidance on the major programs DoD administers:
  - 1.1.2.1. Foreign Military Sales (FMS),
  - 1.1.2.2. Foreign Military Construction Services,
  - 1.1.2.3. Foreign Military Financing,
  - 1.1.2.4. Leases,
  - 1.1.2.5. Military Assistance,
  - 1.1.2.6. International Military Education and Training (IMET),
  - 1.1.2.7. Drawdowns and Special Presidential Waiver Authority, and
  - 1.1.2.8. Special Defense Acquisition Fund (SDAF).

- \* 1.1.3. <u>Building Partner Capacity (BPC) Programs</u>. BPC programs refer to SC and SA activities funded with U.S. Government (USG) appropriations. When executing BPC programs, DoD may enter into agreements for provision of defense articles and/or services to other USG departments and agencies for the purpose of:
- 1.1.3.1. Building the capacity of partner nation security forces and enhancing their capability to conduct counterterrorism operations, counter-weapons of mass destruction operations, counter-illicit drug trafficking operations, counter-transnational organized crime operations, maritime and border security operations, military intelligence operations, and operations or activities that contribute to an international coalition operation that is determined by the Secretary to be in the national interest of the United States per 10 U.S.C. § 333, Foreign security forces: authority to build capacity; or
- 1.1.3.2. Supporting U.S. Military and stability operations, multilateral peace operations, and other programs. See <u>SAMM, Chapter 15</u>, "Building Partner Capacity Programs," for a detailed discussion of BPC programs.

#### 1.2 Purpose

The purpose of this chapter is to provide DoD accounting policy for SC transactions to ensure compliance with all requirements for the administrative control of SC programs. In addition to established accounting policy, as defined elsewhere in existing law and regulation, SC transactions must follow DoD accounting policy in Volume 15, unless specifically exempt. Proposed changes must be submitted to the Defense Finance and Accounting Service (DFAS) Accounting and Finance Policy Directorate as soon as practical for consideration. However, DoD Components must first submit proposed changes through the DSCA Office of Business Operations. All proposed chapter updates must be submitted to the appropriate approving authority, and if approved, will be incorporated into the DoD Financial Management Regulation as soon as possible.

#### 1.3 Authoritative Guidance

SA authorities include the <u>Arms Export Control Act (AECA)</u> (Public Law 90-629), codified as <u>22 U.S.C.</u>, <u>Chapter 39</u>, and the Foreign Assistance Act (<u>FAA</u>) (Public Law 87-195), as amended, codified as <u>22 U.S.C.</u>, <u>Chapter 32</u> and <u>10 U.S.C.</u>, <u>Chapter 16</u>.

#### 2.0 ACCOUNTS OF THE U.S. DEPARTMENT OF TREASURY (TREASURY)

The Foreign Affairs/Foreign Relations Committees of the Congress (rather than the Armed Services Committees) authorize SA funds. The Executive Branch, Office of the President, identified by Treasury Index (TI) 11, receives SA funds. Funds and accounts authorized by Acts originating in the Armed Services Committees of the Congress and appropriated to DoD are identified by: TI 97, "Defense Department;" TI 17, "Navy;" TI 21, "Army;" and TI 57, "Air Force."

#### 2.1 Treasury Accounts Applicable to FMS Trust Fund Operations

Treasury account 11X8242, "Advances, FMS, Funds Appropriated to the President," is the FMS Trust Fund account used for centrally recording contract authority and collections. Under Section 3 of Executive Order No. 13637, "Administration of Reformed Export Controls," dated March 2013, responsibility for the execution and administration (e.g., obligations and disbursements) **FMS** Trust Fund delegated of the was the Executive Branch, Office of the President, identified by TI 11, to the Secretary of Defense, identified by TI 97. The complete fund cite 97 11X8242, though not required for execution of consolidated financial statements and reports, identifies funds under the control of DoD. Only 11X8242 is reported to the Bureau of Fiscal Service (Fiscal Service) and the Office of Management and Budget. Fiscal Service has established trust fund receipt and expenditure accounts to account for cash collections, budget authority (BA), and cash disbursements resulting from the FMS Program.

- 2.1.1. <u>Cash Receipts</u>. Cash collected from sales authorized under <u>22 U.S.C. § 2761</u>, <u>22 U.S.C. §2762</u>, <u>22 U.S.C. §2769</u>, and <u>22 U.S.C. §2796</u> is deposited into Trust Fund Receipt Account 8242.001, "Deposits, Advances, Foreign Military Sales, Executive." The DFAS Security Cooperation Accounting (SCA) Directorate processes cash collections into this account, including cash transfers from appropriations provided by the USG to finance credit sales under <u>22 U.S.C. § 2763</u> and the proceeds from guaranteed commercial loans under <u>22 U.S.C. § 2764</u>. Collections must reflect account 8242.001 on DoD reports issued to the Fiscal Service and be listed under "Proprietary Receipts From the Public" in the Fiscal Service system.
- 2.1.2. <u>BA</u>. The BA resulting from FMS or BPC orders is also recognized in account 97 11X8242. BA is recognized only to the extent it is estimated that orders will be executed within a fiscal year (FY). The portion of the order that cannot be executed is classified as an uncommitted acceptance.
- 2.1.3. <u>Cash Expenditures</u>. Cash disbursements are made from account 97 11X8242 to contractors when direct cite procedures are used. Intragovernmental payments are made to DoD Components when reimbursable procedures are used for services, items from inventory, and to reimburse for procurements financed by DoD appropriations or other fund accounts.
- 2.1.4. <u>Miscellaneous Receipts</u>. Amounts recovered from the operation of the FMS programs are deposited into Account 3041, "Recoveries Under the Foreign Military Sales Program, Army, Navy, Air Force, Defense." This account includes proceeds from the collection of unfunded civilian pay retirement and benefits, military pay Medicare-Eligible Retiree Health Care accruals, and lease rental payments.

#### 2.2 SDAF

2.2.1. The SDAF, established under the authority of <u>10 U.S.C. § 114</u>, is a DoD-controlled revolving fund used to acquire defense articles and services in anticipation of their sale to eligible foreign countries and international organizations. Pursuant to 10 U.S.C. § 114(c)(1), the SDAF

may not exceed \$3.5 billion. In accordance with <u>22 U.S.C.</u> § <u>2795(c)</u>, the size of the fund includes funds acquired through FMS sales, also known as offsetting collections.

- 2.2.2. Offsetting collections identified in 22 U.S.C. § 2795(b), that were previously collected into the Miscellaneous Receipt account, are now collected and deposited into the SDAF account, 97 11X4116, "Special Defense Acquisition Fund, Funds Appropriated to the President," by DFAS. Offsetting collections consist of asset use charges; items not requiring replacement; and charges for the proportionate recoupment of nonrecurring research, development, and production costs, excluding charges for FMS leases authorized under 22 U.S.C. § 2796. Items not requiring replacement are from the sale of defense articles not intended to be replaced under FMS Letters of Offer and Acceptance (LOA) that are executed under the authority of section 21 of the AECA. This includes residual or excess funds from the sale of defense articles not intended to be replaced under FMS LOAs. These residual funds are to be transferred to the SDAF account because they cannot be used for their intended purpose of replacing the defense articles sold under the FMS LOA. Funds collected from the transfer of equipment from DoD stock pursuant to Title 10 or Title 22 Building Partner Capacity (BPC) authorities are not legally authorized to be deposited into the SDAF. Proceeds from BPC transfers of equipment not intended, or unable to be replaced, should be deposited into Miscellaneous Receipts. Offsetting collections will reside in the parent 11X4116 account for future SDAF procurements; however, the offsetting collections will first be posted as outlined in Table 1-1.
- 2.2.3. Cash receipts for the anticipated collections, reimbursements, and other income related to the SDAF are collected into the Revolving Fund account "Special Defense Acquisition Fund, Funds Appropriated to the President," 11X4116. DFAS SCA processes cash collections into account 11X4116, including cash transfers of reimbursements made under the proceeds from the sale or transfer of SDAF procured articles and services.
- 2.2.4. BA from approved SDAF procurements is recognized in account 97 11 FY/FY 4116. BA exists only for orders that will be executed; i.e., funds obligated before September 30 of the FY when the funds period of availability expires. The portion of the approved SDAF procurements that cannot be obligated must be returned to the Treasury account 11X4116.
- 2.2.5. Cash disbursements are made from account 97 11 FY/FY 4116 to contractors when direct cite is used and for DSCA approved procurements financed by the SDAF. Expenditures must be consistent with the funding years in which the original funding on the Funding Authorizing Document was provided.
- 2.2.6. For more information on SDAF, see Chapter 3, Table 3-1, "Cost Elements;" and the *SAMM, Chapter 11.9*, "Special Defense Acquisition Fund (SDAF)."
- 2.3 Treasury Accounts Applicable to Credit Sales, Guaranties, and IMET
- 2.3.1. <u>Receipt and Utilization of Appropriations</u>. The accounts described in subparagraphs 2.3.1.1-2.3.1.6 are used to capture the receipt of SA appropriations.

- 2.3.1.1. Account 11X4121, "Foreign Military Loan Liquidating Account, Funds Appropriated to the President (FMLLA)," is used to record the receipt and use of appropriated funds to finance credit sales under 22 U.S.C. § 2763 and credit sales guaranties for pre-FY 1992 loan obligations under 22 U.S.C. § 2764. FMLLA excess collections are returned to Miscellaneous Receipts account 11R2814, "Other Repayments of Investments and Recoveries."
- 2.3.1.2. Account 11 (FY) 1085, "Foreign Military Financing, Direct Loan Program Account, Funds Appropriated to the President," is used to record the appropriation that subsidizes the estimated long-term cost to the USG of post-FY 1991 foreign military direct loan obligations.
- 2.3.1.3. Account 11X4122, "Foreign Military Financing, Direct Loan Financing Account, Funds Appropriated to the President," is used to receive the payments for the subsidy cost from the program account, 11 (FY) 1085, and includes all other cash flows to and from the USG resulting from post-FY 1991 foreign military direct loans. This appropriation is for new loans with original disbursement dates on or after October 1, 1991.
- 2.3.1.4. Account 11X4174, "Military Debt Reduction Financing Account," is used to record the rescheduling of loans and to collect loan payments on those loans rescheduled from 11X4121. These loans have pre-FY 1992 original disbursement dates.
- 2.3.1.5. Account 11 (FY) 1082, "Foreign Military Financing Program, Funds Appropriated to the President," is used to record the receipt and use of appropriated funds to finance U.S. defense sales to selected foreign friends and allies, primarily through the FMS program. Based on annual appropriations bill language, the funds are considered obligated upon apportionment, are available for expenditure for 5 years, and must remain available for an additional 4 years from the date on which the availability of such funds would otherwise have expired. These funds, transferred to the FMS Trust Fund, are expenditure transfers. BA is transferred from this account to DoD Components to fund administrative expenses of FAA programs (e.g., IMET and End-Use Monitoring).
- 2.3.1.6. Account 11 (FY) 1081, "International Military Education and Training, Funds Appropriated to the President," is used to record the receipt and use of appropriated funds for the training of selected foreign military and related civilian personnel in the United States and, in some cases, in overseas U.S. Military facilities.
- 2.3.2. <u>Cash Collections</u>. The accounts described in subparagraphs 2.3.2.1-2.3.2.3 are used to capture collections made from foreign countries because of loans and loan guaranties.
- 2.3.2.1. Account 11X4121 is used to collect foreign country repayments for outstanding pre-FY 1992 loan obligations. This account is also used to collect loan repayments to DSCA for default payments made by DSCA to the Federal Financing Bank or commercial banks holding pre-FY 1992 loans guaranteed by DSCA.
- 2.3.2.2. Account 11X4122 is used for collections of foreign country repayments for post-FY 1991 direct loan obligations. This appropriation is used for loans with original disbursement dates on or after October 1, 1991.

- 2.3.2.3. Account 11X4174 is used to reschedule loans from 11X4121, and 11X4122 is used for countries seeking debt relief. This account is also used to collect the payments from outstanding loans that have been rescheduled.
- 2.3.3. Security Assistance and International Programs (SAIP) Deposit Account. Account 11X6147, "Security Assistance and International Programs, Deposit Account," was originally established in 1978 to support the North Atlantic Treaty Organization E-3A Program deposit account. Subsequently, additional activities have used this account for purposes, such as to record collections received from foreign governments to reimburse DoD for goods and services not acquired through the FMS program, or FMS customers to use the Air Force Parts and Repair Ordering System and Worldwide Warehouse Redistribution System to acquire nonstandard items, and to provide advance funding to support the acquisitions. Beginning in FY21, the SAIP Deposit Account is included in the SA Accounts financial statements.

#### 2.4 Other Treasury Accounts

Other Treasury accounts used in SC include those for BPC cases, Humanitarian Assistance, and Mine Action Programs. For more information on these programs, see the <u>SAMM, Chapter 11</u>, "Special Programs and Services;" <u>SAMM, Chapter 12</u>, "Overseas Humanitarian, Disaster, and Civic Aid (OUDACA);" SAMM, Chapter 15, "Building Partner Capacity Programs;" and <u>SAMM Table C15.T2</u>, "BPC Programs and Authorities." The Treasury accounts include, but are not limited to:

- 2.4.1. 11 (FY) 1032, "Peacekeeping Operations, Funds Appropriated to the President;"
- 2.4.2. 11X1032, "Peacekeeping Operations, Funds Appropriated to the President;"
- 2.4.3. 11X1041, "Global Security Contingency Fund, International Security Assistance, State;"
  - 2.4.4. 11X2724.001, "Foreign Military Financing Program Account, Negative Subsidies;"
  - 2.4.5. 11X2724.003, "Foreign Military Financing, Downward Reestimates of Subsidies;"
- 2.4.6. 11X3230, "Special and Trust Fund Proprietary Receipts Returned to the General Fund of the U.S. Treasury;"
  - 2.4.7. 21 (FY) 2091, "Afghanistan Security Forces Fund, Army;"
  - 2.4.8. 21 (FY) 2097, "Iraq Train and Equip Fund, Army;"
  - 2.4.9. 21X2097, "Iraq Train and Equip Fund, Army;"
  - 2.4.10. 21 (FY) 2099, "Counter ISIS Train and Equip Fund, Army;"
  - 2.4.11. 21X2099, "Counter ISIS Train and Equip Fund, Army;"

- 2.4.12. 97 (FY) 0100, "Operation and Maintenance, Defense-Wide, Defense;"
- 2.4.13. 97X0100, "Operation and Maintenance, Defense-Wide, Defense;"
- 2.4.14. 97 (FY) 0819, "Overseas Humanitarian, Disaster, and Civic Aid Defense;" and
- 2.4.15. 97X0819, "Overseas Humanitarian, Disaster, and Civic Aid, Defense."

#### 3.0 TYPES OF FINANCING

There are two types of financing associated with the FMS Trust Fund, reimbursable and direct cite. The detailed budgeting and accounting policy for each type is discussed throughout the remainder of Volume 15.

#### 3.1 Reimbursable Financing

Sales under 22 U.S.C. §§ 2761 and 2762, for which the President has determined it is in the National interest to defer payment (bill for defense articles and services on or after delivery), must be accomplished using reimbursable financing. When deferred payment is authorized under 22 U.S.C. § 2761 for 120 days, and for all authorized deferred payments for 22 U.S.C. § 2762 sales, an appropriation is required to finance any outlays until the purchaser makes payment. The appropriation cited must have reimbursable authority.

#### 3.2 Direct Cite Financing

New procurements initiated because of FMS orders under 22 U.S.C. §§ 2762 and 2769 (except as exempted in paragraph 3.1) must be accomplished, to the maximum extent feasible and appropriate, through direct citation of the FMS Trust Fund (97 11X8242 or 97 11X6147) on applicable contractual documents.

#### 3.3 Accounting Classification Codes of the FMS Trust Fund

The agency code signifies the agency name executing FMS Trust Funds within the FMS accounting system. The accounting classification codes of the FMS Case Fund for cases executed within the FMS infrastructure are depicted in Table 1-2. The accounting classification codes of the FMS Administrative Fund for cases executed within the FMS infrastructure are depicted in Table 1-3.

\*Table 1-1. Miscellaneous Receipts to Legacy SDAF Account Crosswalk

| Organization Section 51(b) Criteria |                                    | Miscellaneous<br>Receipts Account | Prior SDAF<br>Account |
|-------------------------------------|------------------------------------|-----------------------------------|-----------------------|
| Navy                                | Asset Use Charges                  | 17X3041.1201                      | 97 11X4116.6809       |
| Navy                                | Items not Requiring Replacement    | 17X3041.1202                      | 97 11X4116.6808       |
| Navy                                | Non Recurring Costs                | 17X3041.1205                      | 97 11X4116.6807       |
| Army                                | Non Recurring Costs                | 21X3041.0001                      | 97 11X4116.6807       |
| Army                                | Non Recurring Costs                | 21X3041.0002                      | 97 11X4116.6807       |
| Army                                | Items not Requiring Replacement    | 21X3041.0003                      | 97 11X4116.6808       |
| Army                                | Items not Requiring<br>Replacement | 21X3041.0004                      | 97 11X4116.6808       |
| Army                                | Asset Use Charges                  | 21X3041.0006                      | 97 11X4116.6809       |
| Army                                | Non Recurring Costs                | 21X3041.0010                      | 97 11X4116.6807       |
| Air Force                           | Items not Requiring Replacement    | 57X3041.0010                      | 97 11X4116.6808       |
| Air Force                           | Non Recurring Costs                | 57X3041.0012                      | 97 11X4116.6807       |
| Air Force                           | Items not Requiring Replacement    | 57X3041.0020                      | 97 11X4116.6808       |
| Air Force                           | Non Recurring Costs                | 57X3041.0027                      | 97 11X4116.6807       |
| Air Force                           | Non Recurring Costs                | 57X3041.0029                      | 97 11X4116.6807       |
| Air Force                           | Asset Use Charges                  | 57X3041.0040                      | 97 11X4116.6809       |
| Air Force                           | Asset Use Charges                  | 57X3041.0048                      | 97 11X4116.6809       |
| Air Force                           | Items Not Requiring Replacement    | 57X3041.0080                      | 97 11X4116.6808       |
| DoD                                 | Non Recurring Costs                | 97X 3041.0001                     | 97 11X4116.6807       |
| DoD                                 | Items not Requiring<br>Replacement | 97X 3041.0003                     | 97 11X4116.6808       |
| DoD                                 | Items not Requiring Replacement    | 97X 3041.0004                     | 97 11X4116.6808       |
| DoD                                 | Asset Use Charges                  | 97X 3041.0006                     | 97 11X4116.6809       |
| DoD                                 | Asset Use Charges                  | 97X 3041.0009                     | 97 11X4116.6809       |

\*Table 1-2. Miscellaneous Receipts to SDAF Account Crosswalk with Standard Financial Information Structure (SFIS) Attributes

| Organization | Section 51(b)<br>Criteria          | Miscellaneous<br>Receipts Account | New SDAF Account  |
|--------------|------------------------------------|-----------------------------------|---|
| Navy         | Asset Use Charges                  | 17X3041.1201                      | 97 11X4116.6804.20.0<br>0000.000000000.SDAF<br>COLLASSETUSE |
| Navy         | Items not Requiring<br>Replacement | 17X3041.1202                      | 97 11X4116.6804.20.0<br>0000.000000000.SDAF<br>COLLINRRPLMT |
| Navy         | Non Recurring Costs                | 17X3041.1205                      | 97 11X4116.6804.20.0<br>0000.000000000.SDAF<br>COLLNRCCOSTS |
| Army         | Non Recurring Costs                | 21X3041.0001                      | 97 11X4116.6801.20.0<br>0000.000000000.SDAF<br>COLLNRCCOSTS |
| Army         | Non Recurring Costs                | 21X3041.0002                      | 97 11X4116.6801.20.0<br>0000.000000000.SDAF<br>COLLNRCCOSTS |
| Army         | Items not Requiring<br>Replacement | 21X3041.0003                      | 97 11X4116.6801.20.0<br>0000.000000000.SDAF<br>COLLINRRPLMT |
| Army         | Items not Requiring<br>Replacement | 21X3041.0004                      | 97 11X4116.6801.20.0<br>0000.000000000.SDAF<br>COLLINRRPLMT |
| Army         | Asset Use Charges                  | 21X3041.0006                      | 97 11X4116.6801.20.0<br>0000.000000000.SDAF<br>COLLASSETUSE |
| Army         | Non Recurring Costs                | 21X3041.0010                      | 97 11X4116.6801.20.0<br>0000.000000000.SDAF<br>COLLNRCCOSTS |
| Air Force    | Items not Requiring<br>Replacement | 57X3041.0010                      | 97 11X4116.6802.20.0<br>0000.000000000.SDAF<br>COLLINRRPLMT |
| Air Force    | Non Recurring Costs                | 57X3041.0012                      | 97 11X4116.6802.20.0<br>0000.000000000.SDAF<br>COLLNRCCOSTS |
| Air Force    | Items not Requiring<br>Replacement | 57X3041.0020                      | 97 11X4116.6802.20.0<br>0000.000000000.SDAF<br>COLLINRRPLMT |
| Air Force    | Non Recurring Costs                | 57X3041.0027                      | 97 11X4116.6802.20.0<br>0000.000000000.SDAF<br>COLLNRCCOSTS |

\*Table 1-2. Miscellaneous Receipts to SDAF Account Crosswalk with Standard Financial Information Structure SFIS Attributes (Continued)

| Organization | Section 51(b)<br>Criteria          | Miscellaneous<br>Receipts Account | New SDAF Account  |
|--------------|------------------------------------|-----------------------------------|---|
| Air Force    | Non Recurring Costs                | 57X3041.0029                      | 97 11X4116.6802.20.0<br>0000.000000000.SDAF<br>COLLNRCCOSTS |
| Air Force    | Asset Use Charges                  | 57X3041.0040                      | 97 11X4116.6802.20.0<br>0000.000000000.SDAF<br>COLLASSETUSE |
| Air Force    | Asset Use Charges                  | 57X3041.0048                      | 97 11X4116.6802.20.0<br>0000.000000000.SDAF<br>COLLASSETUSE |
| Air Force    | Items Not Requiring<br>Replacement | 57X3041.0080                      | 97 11X4116.6802.20.0<br>0000.000000000.SDAF<br>COLLINRRPLMT |
| DoD          | Non Recurring Costs                | 97X 3041.0001                     | Not Applicable  |
| DoD          | Items not Requiring Replacement    | 97X 3041.0003                     | Not Applicable  |
| DoD          | Items not Requiring Replacement    | 97X 3041.0004                     | Not Applicable  |
| DoD          | Asset Use Charges                  | 97X 3041.0006                     | Not Applicable  |
| DoD          | Asset Use Charges                  | 97X 3041.0009                     | Not Applicable  |

Table 1-3. Accounting Classification Codes of the FMS Case Fund

| Appropriation/Limit | Agency<br>Code | Agency  |
|---------------------|----------------|---|
| 97 11X8242.XXX1     | В              | Army  |
| 97 11X8242.XXXC     | С              | Defense Information Systems Agency            |
| 97 11X8242.XXX2     | D              | Air Force                                     |
| 97 11X8242.XXXF     | F              | Defense Contract Management Agency            |
| 97 11X8242.XXXH     | Н              | Washington Headquarters Service               |
| 97 11X8242.XXXM     | M              | National Security Agency                      |
| 97 11X8242.XXXI     | I              | Missile Defense Agency                        |
| 97 11X8242.XXXN     | I              | Missile Defense Agency                        |
| 97 11X8242.28XX     | P              | Navy and Marine Corps                         |
| 97 11X8242.XXXX     | P              | Navy Standard Accounting and Reporting System |
| 97 11X8242.XXX9     | Q              | DSCA  |
| 97 11X8242.XXXR     | R              | Defense Logistics Agency                      |
| 97 11X8242.XXXT     | T              | State Department                              |
| 97 11X8242.XXXU     | U              | National Geospatial-Intelligence Agency       |
| 97 11X8242.XXXV     | V              | Defense Contract Audit Agency                 |
| 97 11X8242.XXXW     | W              | Defense Advanced Research Projects Agency     |
| 97 11X8242.XXXZ     | Z              | Defense Threat Reduction Agency               |

**Note:** "X" in the limit or subhead is variable data dependent on the agency.

\*Table 1-4. Accounting Classification Codes of the FMS Administrative Fund

| Appropriation/Limit | Agency<br>Code | Agency                                  |
|---------------------|----------------|---|
| 97 11X8242.6801     | В              | Army                                    |
| 97 11X8242.6843     | C              | Defense Information Systems Agency      |
| 97 11X8242.6802     | D              | Air Force                               |
| 97 11X8242.6872     | F              | Defense Contract Management Agency      |
| 97 11X8242.6845     | M              | National Security Agency                |
| 97 11X8242.6825     | I              | Missile Defense Agency                  |
| 97 11X8242.6804     | P              | Navy and Marine Corps                   |
| 97 11X8242.6800     | Q              | Defense Security Cooperation Agency     |
| 97 11X8242.6851     | R              | Defense Logistics Agency                |
| 97 11X8242.6848     | U              | National Geospatial-Intelligence Agency |
| 97 11X8242.6834     | Z              | Defense Threat Reduction Agency         |

### **VOLUME 15, CHAPTER 2: "FINANCE"**

#### **SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold**, **italic**, **blue**, **and underlined font**.

The previous version dated October 2022 is archived.

| PARAGRAPH | PARAGRAPH EXPLANATION OF CHANGE/REVISION               |          |
|-----------|--|----------|
| All       | Updated hyperlinks and internal references throughout. | Revision |

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#### **CHAPTER 2**

#### **FINANCE**

#### 1.0 GENERAL

#### 1.1 Purpose

The purpose of this chapter is to provide guidance on Foreign Military Sales (FMS) Trust Fund budget authority (BA), to include FMS Trust Fund obligational authority (OA) for implemented cases, the FMS administrative surcharge budget, and contract administration services (CAS) surcharge budget.

#### 1.2 Authoritative Guidance

The Arms Export Control Act (AECA), Public Law 90-629, as amended, codified as Title 22, United States Code (U.S.C.) Chapter 39 (22 *U.S.C. Chapter 39*), provides the authority and general rules for FMS and commercial sales of defense articles and services. Additional specific authorities are in the applicable sections.

#### 2.0 RESPONSIBILITIES

#### 2.1 Defense Security Cooperation Agency (DSCA)

- 2.1.1. DSCA prepares the annual budget request for the FMS Trust Fund obligational and outlay authority to support the FMS Trust Fund program. DSCA reviews, approves, and distributes funding for the FMS administrative surcharge, Security Cooperation Organizations, Building Partnership Capacity, Special Defense Acquisition Fund (SDAF), and the FMS CAS surcharge accounts.
- 2.1.2. DSCA is responsible for establishing the annual Safety Level amount to be maintained in the FMS Trust Fund Administrative Surcharge account. The Safety Level amount will represent 18 months of operational funding based on current budget levels. DSCA will establish the Safety Level before the close of the fiscal year (FY) and forward the information to the Defense Finance and Accounting Service (DFAS), Security Cooperation Accounting Directorate (SCA).
- 2.1.2.1. The 18-month Safety Level is calculated using the amount that may be obligated for expenses pursuant to AECA § 21(e)(1)(A) (22 U.S.C. § 2761(e)(1)(A)), noted in the "Foreign Military Financing Program" section of the annual Department of State, Foreign Operations, and Related Programs Appropriations Act for the upcoming FY. The monthly operating amount is calculated by dividing the amount by 12, and then multiplying that amount by 18. For detailed information on the calculation, refer to the DSCA Manual 5105.38-M, "Security Assistance Management Manual" (SAMM), C9.15.

2.1.2.2. Any changes requiring adjustment of the Safety Level computation methodology will be forwarded to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for review and approval. See Chapter 3, paragraph 4.8.6 for more information on the periodic review and analysis of surcharge accounts.

#### 2.2 Implementing Agency (IA) and Performing Agency

- 2.2.1. Each implementing and performing agency that prepares data for Letters of Offer and Acceptance (LOAs) must ensure that:
- 2.2.1.1. <u>Department of Defense (DD) Form 2060</u>, FMS Obligational Authority, (or automated equivalent) is created to initiate performance of the case and support Component budget estimates, and
- 2.2.1.2. Sufficient, anticipated appropriation or fund reimbursable authority is included in the DoD budget.
- 2.2.2. IAs are responsible for fulfilling FMS Trust Fund orders using these financing techniques:
- 2.2.2.1. Issuance and acceptance of reimbursable orders into a financing appropriation or Defense Working Capital Fund (DWCF) account,
- 2.2.2.2. Issuance of allotments of the FMS Trust Fund to performing DoD Components, or
- 2.2.2.3. Authorization to use the FMS Trust Fund (11X8242, "Advances, Foreign Military Sales, Funds Appropriated to the President") directly.
  - 2.2.3. IAs must submit FMS administrative and CAS budget requests annually.

#### 2.3 DFAS SCA

DFAS SCA must obtain cash advances from FMS Trust Fund purchasers to liquidate obligations resulting from the use of OA created by the FMS Trust Fund program.

- 3.0 BA
- 3.1 General
- 3.1.1. The DoD BA is the United States' legal financial authority, provided by law, that empowers government agencies to spend federal funds. BA allows DoD to enter into obligations that will result in immediate or future outlays from Federal Government accounts. For Security Cooperation, exercising BA begins with the implementation of the applicable LOA document. Prior to exercising the BA, the IA must prepare and process five forms (or automated equivalents) as applicable:
  - 3.1.1.1. LOA(s),
  - 3.1.1.2. LOA Modifications,
  - 3.1.1.3. LOA Amendments,
  - 3.1.1.4. DD 2060, and
  - 3.1.1.5. DD 2061, FMS Planning Directive (Refer to Figure 2-4).
- 3.1.2. The implementation of the LOA will occur only after the purchaser has forwarded a signed copy to the IA, with any required initial deposit received by DFAS. Once implemented, IAs will ensure that OA is properly recorded in their accounting system of record. This authority must take place prior to a government agency or department spending money from the budget.
  - 3.1.3. BA requests must be limited to:
- 3.1.3.1. The total case value for approved LOAs, Amendments, and processed Modifications; or
  - 3.1.3.2. The amount expected to be obligated in the current FY.
- 3.1.4. At the end of each FY, DFAS reduces unused BA or OA. Following the year-end accounting closing entries, reversal entries restore BA values for the new FY.
- 3.1.5. BA for FMS case lines, with the exception of contingency and Small Case Management Lines, is distributed to IAs. BA for the below-the-line surcharges (FMS administrative surcharge and packing, crating, handling, and transportation (PCH&T)) are not distributed to IAs.

#### 3.2 Source Documents

3.2.1. <u>LOA</u>. The LOA is the basic source document for an FMS case. The LOA does not in itself create BA in either the FMS Trust Fund or in a DoD appropriation or fund account;

however, it is required for establishing BA. See Figure 2-1 for a sample LOA; instructions for preparing LOAs are contained in <u>SAMM</u>, <u>C5.4</u>.

- 3.2.2. <u>Amendment to an LOA</u>. An Amendment is designed to obtain FMS Trust Fund purchaser acceptance of a change in LOA scope when the original purpose of a case line or note changes. Amendments are used to alter the original LOA and provide the basis to change FMS Trust Fund BA, when applicable. See Volume 3, Chapter 8, paragraph 3.6 for additional information on determining scope of work changes to associated contracts. See Figure 2-2 for a sample Amendment; instructions for preparing an Amendment are in <u>SAMM</u>, <u>C6.7</u>.
- 3.2.3. <u>Modification to an LOA</u>. A Modification is a notification document to alert FMS Trust Fund purchasers of within-scope cost increases, cost decreases, or other minor changes to the program. Modifications are used to alter the original LOA and provide the basis to change FMS Trust Fund BA, when applicable. See Volume 3, Chapter 8, paragraph 3.6 for additional information on determining scope of work changes to associated contracts. See Figure 2-3 for a sample Modification; instructions for preparing a Modification are in SAMM, C6.7.
- 3.2.4. <u>FMS Planning Directive (DD 2061)</u>. The installation preparing the LOA data for the IA prepares and maintains a Planning Directive. See Figure 2-4 for a sample DD 2061; instructions for completing the DD 2061 are in Table 2-1. The DD 2061, or the automated equivalent, is a working paper that serves three major purposes:
- 3.2.4.1. It provides identification of the cost elements included in prices reflected on the LOA and helps assure the case is priced in accordance with DoD pricing policies in Chapter 7;
- 3.2.4.2. It provides a time-phased plan for execution of the case upon FMS purchaser acceptance and implementation; and
- 3.2.4.3. It identifies the appropriations or funds that will be used to finance the LOA.
  - 3.2.5. OA Request. An OA Request is prepared based on the Planning Directive.
- 3.2.5.1. Part A is prepared at the FMS case-line level and is the basis for line-level control of OA. Part B identifies the appropriations or funds that have been or will be used to finance the lines reflected in Part A.
- 3.2.5.2. The OA Request may be prepared for an individual case or for multiple cases.
- 3.2.5.3. The OA Request is also used to convey the FMS CAS surcharge OA (see section 5.0).
- 3.2.5.4. See Figure 2-5 for a sample DD 2060; instructions for completing the form are in Table 2-2.

#### 3.3 Recognition of OA by the FMS Trust Fund

- 3.3.1. <u>Establishment of FMS Trust Fund OA</u>. To establish OA, FMS Trust Fund purchasers must return all accepted LOAs, Amendments, and processed Modifications to the IA. IAs will create and submit an automated OA request through the Defense Integrated Financial System (DIFS). Upon successful processing in DIFS, the IA will receive an automated acknowledgement of receipt and approval of the OA request.
- 3.3.2. <u>Trust Fund Direct Citation</u>. The OA Request must be used to request commitment/OA for direct citation of the FMS Trust Fund. The OA Request is used as a control device, and commitments/obligations must be limited to the dollar value of the approved OA Request.
- 3.4 Recognition of FMS Reimbursable OA in DoD Appropriation or Fund Accounts

#### 3.4.1. Trust Fund Orders for Reimbursable Orders

- 3.4.1.1. The LOA, Amendment, or Modification does not represent a reimbursable order to the performing DoD Components. The approved OA Request is the reimbursable order. The OA Request includes the reimbursable portion of the order that may be credited to appropriations by a DoD Component for each line within a case for a FY. The OA amount for each line within a case cannot be exceeded. Reporting violations of this administrative limitation will follow the guidance in Chapter 3 and Volume 14.
- 3.4.1.2. The applicable DoD appropriation or fund accounting system must maintain an audit trail between the applicable OA Request and the appropriation or fund accounting records. Performance within the financing appropriation or fund account will be controlled in accordance with the accounting system established for that particular appropriation or fund account. Appropriation or DWCF bills for earned reimbursements must be processed in accordance with Volumes 11A and 11B.
- 3.4.1.3. The FMS case management system is not intended to track the financial status, or obligation, while reimbursable performance is in process. The status of specific purchaser requisitions can be obtained through logistical system inquiries. Applicable logistics status reports are provided to case managers and FMS purchasers, and are not to be confused with financial status reports.
- 3.4.1.4. DoD Components that are not IAs, but support the FMS program in response to IA work requests, must carefully review applicable work requests to determine the financing source. If the financing source is an IA appropriation account, the request must be recorded and processed as an internal DoD order. If the recipient is a sub-allotment holder, the required allotment status report must be provided to the allotment holder and consolidated into the DoD Status-of-Allotment report to DFAS, as discussed in Chapter 3.

#### 3.4.2. Apportionment for Reimbursable Orders

- 3.4.2.1. When authority to accept reimbursable orders is subject to apportionment, obligations on a reimbursable program may not exceed the apportioned amounts of anticipated reimbursement. Reimbursable OA may be recognized up to the apportioned amount to the extent the FMS Trust Fund purchaser has advanced necessary cash under subparagraph 3.3.1, or has orders charged to appropriated funds. Reimbursable orders in excess of apportionment are not available for obligation; an additional apportionment of anticipated reimbursable orders needs to be requested and received through the reapportionment process.
- 3.4.2.2. Apportionments and reapportionments for reimbursable programs must be requested by appropriation account and FY. An appropriation that is available for obligation for more than one year requires an apportionment for anticipated reimbursable orders in the first year of availability. That apportionment must be reduced to the value of orders actually received in the first year. In the subsequent years of availability, a reapportionment for anticipated reimbursable orders is required to accept the purchaser's orders that fund within-scope price increases. The reapportionment request for anticipated reimbursable orders in the final year of availability is especially critical because any unused amounts in the reapportionment are automatically available for acceptance of additional reimbursable orders necessary to fund within-scope price increases after the appropriation has lapsed.
- 3.4.2.3. Receipt of an apportionment, or reapportionment for anticipated reimbursable orders, does not constitute authority to incur obligations. The actual purchaser's orders must be received and recorded in appropriation accounting records before applicable BA may be used.

#### 3.5 Contract Authority

- 3.5.1. Contract authority is the statutory authority to incur obligations with liquidation of obligations dependent on a future act, such as receipt of an appropriation. Implemented FMS documents, along with the OA Request, create contract authority. New contract authority reported in the <u>Standard Form 133</u>, Report on Budget Execution, is the value of FMS cases accepted for performance during the current FY for which OA has been approved in accordance with the requirements of paragraph 3.3.
- 3.5.2. Funds appropriated by Congress for defense purposes cannot be used to liquidate obligations resulting from the use of FMS contract authority, unless specifically allowed in appropriation acts or supplemental funding bills. FMS purchaser cash deposits liquidate these obligations and unfunded contract authority. Below departmental level, contract authority loses its unfunded identity and is treated in the same way as other budgetary resources available for obligation. See 22 U.S.C. § 2762 for more information on procurement for cash sales.

3.5.3. Procurements for FMS purchasers are accomplished by citing the FMS Trust Fund in applicable documents. Accordingly, accounting for commitments, obligations, and accrued expenditures in the FMS Trust Fund is accomplished as a direct fund cite.

#### 3.6 BA for FMS Administrative Expenses

The cumulative BA available in the current FY is composed of actual collections for FMS administrative expenses (including the FMS administrative charges and logistics support charges), less any prior allotments of such amounts and the amount to be reserved for future administrative expenses (i.e., the Safety Level). In no event should the annual allotment be higher than the limitation imposed in the annual Department of State, Foreign Operations, and Related Programs Appropriations Acts, unless otherwise approved through the process required by law.

#### 3.7 BA for Cooperative Logistics Supply Support Arrangements (CLSSAs)

Proper recognition and phasing of BA resulting from LOAs written to implement CLSSAs create unique challenges (DoD Instruction (DoDI) 2000.20, "Cooperative Logistics Supply Support Arrangements"). Under these arrangements, the purchaser provides for the purchase and sustainment of spare and repair parts in DoD inventory. Once these increments are established, the purchaser is provided supply support with the same responsiveness as is provided to DoD military units within the same Force Activity Designator. The applicable LOAs have three distinct financial subdivisions.

#### 3.7.1. FMS Order (FMSO) I

- 3.7.1.1. <u>FMSO I, Part A</u>. FMSO I, Part A represents the on-hand inventory level required in the Continental United States (CONUS) to support FMS requisitions to replenish in-country stocks. Normally, the on-hand level represents five months of demand. The cash necessary to establish on-hand inventory accompanies the accepted LOA.
- 3.7.1.2. <u>FMSO I, Part B</u>. FMSO I, Part B results in recognition of the contract authority necessary to award contracts for pipeline resupply to support FMS purchaser demands.
- 3.7.1.2.1. The purchaser's requisition is filled from on-hand inventory acquired under FMSO I, Part A. The inventory is then replaced by a delivery of a due-in from a contractor. Purchaser payments under FMSO II (the foreign purchaser's anticipated yearly consumption under CLSSA) provide the cash necessary to pay the contractor and establish new contract authority to award a contract for additional items, thus maintaining quantities in the pipeline.

3.7.1.2.2. Because cash received from FMSO II is used to pay for due-ins, the purchaser is not required to deposit cash in support of FMSO I, Part B. However, billings against the FMSO I, Part B are required if FMSO II demands are below expected levels. FMSO I, Part B normally represents 12 months of demand or the procurement lead-time, whichever is greater.

3.7.1.3. <u>BA</u>. The FMSO I case exists for the duration of the CLSSA and is modified only if the quantity of the end items to be supported changes or FMSO consumption patterns differ from expectations. The reimbursable BA resulting from acceptance of the FMSO I is credited to financing appropriations current at the time the contracts are awarded to increase on-hand and on-order quantities.

#### 3.7.2. FMSO II

FMSO II is the consumption case. FMSO II does not create BA for re-procurement until applicable requisitions are received (earned reimbursements) and purchaser cash is deposited in the financing appropriation account (collected). Upon shipment and collection, additional BA is recognized to maintain the pipeline created by FMSO I, Part B. FMSO II BA is credited to appropriations current at the time material is released from inventory in response to FMSO II requisitions.

#### 4.0 PLANNING DIRECTIVES AND OA REQUESTS

#### 4.1 General

Planning Directives and OA Requests are required for all new cases that have been submitted to FMS Trust Fund purchasers for acceptance and for all cases in the process of implementation. The Planning Directive and OA Request must initially be developed when the LOA data is prepared. The OA Request must be included with the LOA package. The IA must retain the Planning Directive as backup for the LOA package.

- 4.1.1. The Planning Directive reflects detailed pricing elements, planned financing appropriations (or direct citation), the amount of OA required for the current year, and an estimate of OA for the budget year. The initial Planning Directive may contain abbreviated financial analysis data. However, as execution begins, the Planning Directive must be expanded to encompass all required cost elements and data.
- 4.1.2. Activities furnishing articles or services to fulfill case requirements must provide the case manager the necessary data to accomplish his or her responsibilities. The case manager must ensure that all applicable charges for the proportionate recoupment of nonrecurring research, development, and production costs (see Chapter 7) are included in the LOA package and identified for reimbursement to the SDAF in the OA Request.
- 4.1.3. Planning Directives and OA Requests must be prepared for each case and must also be prepared:

- 4.1.3.1. In support of requests for Amendments and Modifications reflecting financial impact;
- 4.1.3.2. In support of price changes of less than 10 percent of the estimated cost of articles and services (utilizing the most recently approved document);
- 4.1.3.3. In support of variations of more than \$100,000 between reimbursable accounts or between direct cite and reimbursable accounts discovered subsequent to case implementation;
- 4.1.3.4. In support of changes in current year OA requirements within the net case value as reflected on the most recently approved Planning Directive and OA Request; and
- 4.1.3.5. As necessary, to ensure adequate OA is available in the budget year before commencement of that year.

#### 4.2 Preparation of Planning Directives and OA Requests

Guidance for completing a Planning Directive using DD 2061 is in Table 2-1. Guidance for completing an OA Request using DD 2060 is in Table 2-2. All Planning Directives and OA Requests are cumulative. Therefore, case managers must maintain an audit trail that will relate each to its predecessor.

- 4.2.1. To ensure control over the flow of documentation, the case manager must assign and maintain a system of control numbers. The control numbers are composed of the FMS Trust Fund purchaser country code, case designator, Julian date, and serial number (e.g., BN-BLX-08181 08).
  - 4.2.2. All amounts on Planning Directives and OA Requests must be in U.S. currency.
- 4.2.3. Case managers must scrutinize financial performance on a continuing basis to ensure the availability of sufficient OA for both the current FY and case completion.
- 4.2.4. Each case manager preparing the year-end OA Request must identify the OA requirements through the end of the upcoming FY. If the sum of the budget-year, current-year, and prior-year requirements exceed the case value, then the case manager must initiate action for the processing of a case Amendment or Modification, as appropriate.
- 4.2.5. The various pricing elements and related appropriations and funds required to prepare Planning Directives and OA Requests are maintained in DIFS by DSCA.

## 5.0 OA REQUESTS FOR BUDGETED FMS CAS COSTS AND FUNDS REIMBURSED BY THE FMS CAS SURCHARGE ACCOUNT

#### 5.1 FMS CAS Surcharge Budget

DoD Components will develop and submit an annual FMS CAS Budget request to the DSCA Comptroller by August 10 of each year. These estimates must support only FMS CAS-related efforts as outlined in the Federal Acquisition Regulation (*FAR Part 31*) and the *Defense FAR Supplement*, *subpart 225.7303*. As such, these estimates cannot include FMS CAS-related efforts that are not charged in whole or in part under 22 *U.S.C.* § 2761. This includes individual reciprocal countries' agreements processed by the Under Secretary of Defense (USD) for Research and Engineering and USD for Acquisition and Sustainment; CAS waivers for North Atlantic Treaty Organization (NATO) and NATO Cooperative Projects; CAS waivers applicable to other special projects; and FMS CAS work excluded by specific Public Laws. For more information concerning items excluded from FMS CAS Budget estimates, see Chapters 7 and 8, and *SAMM*, *C9.6*.

- 5.1.1. The FMS CAS Budget request must specify the amount of anticipated FMS CAS work that will be performed and needs to be reimbursed for that particular FY. An OA Request must accompany the budget request with anticipated FMS CAS costs, to include the projected unfunded civilian retirement (UCR) costs and associated salary and retirement costs for military personnel performing full-time FMS CAS. The DoD reimbursable rates are computed annually Volume 11A. Chapter 6) and approved and released by OUSD(C) (see (see **DoD Reimbursable Rates**).
- 5.1.2. The OA Request must reflect the total amount of reimbursements that are expected to be performed for that FY and list all appropriations and reflect the estimated amount for each appropriation. The sum of the amounts reflected for each appropriation must equal the requested total and the FMS CAS Budget. The UCR costs are computed on the basic pay only, excluding overtime (see 5 U.S.C. § 8331).
- 5.1.3. The Defense Contract Management Agency (DCMA) CONUS FMS CAS Budget estimates must be based on a DCMA-established annual command rate as explained in Chapter 8, subparagraph 7.2.3.4. In addition to the budget estimates, DCMA must provide a copy of the Command Rate Report and the Quarterly Functional Workforce Analysis worksheet.
- 5.1.4. The DCMA Overseas FMS CAS-Budget estimates must be based on actual costs for employees.
- 5.1.4.1. Such estimates will include all other costs (e.g., equipment, vehicles, or computers) in addition to salaries that are associated with CAS-employees. Budget presentation of employees' cost must be based upon all effort.

- 5.1.4.2. Follow the Funded Environmental and Morale Leave (FEML) funding guidance issued by OUSD (Personnel and Readiness), <u>DoDI 1327.06</u>, "Leave and Liberty Policy and Procedures." Employees who are provided Environmental and Morale Leave (EML) travel as assistance-in-kind (AIK) by the host government may not also travel on FMS CAS-funded FEML in the same year. Under no circumstances may the combination of FMS CAS-funded FEML and AIK-EML exceed one trip per year. The travel on AIK tickets must not be augmented with further tickets or travel that is FMS CAS-funded.
- 5.1.4.3. The estimates for the part-time employees will include only actual work performed (costs relating to salaries), UCR rate computed on salaries, and overseas temporary duty costs.

#### 5.2 FMS CAS OA Requests

Before FMS CAS surcharge costs may be incurred, the DoD Component must establish a reimbursable order in the financing appropriation that will initially pay the actual cost of such services. The OA Request must list the appropriations and anticipated reimbursements to each appropriation.

- 5.2.1. The initial approved OA Request must represent the reimbursable order to perform FMS CAS work on FMS cases. If it is suspected that the OA Request is no longer valid, and the OA amount needs either to be increased or decreased, then an updated OA Request must be forwarded with a cover letter to the DSCA Comptroller explaining the need for the OA change.
- 5.2.2. At year-end, the annual OA Request must be updated to reflect the September 30 end-of-year obligated position. New obligations are not authorized after September 30 of the closing FY.
- 5.2.2.1. The "Final FMS OA" documents must show the actual cost incurred by each appropriation, including the UCR costs and Medicare-Eligible Retiree Healthcare accruals that are deposited in Miscellaneous Receipts Account 3041 (see 5 U.S.C. § 8331(3) and *Office of Management and Budget Circular A-11*, section 20.5), the military pay accounts for military personnel costs associated with salary, the Defense Health Program account (97\*0130) for military personnel and their dependents medical healthcare costs, and retirement for full-time FMS CAS employees. The U.S. Treasury accounting symbols are listed in the "Federal Account Symbols and Titles: *The FAST Book*."
- 5.2.2.2. This "Final FMS OA" is the basis for withdrawing OA for all unobligated balances that were recorded under each appropriation for that FY. Prior to the close out of a particular FY and during the subsequent FYs, joint financial reviews will be conducted between the billing agency and DSCA. All adjustments or revisions will be submitted within 30 days following the completion of the review.
- 5.2.2.3. CONUS FMS OA documents should be forwarded to DSCA on or before December 14 of that year. Overseas "Final FMS OA" documents must be forwarded to DSCA when all costs have been reimbursed and all associated disbursements have been processed.

- 5.2.3. Revenues to fund FMS CAS expenses are prescribed in Chapter 3, subparagraph 4.5.1.4. The methods for reimbursing the DoD Components for performing FMS CAS are prescribed in Chapter 8, subparagraphs 7.2.1 and 7.2.2.
- 5.2.4. DoD Components that purchase equipment, vehicles, computers, and other items using the FMS CAS Surcharge Account must establish disposal guidance to ensure compliance with Volume 11A, Chapter 5, to ensure that all funds resulting from the sale or disposal of this equipment are returned to the FMS Trust Fund.

Figure 2-1. LOA

### United States of America Letter of Offer and Acceptance (LOA) BN-P-BLX

Based on BANDEF ltr 2/265 of 10 April 2010

Pursuant to the Arms Export Control Act, the United States Government (USG) offers to sell to the Embassy of Bandaria Office of the Naval Attaché, 1234 Massachusetts Ave, NW, Washington, DC 29999, the defense articles or defense services (which may include defense design and construction services) collectively referred to as "items", set forth herein, subject to the provisions, terms, and conditions in this LOA.

| the provisions, terms, and condition                             | ns m uns LOA   |  |              |
|--|----------------|--|--------------|
| This LOA provides for Tec  | hnical Service | s for the Standard Missile Program                                   | 1.           |
| Estimated Cost: \$1,038,000                                      | Ì              | Initial Deposit: \$273,750   |              |
| Terms of Sale:<br>Cash Prior to Delivery                         |                |  |              |
| Dependable Undertaking   |                |  |              |
| This offer expires on 22 Jul<br>Purchaser and granted by the USG | ~              | ss a request for extension is made terminate on the expiration date. | by the       |
| This LOA consists of page  | 1 through page | e 9.   |              |
| The undersigned are authorand accept, respectively, this LOA     |                | tatives of their Governments and                                     | hereby offer |
|  | 30 May 2010    | <u> </u>   | 18 July 2010 |
| IA Reviewed/Approved   | Date           | Purchaser Signature  | Date         |
| A.R. Smith<br>Director   |                |  |              |
| Typed Name and Title   |                | Typed Name and Title   |              |
| Navy International Programs Office                               |                |  |              |
| Implementing Agency  |                | Agency   |              |
| DSCA Reviewed/Approved   | 30 May 2010    | IMPLEMENTATION DATE:   | 18 July 2010 |
| DSCA   | Date           |  |              |
| Information to be provided                                       |                |  | 0.1          |
| Mark For Code, Freight For<br>Name and Address of the Purchase   |                |  | Code,        |
| Ivaline and Address of the Fulchase                              | a s raying Off | 100.   |              |

LOA (Continued) Figure 2-1.

| (1)<br>Item  | (2)   | (3)<br>Oty.<br>Unit of | (4)<br>Costs     | 4) T I        | (5)<br>SC/MOS/ | (6)<br>Ofr<br>Rel    | (7)<br>Del<br>Trm |
|--------------|---|------------------------|------------------|---------------|----------------|----------------------|-------------------|
| Nbr          | Description/Condition   | Issue (a)              | Unit             | (b) Total     | TA             | Cde                  | Cde               |
| 001<br>12    | M1B 020200M1SSLTA (N)(N)(R)<br>MISSILE TECHNICAL (IV)<br>ASSISTANCE<br>CONTRACTOR<br>PERSONNEL ONLY | XX                     |                  | \$1,000,000   | P(24)<br>TA 4  | A                    | 4                 |
|              | (Note(s) 1)   |                        |                  |               |                |                      |                   |
|              | Estimated Cost Summary:   |                        |                  |               |                |                      |                   |
| (8)          | Net Estimated Cost  |                        |                  |               |                | \$1                  | 000,000           |
| (9)          | Packing, Crating, and Handling  |                        |                  |               |                | Ψ1,                  | \$                |
| (10)         | Administrative Charge   |                        |                  |               |                |                      | \$38,00           |
| (11)<br>(12) | Transportation Other (Specify, e.g., Supply Support   | rt A groom out)        |                  |               |                |                      | \$                |
| (13)         | Total Estimated Cost  | it Agreement)          |                  |               |                | \$1,                 | 038,00            |
| To a         | ssist in fiscal planning, the USC   | provides t             | he follo         | wing anticipa | ated costs o   | f this l             | LOA:              |
|              | Estin   | nated Paym             | ent Sch          | edule         |                |                      |                   |
|              | Payment Date  |                        | Quart            | <u>erly</u>   | <u>C</u>       | umulati              | ve                |
|              | Initial Deposit   |                        | \$273,           | 750           |                | \$273,75             | 0                 |
|              | 15 Dec 2010   |                        | \$127.           |               |                | \$401,12             | .5                |
|              | 15 Mar 2011   |                        | \$127,           | 375           |                | \$528,50             | 0                 |
|              | 15 Jun 2011   |                        | \$127,           |               |                | \$655,87             |                   |
|              | 15 Sep 2011   |                        | \$127,           |               |                | \$783,25             |                   |
|              | 15 Dec 2011<br>15 Mar 2012  |                        | \$127,<br>\$127, |               |                | \$910,62<br>1,038,00 |                   |
|              | 15 Ividi 2012   |                        | φ121,            | 313           |                | 1,036,00             | ,,,               |
| Ε            | Explanation for acronyms and codes, an  |                        |                  |               | the "Letter o  | f Offer a            | ınd               |
|              |   | Acceptance Inf         | formation.       | ,,            |                |                      |                   |
|              |   |                        |                  |               |                | P-BLX                |                   |

Figure 2-2. Amendment to LOA

### United States of America Amendment 1 to Letter of Offer and Acceptance BN-P-BLX

Based on BANDEF ltr 2/343 of 12 Aug 2010

Mail To: Embassy of Bandaria Office of the Naval Attaché, 1234 Massachusetts Ave, NW Washington, DC 29999.

Pursuant to the Arms Export Control Act, the United States Government (USG) offers to amend the Letter of Offer and Acceptance (LOA) identified above for the purchase of defense articles, defense services, or both. Other provisions, terms, and conditions of the original LOA remain unchanged.

This Amendment provides for extending Basic LOA Item 001 period of availability. Purchaser request extends period of performance 12 months.

Basic LOA accepted: 18 July 2010.

Estimated Cost: \$1,557,000 Due with Amendment Acceptance: \$385,625

Terms of Sale:

Cash Prior to Delivery

Dependable Undertaking.

This offer expires on 5 December 2010. Unless a request for extension is made by the Purchaser and granted by the USG, this offer will terminate on the expiration date.

This Amendment consists of page 1 through page 3.

The undersigned are duly authorized representatives of their Governments and hereby respectively offer and accept this Amendment:

|   | 05 Sep 2010         |                      | 05 Sep 2010 |
|---|---------------------|----------------------|-------------|
| IA Reviewed/Approved                                      | Date                | Purchaser Signature  | Date        |
| A.R. Smith<br>Director                                    |                     |                      |             |
| Typed Name and Title                                      |                     | Typed Name and Title |             |
| Navy International Programs Office<br>Implementing Agency |                     | Agency               |             |
| DSCA Reviewed/Approved DSCA                               | 05 Sep 2010<br>Date | IMPLEMENTATION DATE: | 05 Sep 2010 |

Figure 2-2. Amendment to LOA (Continued)

| (1)<br>Item                                | (2)   | (3)<br>Qty,<br>Unit of | (4)<br>Cost  | s                  | (5)<br>SC/MOS/ | (6)<br>Ofr<br>Rel      | (7)<br>Del<br>Trm                                   |
|--|---|------------------------|--------------|--------------------|----------------|------------------------|---|
| Nbr  | Description/Condition   | Issue                  | (a) Unit     | (b) Total          | TA             | Cde                    | Cde   |
| Pre  | <u>evious</u>   |                        |              |                    |                |                        |   |
| 001<br>12                                  | M1B 020200M1SSLTA N)(N)(R)<br>MISSILE TECHNICAL (IV)<br>ASSISTANCE<br>CONTRACTOR<br>PERSONNEL ONLY                          | XX                     |              | \$1,000,000        | P(24)<br>TA 4  | A                      | 4   |
|  | (Note(s) 1)   |                        |              |                    |                |                        |   |
| Re   | evised  |                        |              |                    |                |                        |   |
| 001<br>12                                  | M1B 020200M1SSLTA (N)(N)(R)<br>MISSILE TECHNICAL (IV)<br>ASSISTANCE<br>CONTRACTOR<br>PERSONNEL ONLY                         | XX                     |              | \$1,500,000        | P(36)<br>TA 4  | A                      | 4   |
|  | (Note(s) 1)   |                        |              |                    |                |                        |   |
|  | Estimated Cost Summary:   |                        |              |                    | Previous (     | B)                     | Revised   |
| (8)<br>(9)<br>(10)<br>(11)<br>(12)<br>(13) | Net Estimated Cost Packing, Crating, and Handling Administrative Charge Transportation Other (Specify) Total Estimated Cost |                        |              |                    | \$38,00        | 00<br>00<br>\$0<br>\$0 | \$1,500,00<br>\$0<br>\$57,000<br>\$0<br>\$1,557,000 |
| To a                                       | ssist in fiscal planning, the USC   | <del>,</del> provi     | des the foll | owing revis        | ed anticipa    | ited co                | sts of this   |
| LOA  | 2 0.  | •                      |              | Ü                  | •              |                        |   |
|  | Estin   | nated P                | ayment So    | chedule            |                |                        |   |
|  | Payment Date  |                        | . 0          | uarterly           |                | Cumui                  | lative  |
| Curre                                      | ous Payments Scheduled (22 July 2010)<br>nt USG Financial Requirements<br>ant received from Purchaser \$273,750             |                        | _            | <del>-</del>       |                | \$27                   | 3,750<br>9,375                                      |
|  | with Amendment Acceptance   |                        |              | 385,625            |                |                        | 9,375   |
|  | 15 Mar 2011   |                        |              | 179,525            |                |                        | 8,900   |
|  | 15 Jun 2011<br>15 Sep 2011  |                        |              | 179,525<br>179,525 |                | \$1,018<br>\$1,197     |   |
|  | 15 Dec 2011   |                        |              | 179,525            |                | \$1,37                 |   |
|  | 15 Mar 2012   |                        |              | 179,525            |                | \$1,557                |   |

Figure 2-3. Modification to LOA

## United States of America Modification 1 to Letter of Offer and Acceptance BN-P-BLX

Based on cost adjustments due to experience during program execution.

Mail To: Embassy of Bandaria Office of the Naval Attaché, 1234 Massachusetts Ave, NW Washington, DC 29999.

Pursuant to the Arms Export Control Act, the United States Government (USG) hereby notifies the Purchaser of Modification of the Letter of Offer and Acceptance (LOA) identified above. All other terms and conditions of the LOA remain unchanged.

This Modification provides for: Cost adjustments to Amendment Item Number 1 based on experience while executing the program.

Basic LOA accepted 18 July 2010.

Estimated Cost: \$1,453,200

Terms of Sale:

Cash Prior to Delivery Dependable Undertaking

This Modification consists of page 1 through page 3.

The undersigned are duly authorized representatives of their Governments and hereby respectively furnish and acknowledge receipt of this Modification:

|                                    | 18 Jan 2011 |                      | 18 Jan 2011 |
|------------------------------------|-------------|----------------------|-------------|
| IA Reviewed/Approved               | Date        | Purchaser Signature  | Date        |
| A.R. Smith<br>Director             |             |                      |             |
| Typed Name and Title               |             | Typed Name and Title |             |
| Navy International Programs Office | _           |                      |             |
| Implementing Agency                |             | Agency               |             |
| DSCA Review/Approved               | 22 Jan 2011 |                      |             |
| DSCA                               | Date        | IMPLEMENTATION DATE: | 22 Jan 2011 |

Figure 2-3. Modification to LOA (Continued)

|  | This Modification p  | rovides no  | tification o         | f changes as                                   | follows:   |   |  |
|--|--|-------------|----------------------|--|--|---|--|
| (1)<br>Item  | (2)  | (3)<br>Qty, | (4)<br>Cost          | J  | (5)  | (6)<br>Ofr                                  | (7)<br><b>D</b> el   |
| Nbr  |  | Unit of     | Cost                 | •  | SC/MOS/  | Rel   | Trm  |
|  | Description/Condition  | Issue       | (a) Unit             | (b) Total                                      | TA   | Cde   | Cde  |
| <u>Previo</u><br>001<br>12   | M1B 020200M1SSLTA (N)(N)(R)  | XX<br>V)    |                      | \$1,500,000                                    | P(36)<br>TA 4  | A   | 4  |
|  | (Note(s) 1)  |             |                      |  |  |   |  |
| Revise<br>001  | M1B 020200M1SSLTA (N)(N)(R)  | XX<br>V)    |                      | \$1,400,000                                    | P(36)<br>TA 4  | A   | 4  |
|  | (Note(s) 1)  |             |                      |  |  |   |  |
|  | Estimated Cost Summary:  |             |                      |  | Previous (A  | <u> 11)</u>                                 | Revised  |
| (8)<br>(9)<br>(10)<br>(11)<br>(12)<br>(13)<br><b>To as</b><br><b>LOA</b> | Net Estimated Cost Packing, Crating, and Handling Administrative Charge Transportation Other (Specify) Total Estimated Cost  ssist in fiscal planning, the USC | G provides  | s the follow         | ving revised                                   | \$1,500,<br>57,0<br>1,557,0<br>anticipated   | \$0<br>000<br>\$0<br>\$0<br>000 1           | 1,400,00<br>\$0<br>53,200<br>\$0<br>\$0<br>,453,200<br>of this |
|  |  | mated Pay   | ment Sche            | dule   |  |   |  |
| Currer   | Payment Date ous Payments Scheduled (15 Dec 2010) at USG Financial Requirements at received from Purchaser \$659,375   |             | Qua                  | <u>arterly</u>                                 | Ċ  | <u>Cumulative</u><br>\$659,375<br>\$659,375 |  |
| 1 11100  | 15 Mar 2011<br>15 Jun 2011<br>15 Sep 2011<br>15 Dec 2011<br>15 Mar 2012  |             | \$11<br>\$11<br>\$11 | 13,275<br>13,425<br>13,425<br>13,425<br>13,425 | \$772,650<br>\$886,075<br>\$999,500<br>\$1,112,925<br>\$1,226,350<br>\$1,339,775<br>\$1,453,200<br>BN-P-BLX (I |   | 075<br>500<br>925  |
|  | 15 Jun 2012<br>15 Sep 2012   |             | \$11                 | 13,425<br>13,425                               |  |   | 775<br>200   |

DD 2061, "FMS Planning Directive" Figure 2-4.

|         | ,                                |        |             |            |           | FMS PLANNII       | NG DIREC    | CTIVE           |       |         |               |           |                    |
|---------|----------------------------------|--------|-------------|------------|-----------|-------------------|-------------|-----------------|-------|---------|---------------|-----------|--------------------|
| (1) FM  | S Case No.                       |        |             |            |           |                   |             |                 |       | (5) Tot | al Case Value |           |                    |
| (2) FM  | S Case Submi                     | tted t | o the Forei | gn Governn | nent      |                   |             |                 |       | (6) Con | trol Number   |           | ·                  |
| (3) Dat | te Offer Expire<br>te Case Accep | 2S     |             |            |           |                   |             |                 |       | (7) Dat | e Prepared    |           | ·                  |
| (4) Dat | te Case Accep                    | ted by | /Foreign G  | iovernment |           |                   |             |                 |       | (8) Dol | ) Component   |           |                    |
| (9).    | (10).                            | (11).  | (12).       | (13).      | (14).     | (15).             |             | (16).           |       |         | (17).         | (18).     | (19).              |
|         |                                  |        |             |            |           |                   | Fundin      | g Required to D | ate ( | )       |               |           |                    |
| Case    |                                  |        |             |            |           | Direct Cite/      |             |                 | Items |         | Current       | Remaining | Budget<br>Year ( ) |
| ltem    | ltem                             |        | Pricing     | Financing  | Estimated | Obligl Auth Rec'd | Obligations | Unobligated     | from  |         | FY ( )        | Program   | Funding            |
| No      | Description                      | Qty    | Elements    | Approp.    | Cost      | to Date ( )       | Incurred    | Commitments     | Stock | Total   | Funding Plan  | Value     | Plan               |
|         | DM 2051                          |        |             |            |           |                   |             |                 |       |         |               |           |                    |
|         | D FORM 2061<br>MAR 79            |        |             |            |           |                   |             |                 |       |         |               |           |                    |

DD 2060, "FMS Obligational Authority" Figure 2-5.

|  |  |  | FIV                         | IS OBLIGA | TIONAL A   | UTHORITY  |   | (1) Performing Component (2) Period Covered                |   |
|--|--|--|-----------------------------|-----------|--|---|---|--|---|
| FMS Case   | Commitment/Obligation A  | Authority                                    |                             |           |  |   |   |  |   |
| (3)<br>FMS Planning<br>Directive<br>Control No.            | (4)<br>Total<br>Case Value   | (S)<br>Amount To<br>Be Held in<br>Trust Fund | (6)<br>Net<br>Case<br>Value |           | Prior Period Reimbursable<br>nding/Direct Cite Author<br>(8)<br>Required |   | Authority Re-   | quired This FY (11) Direct Cite                            | (12)<br>Remaining<br>Program<br>Value   |
|  | -  | -  | 0.00                        |           |  | 0.00  |   |  | 0,00  |
|  |  |  | 0.00                        |           |  | 0.00  |   |  | 0.00  |
|  |  |  | 0.00                        |           |  | 0.00  |   |  | 0.00  |
| (13) Balance   |  |  |                             |           |  | -   |   |  | 0.00  |
| (13) Balance<br>br't fwd.<br>(14) Case Tot.<br>(15) Admin. | 0.00   | 0.00   | 0.00                        | 0.00      | 0.00   | 0.00  | 0.00  | 0.00   | 0.00  |
| (15) Admin.<br>Expense<br>(16) Total                       | 0.00   | 0.00   | 0.00                        | 0.00      | 0.00   | 0.00  | 0,00  | 0.00   | 0.00  |
| PART B: Financing Acc                                      | pounts   |  |                             | (12.23)   |  | 958.84.00   |   |  |   |
| (17) Appropriation Title                                   | (18) Account Symbol  | 3  |                             |           |  |   |   |  |   |
|  |  |  |                             |           |  | 0.00  |   |  | 0.00  |
|  |  |  |                             |           |  | 0.00  |   |  | 0.00  |
|  |  |  |                             |           |  | 0.00  |   |  | 0.00  |
|  |  |  |                             |           |  | 0.00  |   |  | 0.00  |
| (19) Balance Brought F<br>(20) Obligational Autho          |  |  | 0.00                        | 0.00      | 0.00   | 0,00  | 0.00  | 0.00   | 0.00  |
| (21) We will addept (1)<br>shown in column                 | orders to be performed o<br>10, (2) authority for a dire<br>solumn 11, and (3) allotme | ect cite against 97-11x8                     | n the amounts               | ****      | (22) In approving th   | is form, we hereby issue<br>e on a direct cite basis f<br>ise, and (3) an allotment | e (1) reimbursable orders on a<br>or the total of the amounts d | case-by-case basis as show<br>esignated (C) in column 11 b | n in column 10, (2) authority<br>ut not to exceed the amounts<br>ut not to exceed the amounts |
| Name of Accepting/Requesting Official                      |  |  |                             |           | Name of Offer<br>(23) Approval Contr                                     | ing/Approving Official<br>of No.  |   |  |   |

DD FORM 2060, MAR 79 Reset

DD 2061, "FMS Planning Directive," Completion Guidance Table 2-1.

| Line/<br>Column # | Description                               | Explanation  |
|-------------------|---|--|
| 1                 | FMS Case Number BN-P-BLX                  | Continue from LOAs.  |
| 2                 | Date LOA Submitted to Foreign Government  | Obtain from date of LOA.   |
| 3                 | Date Offer Expires                        | Obtain from offer expiration date of LOA.  |
| 4                 | Date Case Accepted by Foreign Government. | Obtain from acceptance date of LOA.  |
| 5                 | Total Case Value                          | Must agree with total of Column 14 and "Estimated Total Costs" of LOA.   |
| 6                 | Control Number                            | Consists of country code, case designator, Julian date (YYDDD), and a two-digit sequential number. Initial DD 2061 will use sequential number 01, with each succeeding submission using 02, 03, 04 The Julian date must agree with the data entered on line 7. Use the format BN-BLX-17212 01. |
| 7                 | Date Prepared                             | Date formally prepared. Must agree with Julian date used in control number. Use the format Jul 31, 2017.   |
| 8                 | DoD Component/Case<br>Manager             | Enter the DoD Component, followed by the case manager's name, organization, and DSN phone number, e.g., Navy, J. Smith, Naval Air Systems Command, 222-7890.   |
| 9                 | Case Item Number                          | This entry must match the entries on the LOA.  |
| 10                | Item Description                          | This entry must match the item description on the LOA. Use abbreviated titles. When information is classified, enter "Classified – Refer to LOA."  |
| 11                | Quantity                                  | This entry must match the entries on the LOA. Columns 9, 10, and 11 should show no further breakdown than is or will be reflected on the LOA.  |
| 12                | Pricing Elements                          | This column will be used to provide breakdown of the cost of the article or service by pricing element using codes maintained in DIFS by DSCA.   |

DD 2061, "FMS Planning Directive," Completion Guidance (Continued) Table 2-1.

| Line/<br>Column # | Description   | Explanation   |
|-------------------|---|---|
| 13                | Financing Appropriation   | For each Pricing Element, Column 12, enter the first impacted appropriation (the financing appropriation) for reimbursable actions, or enter "DC" for Direct Citation (for example, when the FMS Trust Fund will be directly cited on obligation documents). More than one appropriation may be entered for some pricing elements. Annual appropriations will reflect the applicable FY.  |
| 14                | Estimated Cost  | Enter the estimated cost (priced in accordance with Chapter 7) for each Column 13, Financing Appropriation. For each item number with multiple entries in Columns 13 and 14, enter "Item No. Costs" in Column 13 after the last entry and the sum (subtotal) of the estimated costs for that item in Column 14. This sum must equal the line item total cost to be reflected on the proposed LOA, Amendment, or Modification. For less than 10% increases, this amount will reflect the adjusted cost of the article or service. For each item number citing a single financing appropriation, the entry in Column 14 should be the cost of the item. |
| 15                | Direct Cite/OA received to date (most recent prior FY e.g., FY10 during FY11) | Leave blank if case was not implemented in a prior FY. Enter, by Financing Appropriation in Column 13, the amount of OA issued through the end of the prior FY. Column 15 should be adjusted for withdrawals of unused authority at the end of the previous year.   |

Table 2-1. DD 2061, "FMS Planning Directive," Completion Guidance (Continued)

| Line/<br>Column #    | Description   | Explanation   |
|----------------------|---|---|
| 16                   | Funding Required to Date (same FY entered in Column 15)                   | Leave blank if case was not implemented in a prior FY.  |
| 16a, 16b,<br>and 16c | Obligations Incurred,<br>Unobligated Commitments,<br>and Items from Stock | Columns 16a, 16b, and 16c provide a horizontal breakdown of amounts entered in Column 16d, "Total." |
| 16d                  | Total   | Enter, by Financing Appropriation in Column 13, the OA committed through the end of the prior FY.   |

On successive DD 2061s in the same FY, Columns 15 and 16 are constant and reflect the status by financing appropriation as of September 30 of the prior FY. These entries, in total, must agree with the entries in Columns 7 and 8, respectively, of the annual consolidated DD 2060.

| Line/<br>Column# | Description                 | Explanation   |
|------------------|-----------------------------|---|
| 17               | Current FY ( ) Funding Plan | Enter the current FY in the parentheses, e.g., (2011). For a new case in which OA will not be required until a subsequent FY, Column 17 should reflect that subsequent year as the current FY. Enter, by financing appropriation, the current FY OA requirements. On successive DD 2061s, these figures are cumulative. |
| 18               | Remaining Program Value     | Enter, by financing appropriation, the result of Column 14 minus the "Total" of Column 16 minus Column 17. This entry must not be a negative amount.  |
| 19               | Budget Year Funding Plan    | Enter the FY following the year shown in Column 17. Enter, by financing appropriation, the budget year OA requirements. Amounts shown in Column 19 must not exceed the amounts shown in Column 18.  |

\* October 2024

Table 2-1. DD 2061, "FMS Planning Directive," Completion Guidance (Continued)

SUBTOTALS: If the DD 2061 is prepared in support of a request for an increase of less than 10%, then enter subtotal and less than 10% increase lines.

| Line/<br>Column #       | Description   | Explanation   |  |
|-------------------------|---|---|--|
| 10 and<br>14-19         | Subtotal  | Enter "Subtotal" in Column 10 and the vertical sums of Columns 14 through 19. Check sums horizontally. Columns 14 = 16 + 17 + 18.   |  |
| 10, 14,<br>and 18       | Less than 10% increase                              | Enter "Less than 10% increase" in Column 10. In Columns 14 and 18, enter the amount of the cumulative net increase in the total materiel/services value.  |  |
| 10 and<br>14-19         | Net Case Value                                      | Enter "Net Case Value" in Column 10 and the vertical sums of Columns 14 through 19. Column 14 should agree with the "Estimated Cost" of the LOA. Check sums horizontally. Columns 14 = 16 + 17 + 18.  |  |
| 10,<br>12-14,<br>and 18 | Packing, Crating & Handling (PC&H), (if applicable) | Enter "PC&H ( %)," Pricing Element "OS," and Financing Appropriation "TF" (FMS Trust Fund). Columns 10, 14, and 18 should be completed with the proper rate and amount as computed in accordance with Chapter 7. PC&F charges were discontinued for DWCF items effective October 1, 1990.   |  |
| 10,<br>12-14,<br>and 18 | Admin (if applicable)                               | Enter "ADMIN ( %)," Pricing Element "OS," and Financing Appropriation "TF." Columns 10, 14, and 18 should be completed with the proper rate and amount as computed in accordance with Chapter 7.  |  |
| 10,<br>12-14,<br>and 18 | Transportation (if applicable)                      | Enter "TRANS (%)," and/or Parc. Post (%)," as appropriate, Pricing Element "OS," and Financing Appropriation "TF." Columns 10, 14, and 18 should be completed with the proper rate(s) and amount(s) as computed in accordance with Chapter 7. Different rates may be used if partial delivery was made prior to April 13, 1978. The rate to be charged is the rate in effect at the time of delivery. |  |

\* October 2024

Table 2-1. DD 2061, "FMS Planning Directive," Completion Guidance (Continued)

| Line/<br>Column #    | Description   | Explanation   |
|----------------------|---|---|
| 10, 12-14,<br>and 18 | Stock issue asset use (SIAU) (if applicable) for cases implemented after Sep 30, 1979, and all DD 2060/2061 submissions subsequent to that date up to Nov 30, 1989. | Enter "SIAU (1%)," Pricing Element "AU," Financing Appropriation "TF." In Columns 14 and 18, enter the amount computed in accordance with Chapter 7. Discontinued November 30, 1989.  |
| 10 and 14-<br>19     | Total Case Value  | Enter "Total Case Value" and the vertical sum of Columns 14 through 19 for "Net Case Value" and PCH&T, Admin, Storage, and SIAU. Check sums horizontally. Columns 14 = 16 + 17 + 18. Column 14 should match the "Total Estimated Cost" line of the LOA. |
| 10                   | Summary   | Enter "Summary:"  |
| 10,<br>14-19         | Reimbursable Program  | Enter, as applicable "Reimbursable Program" in Column 10. Sum Columns 14 through 19 for all entries with other than "DC" or "TF" in Column 13.  |
| 10,<br>14-19         | Direct Cite Program   | Enter, as applicable "Direct Cite Program" in Column 10. Sum Columns 14 through 19 for all entries with "DC" in Column 13.  |

If the DD 2061 is prepared in support of a less than 10% increase, then enter subtotal and less than 10% increase lines.

| Line/<br>Column # | Description            | Explanation   |
|-------------------|------------------------|---|
| 10,<br>14-19      | Subtotal               | Enter "Subtotal" in Column 10. Sum "Reimbursable Program" and "Direct Cite Program," Columns 14 through 19.   |
| 10, 14, and<br>18 | Less than 10% increase | Enter "Less than 10% increase" in Column 10. In Columns 14 and 18, enter the negative amount of the cumulative net increase in the total materiel/services value. |

DD 2061, "FMS Planning Directive," Completion Guidance (Continued) Table 2-1.

| Line/<br>Column # | Description                              | Explanation  |
|-------------------|--|--|
| 10,<br>14-19      | Net Case Value                           | Enter "Net Case Value" in Column 10. Sum "Reimbursable Program" and "Direct Cite Program," or, if applicable, "Subtotal" and "Less than 10% increase," Columns 14 through 19.  |
| 10, 14,<br>and 18 | PC&H, PCH&T, Admin,<br>Trans, or Storage | If applicable, enter "PC&H," "PCH&T," "Admin," "Trans," and "Storage" in Column 10. Sum Columns 14 and 18 for all entries with "TF" in Column 13.  |
| 10, 14-19         | Total Case Value                         | Enter "Total Case Value" in Column 10. Sum "Net Case Value," "PC&H," "Trans," "PCH&T," "Admin," and "Storage" lines (as entered from previous guidance) for Columns 14 through 19. Check sums horizontally. Columns 14 = 16 + 17 + 18. Check to ensure that each column total matches the sum entered on the previous "Total Case Value" line. |

DD 2060, "FMS Obligational Authority," Completion Guidance Table 2-2.

| Line/<br>Column # | Description             | Explanation  |
|-------------------|-------------------------|--|
| Blank             | Type of Request         | Enter the designation of the document that occasioned the submission of the DD 2061 and 2060, e.g., LOA, Modification, Amendment, less than 10% increase, or DD 2061 Revision. |
| 1                 | Performing<br>Component | Enter "Army," "Navy," or "Air Force."  |
| 2                 | Period Covered          | Enter the FY for which OA is being requested, e.g., FY2010.  |

# Part A

| Line/<br>Column # | Description  | Explanation   |
|-------------------|--|---|
| 3                 | FMS Planning Directive Control No.   | Obtain from line 6 of DD 2061.  |
| 4                 | Total Case Value   | Obtain from "Total Case Value" line, Column 14, of "Summary" section of DD 2061. Also equals line 5 on DD 2061.   |
| 5                 | Amount to be Held in FMS Trust Fund  | Obtain from "CAS for DCAA and DCMA PCH&T, Admin, and Storage" Column 14, in "Summary" section of DD 2061. Note: PCH&T does not apply to DWCF delivery reported on or after October 1, 1990. Storage charges do not apply to the FMSO I Part A on-hand of DWCF items.  |
| 6                 | Net Case Value   | Computation: Column 4 – Column 5= Column 6 (DD 2060)<br>This amount represents the total that will be provided to the performing DoD Component for an FMS case.   |
| 7                 | Prior Period Reimbursable Funding/Direct Cite Authority: Received              | Obtain from "Net Case Value" line, Column 15, of the "Summary" section of DD 2061. The entry is constant for a FY and must agree with the entry on the annual consolidated DD 2060.   |
| 8                 | Prior Period Reimbursable Funding/Direct Cite Authority: Required              | Obtain from "Net Case Value" line, Column 16 "Total," of the "Summary" section of the DD 2061. The entry is constant for a FY and must agree with the entry on the annual consolidated DD 2060.   |
| 9                 | Prior Period<br>Reimbursable<br>Funding/Direct<br>Cite Authority:<br>Withdrawn | Computation: Column 7 - Column 8 = Column 9 (DD 2060)<br>Represents the amount of funds received in prior periods but<br>not required for case performance. These amounts will be<br>withdrawn from the performing DoD Components. The<br>entry is constant for a FY and must agree with the entry on<br>the annual consolidated DD 2060. |

DD 2060, "FMS Obligational Authority," Completion Guidance (Continued) Table 2-2.

| Line/<br>Column # | Description                | Explanation  |
|-------------------|----------------------------|--|
| 10 & 11           | Authority Required this FY | Enter the FY from line 2.  |
| 10                | Reimbursable               | Obtain from "Reimbursable Program" line, Column 17, of the "Summary" section of the DD 2061. Represents the amount of reimbursable OA required for the current FY.   |
| 11                | Direct Cite                | Obtain from the "Direct Cite" line, Column 17, of the DD 2061. Amounts in this column followed by a "(C)" represent direct citation delegation authority required for the current FY. If blank, then the request is for an allotment of funds for direct cite, with the IA to be the accounting station. |
| 12                | Remaining Program<br>Value | Computation: Column 6 - [Column 8 + Column 10 + Column 11] = Column 12 Should agree with "Net Case Value" line, Column 18, of the "Summary" section of the DD 2061. May be negative if type of request is for a less than 10% increase.  |
| 13                | Balance Brought<br>Forward | N/A  |
| 14                | Case Total                 | N/A  |
| 15                | Admin Expense              | N/A  |
| 16                | Total                      | Sum of entries by column.  |

\* October 2024

Table 2-2. DD 2060, "FMS Obligational Authority," Completion Guidance (Continued)

# Part B

| Line/    | - · · ·   |  |
|----------|---|--|
| Column # | Description   | Explanation  |
| 17       | Appropriation Title                                 | Obtain from appropriate DoD Component directives.<br>Enter abbreviated title. Where the case is impacted by an increase of less than 10%, insert an additional line "Less than 10% increase."  |
| 18       | Account Symbol                                      | Obtain from DD 2061, Column 13, "Financing Approp." Enter the first impacted financing) appropriation or fund for reimbursement action; or enter "DC" where the FMS Trust Fund is to be direct cited. Summarize into one line per account. |
| 19       | Balance Brought<br>Forward                          | N/A  |
| 20       | Obligational Authority                              | Enter totals (by column) for each applicable element. Totals should reflect same data as DD 2060 summary data reflected in Part A.   |
| 21       | Signature Block<br>Accepting/Requesting<br>Official | To be completed by the appropriate DoD Component.  |
| 22       | Signature Block<br>Offering/Approving<br>Official   | To be completed by appropriate Approving Official.   |
| 23       | Approval Control<br>Number                          | To be completed by appropriate Approving Official.   |

NOTE: Line/Column # 6-12: Obtain totals (by appropriation) from applicable column on DD 2061. Enter individual data under each column where the case is impacted by an increase of less than 10%, an appropriate negative entry will be shown in Columns 6 and 12 as determined from Columns 14 and 18 of the DD 2061. Line/Column # 9 should be computed as Column 7 minus Column 8.

# VOLUME 15, CHAPTER 3: "ACCOUNTING" SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by bold, italic, blue, and underlined font.

The previous version dated September 2022 is archived.

| PARAGRAPH | ARAGRAPH EXPLANATION OF CHANGE/REVISION   |          |
|-----------|---|----------|
| All       | Updated hyperlinks and internal references throughout.  |          |
| 4.4       | Updated to clarify that Military Departments and Defense Agencies control and report security assistance assets within their accountable property system of record and through the  |          |
| 4.8.2.3   | Removed reference to Building Partner Capacity program administration within the Foreign Military Sales (FMS) Trust Fund and the Economy Act as the legal authority.  | Deletion |
| 11.1      | Revised and updated to remove obsolete reference for FMS problem disbursements greater than \$2,500 to be brought to the attention of the FMS Case Closure Executive Committee for resolution. FMS problem disbursements greater than \$2,500 should be brought to the attention of the Defense Security Cooperation Agency Comptroller using procedures outlined in the Security Assistance Management Manual. | Revision |

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#### **CHAPTER 3**

# **ACCOUNTING**

- 1.0 GENERAL
- 1.1 Purpose

This chapter establishes accounting requirements which:

- 1.1.1. Assure proper DoD control and accountability of cases implemented in the Foreign Military Sales (FMS) Trust Fund;
- 1.1.2. Provide accounting information that can be used for preparation of Chief Financial Officer (CFO) financial statements, quarterly bills to FMS purchasers, and financial status reports to DoD case managers and Defense Security Cooperation Agency (DSCA) staff;
  - 1.1.3. Integrate with physical delivery (logistics) reporting systems;
- 1.1.4. Serve as a basis for timely identification and reporting of financial management problems; and
- 1.1.5. Establish internal controls to assure compliance with the payment requirements of the Arms Export Control Act (AECA), Public Law 90-629, codified at *Title 22, United States Code (U.S.C.), Chapter 39*.
- 1.2 Authoritative Guidance

Authoritative guidance for this chapter is as follows:

- 1.2.1. AECA, Public Law 90-629, codified as 22 U.S.C. Chapter 39;
- 1.2.2. Title 31 U.S.C. Chapter 15; and
- 1.2.3. Statement of Federal Financial Accounting Standards (<u>SFFAS</u>) 1: Accounting for Selected Assets and Liabilities, issued by the Federal Accounting Standards Advisory Board.
- 2.0 GENERAL ACCOUNTING GUIDANCE
- 2.1 Accounting Characteristics
- 2.1.1. Each FMS case is an accounting unit similar to a commercial job order. A case identifier is composed of the Security Cooperation (SC) customer code or international organization code, implementing agency (IA) code, and a three-position case designator assigned by the IA. See the DSCA Manual 5105.38-M, "Security Assistance Management Manual" (SAMM), Table C4.T2, for more information. Obligational authority (OA) necessary to

implement a case is released by case identifier and line-item number. All requisitions for materiel or services have a case identifier and line-item number. Report accrued costs and cash disbursements at this level of detail. Accumulate and report this accounting information to FMS purchasers and DoD case managers to allow proper monitoring of case execution.

- 2.1.2. DoD manages cash at country level to ensure sufficient funds are available to meet expenditure requirements and to determine arrearages of a country's dependable undertaking. See Volume 16, Chapter 6 for more information on arrearages. A cumulative summary cash account, including all sub-accounts of the FMS Trust Fund 11X8242, "Advances, Foreign Military Sales, Funds Appropriated to the President," is needed to allow reconciliation with the U.S. Department of the Treasury (Treasury) cash records. Cumulative summary accounts showing OA, commitments, obligations, accounts payable, accounts receivable, accrued expenditures, and expenses are required to complete budget execution reports on the FMS Trust Fund account.
- 2.1.3. DoD case management entails obtaining the necessary OA, releasing requisitions or procurement work orders, and reporting physical delivery of required items. The first two actions require efforts directed through the accounting system. Proper management controls require the use of the same source document for reporting to both the financial and logistical systems (including delivery reporting).

# 2.2 Responsibilities

- 2.2.1. <u>DSCA</u>. DSCA is responsible for providing oversight and monitoring usage of the FMS Trust Fund, to include periodic reviews of funding levels and unused balances.
- 2.2.2. <u>Defense Finance and Accounting Service (DFAS)</u>. DFAS performs the accounting, billing, disbursing, and collecting functions for the FMS Trust Fund, as well as provides financial management and accounting support for SC programs. DFAS ensures entries in the accounting systems have audit trails to the source documents and generates financial statements. DFAS is responsible for:
- 2.2.2.1. Monitoring for compliance, the centralized FMS case-line level accounts prescribed in this chapter, and the Bureau of the Fiscal Service (Fiscal Service), "U.S. Standard General Ledger (*USSGL*)." The DoD Standard Chart of Accounts are in the *Standard Financial Information Structure*, DoD USSGL Transaction Library, and Volume 1, Chapters 4 and 7. Use information accumulated in the accounts when preparing billing statements to FMS purchasers and financial management reports to DoD case managers and DSCA staff;
  - 2.2.2.2. Maintaining FMS Trust Fund budget execution records;
- 2.2.2.3. Identifying and notifying DSCA when an FMS Trust Fund arrearage occurs as required in Volume 16, Chapter 6;
- 2.2.2.4. Summarizing all case-line level accounts at the FMS Trust Fund level, reconciling the summary cash accounts to Treasury's records per Treasury guidance, and using the summary accounts as the basis for required reports on FMS Trust Fund operations;

- 2.2.2.5. Maintaining audit trails and supporting documentation for entries made to the accounting system; and
- 2.2.2.6. Preparing monthly, quarterly, and annual statements as required in Volumes 6A and 6B.
  - 2.2.3. IAs. IAs are responsible for:
    - 2.2.3.1. Fulfilling FMS Trust Fund orders using these financing techniques:
- 2.2.3.1.1. Issuing and accepting reimbursable orders into a financing appropriation or Defense Working Capital Fund (DWCF) account,
- 2.2.3.1.2. Issuing allotments/OA of the FMS Trust Fund to the performing DoD Components, or
  - 2.2.3.1.3. Authorizing direct citation of the FMS Trust Fund (11X8242);
- 2.2.3.2. Ensuring appropriation/fund budget execution records accurately reflect the status of the reimbursable FMS Trust Fund program;
- 2.2.3.3. Performing and/or ensuring the completion of the Dormant Account Review Quarterly (DAR-Q) of obligations and unfilled customer orders as described in Volume 3, Chapter 8, section 16.0;
- 2.2.3.4. Maintaining audit trails between source documents and entries to the accounting system; and
- 2.2.3.5. In coordination with DFAS, maintaining within the IAs respective accounting system of record the centralized FMS case-line level accounts prescribed in this chapter and in the USSGL.
- 2.2.4. <u>Allotment Holders for Actual FMS Administrative Expenses</u>. A DoD Component that receives a DSCA allotment of FMS Administrative Budget Authority (BA) is responsible for:
- 2.2.4.1. Maintaining obligations and expenditures within the limitations of the allotment,
- 2.2.4.2. Ensuring obligating documents and accrued expenditures meet the requirements contained in this volume,
- 2.2.4.3. Returning unobligated OA to DSCA at the end of each fiscal year (FY), and

2.2.4.4. Performing the DAR-Q of obligations and unfilled customer orders as described in Volume 3, Chapter 8, section 16.0.

# 3.0 MANAGEMENT CONTROLS

For management controls, Security Assistance activities will follow the guidance in DoD Instruction 5010.40, "Managers' Internal Control Program Procedures."

# 4.0 FMS TRUST FUND ACCOUNTING REQUIREMENTS

#### 4.1 FMS Trust Fund

The FMS Trust Fund is a single account that is authorized to be credited with receipts that may be obligated and expended in accordance with the AECA. FMS Trust Fund receipts must be apportioned prior to obligation and expenditure; however, an official, designated under 31 U.S.C. § 1513, and as per 31 U.S.C. § 1516, may exempt trust funds from apportionment.

# 4.2 FMS Standard General Ledger (GL)

All financial accounting data applicable to the FMS program must be recorded in accounts consistent with Volume 1, Chapter 7 and the USSGL accounts. The USSGL specifies the accounting entries for these accounts. Subsidiary ledgers are used, where necessary, to provide accounting control and management reports. The Deputy CFO, Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), must approve the use of any other GL Trust Fund accounts in writing. Objective evidence, e.g., invoices, vouchers, receipts, or statements, must support all entries in the accounting records and data reported on financial statements. Such evidence may be either hard-copy documents or computer data, but in either case, the evidence must be verifiable.

# 4.3 Accounting for Receivables

#### 4.3.1. General

- 4.3.1.1. Cash in advance of performance is required from FMS purchasers unless a written determination is made pursuant to legal authority. See Chapter 4 for more information on cash management. For FMS purchasers who are legally exempt from making cash advances, record accounts receivable for each FMS country program accounted for in the FMS Trust Fund in USSGL 131000, "Accounts Receivable." SFFAS 1, paragraph 41 provides that a receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.
- 4.3.1.2. The offered and accepted FMS case is a binding requirement and calls for an advance of funds from the FMS purchaser; thus, a non-entity account receivable is established when the due date for payment is not met. Follow up and aging of delinquent accounts receivable will be in accordance with Volume 16, Chapter 6. Accounts receivable are aged according to Volume 4, Chapter 3, Figure 3-1.

- 4.3.2. <u>Application of Interest</u>. Assess interest on FMS country-level arrearages in accordance with the provisions of the affected country's active cases and Volume 16, Chapter 6.
- 4.3.3. <u>Reporting</u>. DFAS submits the Fiscal Service, Debt Management Governmentwide Reports: "Treasury Report on Receivables (<u>TROR</u>)," quarterly. Instructions for the TROR are in Volume 4, Chapter 3.

# \*4.4 Accounting for Inventory

The Military Departments or Defense Agencies control and report security assistance assets (equipment and related software, amounts invested in inventories, and work-in-process at contractor's plants) within their accountable property system of record and through the Security Assistance Accounts consolidated annual financial statements.

# 4.5 Accounting for the FMS Program

The AECA and provisions of the Letter of Offer and Acceptance (LOA) require that the FMS program operate at no cost to the U.S. Government. Therefore, recognize equity only for the balance retained in the attrition account; see subparagraph 4.5.2.

# 4.5.1. Accounting for FMS Surcharges

- 4.5.1.1. Record the collection of surcharges established in accordance with AECA §§ 21 and 43 as unearned revenue to ensure full recovery of costs incurred in operating the FMS program.
- 4.5.1.2. Record and recognize revenue and expenses at the time disbursements are made from the applicable FMS Surcharge account.
- 4.5.1.3. Revenues to fund these expenses are from the application of money received from accrued costs, estimated actual costs, or rates charged. Maintain ledgers for each of the categories of FMS Surcharges as subsidiary to the unearned revenue control account, USSGL 231000, "Liability for Advances and Prepayments."
- 4.5.1.4. Apply the Contract Administration Services (CAS) Surcharge to new procurements; however, it may not be applicable under certain conditions detailed in AECA § 21. DSCA provides funding directly to performing activities to reimburse for FMS and Building Partner Capacity (BPC) CAS costs.
- 4.5.2. <u>Accounting for Attrition Surcharges</u>. When FMS training LOAs include the use of training or operational equipment, an attrition surcharge rate may be applied pursuant to <u>SAMM, Table C9.T4</u>. The Attrition Surcharge Account replaces equipment damaged or destroyed during student training as a result of student negligence. Record attrition surcharges in the attrition account; they are assets to the U.S. Government. At year end, record the balance in the attrition account as equity in the FMS Trust Fund. Refer to Chapter 7, subparagraph 23.3.3 for more information on the application of the attrition surcharge.

- 4.5.3. Accounting for Bad Debts. Policy concerning compromise, termination, or suspension of collection actions of a country-level bad debt is in Volume 16, Chapter 6, section 6.0. Resolution of all foreign indebtedness resulting from FMS transactions will be staffed with the Department of State (DoS) by DSCA via the Under Secretary of Defense for Policy. Within 30 calendar days of a determination by the DoS that a debt is uncollectible, DSCA will direct DFAS Security Cooperation Accounting (SCA) to record the amount owed, including accrued interest, in the GL. When a country is in arrears, and the debt is confirmed to be uncollectible:
- 4.5.3.1. All available funds for the affected country will be used to satisfy outstanding liabilities according to a priority recommended by the Director of DFAS SCA and approved by the DSCA Principal Director, Office of Business Operations (OBO);
- 4.5.3.2. DSCA will direct applicable case managers to request cancellation of all outstanding commitments and adjustment of all outstanding obligations, to include an amount for termination cost. The residual amount of debts shown will be transferred to the GL for the affected country, to coincide with the termination of the FMS cases, based on the determination that the country's account is uncollectible. This highlights losses due to uncollectible amounts in the accounts as required by SFFAS 1, paragraph 44; and
- 4.5.3.3. Aging of amounts recorded will continue. Accrue the accumulation of interest, in accordance with the AECA and other applicable authorities, monthly on the balance in the sub-account. The amount recorded in the account will include the amount of the arrearage, termination liability costs, and accrued interest.
- 4.5.4. Accounting for Transactions Occurring Prior to January 1, 1989. A reconciliation problem existed within the FMS Trust Fund for transactions that occurred prior to January 1, 1989, and some reconciliations occurred as a result of management decisions. Adjustments to transactions that occurred prior to January 1, 1989, will be reviewed by the FMS central accounting site control point staff, and approved by the DSCA Comptroller, prior to posting in the Defense Integrated Financial System (DIFS). The control point staff at DFAS SCA and DSCA will maintain a complete audit trail of all adjustments received and processed. Documentation supporting these adjustments will be retained by the originating organization. Transactions will be approved by:
- 4.5.4.1. DFAS SCA and an appropriate representative of the applicable DoD Component involved;
- 4.5.4.2. The Director of the applicable DFAS center submitting transactions to DFAS SCA, if the amount of the transaction is in excess of \$500,000; or
- 4.5.4.3. The Director, DFAS and the Director, DSCA, if the amount of the transaction exceeds \$1,000,000.

# 4.6 Processing Accounting Transactions

In order to provide accounting services for the FMS Trust Fund, DFAS SCA uses DIFS and records maintained in the IA's source accounting systems. As a trust-fund level management system, DIFS links IA records from bills, including supporting financial documents, issued to purchasing countries for articles and/or services. See <u>SAMM C13.6</u> for additional information. Transactions entered into DIFS are a combination of installation-level transactions received through the FMS Integrated Control System, and vouchers recorded at DFAS SCA, resulting from billing, collection, and disbursement activities. Transactions recorded in DIFS are posted at the trust fund-, country-, and case-level. This enables DFAS SCA to prepare required accountability and fund status reports for the FMS Trust Fund. DFAS SCA relies on the accuracy and integrity of the records maintained in IA's source accounting systems. Source transactions must have all of the information required to enable DFAS SCA to prepare required accounting reports and perform financial management oversight.

# 4.7 DFAS SCA Analysis of FMS Case Accounting Data

DFAS SCA must continuously analyze case-level accounting data to identify developing financial problems and alert IA case managers, DSCA country finance directors, and other concerned DoD officials of the necessity for corrective action. The types of analysis performed are as follows:

- 4.7.1. <u>Adequacy of Cash Deposits and Timely Payments</u>. Compare the net unreserved cash balance to the accounts payable case-level accounts. If the accounts payable balance is greater, request an IA review of the case payment schedules and coordinate with the IA to ensure sufficient country funds are available to aid in the timely payment to vendors; and
- 4.7.2. <u>Timely Case Closure Actions</u>. When the expenditures approach OA value, DFAS SCA should request an IA review of the case's financial and logistical status to determine if the case should be closed.

# 4.8 DFAS SCA Surcharge Transactions

- 4.8.1. FMS Administrative Surcharge and Logistics Support Charge (LSC) Account
- 4.8.1.1. <u>Accrual of Earned Surcharge</u>. As accrued expenditures are calculated, pursuant to FMS orders, the amount of FMS Administrative Surcharges applicable will be determined and credited to the FMS Administrative Surcharge account.
- 4.8.1.1.1. \$30,000 or less. If the computed FMS Administrative Surcharge for the FMS case is \$30,000 or less, the entire surcharge value must be included in the initial deposit (*SAMM Table C9.T17*). This includes the value of any small case management line for cases implemented August 1, 2006 through July 2, 2012 (SAMM paragraph *C9.4.7*).

- 4.8.1.1.2. Over \$30,000. If the computed FMS Administrative Surcharge for the FMS case is greater than \$30,000, 35 percent of the surcharge is collected upon case implementation (SAMM Table C9.T17). Apply the remaining accruals over the life of the case and finalize at case closure.
- 4.8.1.2. <u>Actual FMS Administrative Surcharge</u>. Transactions representing actual expenses will be entered based on accrued expenditures reported in the DoD Status-of-Allotment reports for FMS. See subparagraph 6.1.3.
- 4.8.1.3. <u>LSC</u>. LSC is applicable to articles delivered or services performed on or after April 1, 1987 and prior to October 1, 2007. These charges are accounted for in the FMS Administrative Surcharge account as described in subparagraphs 4.8.1.1 and 4.8.1.2. For more information on LSC, see SAMM Table C9.T4.

# 4.8.2. <u>Transportation Surcharge Account</u>

- 4.8.2.1. <u>Accrual of Earned Surcharge</u>. When items are reported by the DoD Components as physically delivered, applicable transportation surcharges are earned and credited to the Transportation Surcharge account.
- 4.8.2.2. <u>Actual Transportation Expense</u>. Transactions showing actual transportation cost, based on receipt of carrier bills, will be entered against the Transportation Surcharge account.
- 4.8.3. <u>CAS Cost Clearing Account Accrual of Earned Surcharge</u>. When payments are made to contractors (either progress payments or bills for incurred costs), the applicable CAS surcharges are earned and credited to the CAS Cost Clearing Account.
- 4.8.4. Attrition Surcharge Account. Assess the applicable attrition surcharge for applicable training cases (SAMM Table C9.T4). The IAs will identify the amounts earned as they distribute collections for tuition, credit the attrition portion, and report it to DFAS SCA by country, case, and line. Expenditures from this account represent orders to the DoD Components to fund the cost of replacing damaged or destroyed equipment associated with student training. DFAS SCA will maintain cumulative records of these deposits by country, case, and line item. Fund withdrawal from the attrition account requires prior written approval from the DSCA Comptroller. The cost in full of replacing damaged or destroyed equipment is reimbursed from the attrition account.
- 4.8.5. <u>Year-End Certification</u>. Reporting entities now utilize the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) and the Fiscal Service Year-End Transaction Module to report unexpended appropriation and fund balances. The Year-End Module, in addition to GTAS, is used to initiate year-end cancelation and adjustment transactions previously presented on the Fiscal Service Form 2108. See Volume 6A, Chapter 4 and the Treasury Financial Manual, Volume 1, *Part 2*, *Chapter 4700* for more information.

4.8.6. Periodic/Year-End Analysis of Surcharge Accounts. DSCA and DFAS SCA analyze activity in the surcharge accounts. This analysis will serve as a basis for decisions by DSCA OBO to redistribute surcharge account balances between the accounts or to recommend rate changes. DSCA OBO will coordinate any decision made to redistribute balances, to mitigate shortfalls in one or more surcharge accounts, with DFAS SCA and OUSD(C). If a redistribution between surcharge accounts is required, DSCA OBO will then notify OUSD(C) of the intended redistribution action and seek concurrence. OUSD(C) should provide a response within 30 calendar days. With OUSD(C) concurrence, DSCA OBO will authorize DFAS SCA to redistribute the funds. Once the receiving surcharge account is returned to an acceptable funding level, the transferred funds will be redistributed back to the original account once the DSCA OBO receives concurrence with OUSD(C). When a decision is made to revise rates, the revisions will be coordinated with OUSD(C). See Chapter 7, paragraph 12.2 for more information on revising rates.

# 5.0 IA ACCOUNTING REQUIREMENTS

# 5.1 Allotments for Direct Citation

Amounts in Column 11, "Direct Cite Authority Required This FY," of the DoD (DD) Form 2060, *FMS Obligational Authority*, or automated equivalent (OA request), which are coded "(A)," represent allotments of case contract authority. Allotment holders must request expenditure authority (EA) from DFAS SCA prior to processing the disbursements against the contract authority. DFAS SCA provides incremental EA from the FMS Trust Fund based on the allottee's need to disburse funds. Additional instructions for the DoD Status-of-Allotment report are in section 6.0. Specific requirements include:

- 5.1.1. The DoD Component that holds an allotment of the FMS Trust Fund for direct citation on contracts must maintain detailed commitment, obligation, and expenditure records on an FMS case and line basis. That DoD Component must provide DFAS a monthly DoD Status-of-Allotment report reflecting the case and line-level data. Delivery transactions in an amount equal to the current month's net change in accrued expenditures or cash advances to contractors must support the status of expenditures. A manual DoD Status-of-Allotment format is in Figure 3-1; and
- 5.1.2. Submit Monthly DoD Status-of-Allotment information, and associated reports of reconciliation, to DFAS by the 20th calendar day following the close of each accounting month. Use this information, with detailed supporting documentation, as the basis for the DFAS FMS Trust Fund reconciliation with Treasury.

# 5.2 Allotments for Reimbursable Orders

For information on reimbursable orders, see Chapter 2, paragraph 3.4.

# 5.3 FY-End Reporting Requirements

- 5.3.1. The DoD Components are required to submit a printed and certified, final, FY consolidated OA request and DoD Status-of-Allotment information for direct cite funds to DFAS SCA. Establish submission dates in accordance with special instructions issued by DFAS. The forms submitted may be manual forms or automated equivalents.
- 5.3.2. The final OA request will have this certification: "I hereby certify that this report reflects FMS Obligational Authority as required by DoD 7000.14-R, Volume 15, Chapter 2, subparagraph 3.4.1."
- 5.3.3. The final DoD Status-of-Allotment report must have this signed certification: "I hereby certify that the amounts shown in this report are correct. All known transactions meeting the criteria of 31 U.S.C. § 1501(a) have been obligated and are so reported."

# 6.0 ACTUAL ADMINISTRATIVE EXPENSE ACCOUNTING REQUIREMENTS

# 6.1 Reimbursement for FMS Administrative Expenses

- 6.1.1. Price FMS administrative expenses in accordance with Chapter 7, section 5.0 and charge directly to the allotment received for actual FMS administrative expenses. DoD Status-of-Allotment reports must be submitted in the DoD standard format in Figure 3-1. If the allotment is used as the basis for issuing reimbursable orders to appropriation accounts, a schedule showing the dollar value of orders released to each appropriation must be attached to the DoD Status-of-Allotment report. FMS administrative expenses may not be incurred in excess of the allotment, nor are the DoD Components authorized to incur obligations against appropriated fund operation accounts to finance FMS administrative budgets.
- 6.1.2. Upon review of the budget requests submitted in response to its administrative budget call, DSCA will approve a single budget amount for each DoD Component and will issue an allotment providing funding for the approved budget. The recipient will prepare a DoD Status-of-Allotment report showing actual uses for administrative expense. Base the information on the organization designated in the DSCA budget call. Allotments for administrative expenses must be fully funded to cover obligations.
- 6.1.3. Support DoD Status-of-Allotment reports for FMS administrative expenses with subsidiary allotment status reports of the executing organizations. Annotate subsidiary reports as "Subsidiary report-(name of the organization)."

# 6.2 Control of FMS Administrative and SC Organizations (SCO) Budget Allotment Authority

6.2.1. Report the FY identity of budget allotment authority, obligations, and disbursements for the current FY (CFY), and five preceding FYs, on the monthly DoD Status-of-Allotment reports for administrative expenses. Accounts will remain open for the liquidation and adjustment of valid obligations until the end of the canceled FY (five expired FYs and one canceling FY). See the FY example in subparagraph 6.2.3.

6.2.2. All fund holders are required to maintain FY identity of obligations, disbursements, and budget allotment authority for the CFY and the five preceding FYs.

| 6.2.3. | Provided is an | example of FY | identity us | ing a CFY | of 2024. |
|--------|----------------|---------------|-------------|-----------|----------|
|        |                |               |             |           |          |

| FY                   | Description   |
|----------------------|---|
| FY 2019 = expired FY | At the end of FY 2024, and after completing the end-of-year       |
|                      | reporting and closeout cycle, cancel all unliquidated obligations |
|                      | (ULOs). All amounts are withdrawn effective September 30, 2024.   |
|                      | Following this action, FY 2019 cancels on October 1, 2024.        |
| FY 2020 = expired FY |   |
| FY 2021 = expired FY |   |
| FY 2022 = expired FY |   |
| FY 2023 = expired FY |   |
| FY 2024 = CFY        | Out-of-scope increase to prior FY obligations (FY 2019 and prior) |
|                      | will be charged against the CFY (FY 2024). The CFY becomes an     |
|                      | expired FY on October 1, 2024.                                    |
| FY 2025 = Next FY    | October 1, 2024, FY 2025 begins.                                  |

# 6.3 Control of FMS Administrative and SCO Prior FY OA

- 6.3.1. DSCA will not authorize increases to a prior year OA to record upward adjustments for obligations that are the result of out-of-scope changes. Such changes constitute new obligations and are funded from the current year OA. Upward adjustments, which are the result of "within-scope" changes under the terms of the contract, are usually chargeable to the appropriate FY account against which the original obligation was charged. Charge all valid upward adjustments applicable to canceled years to the CFY.
- 6.3.2. All fund holders will establish procedures to review and validate all ULOs for the CFY, and the preceding five FYs, on a monthly basis. If obligations are no longer valid, fund holders will ensure these amounts are deobligated and the appropriate funds returned to DSCA for withdrawal; see paragraph 6.5. Valid disbursements may be made from these expired accounts, up to the amount of the ULO balances for that year's obligation. Additional funding to cover these valid upward adjustments (within-scope price adjustments) may be requested from DSCA. This request should provide the following: original obligation amount; additional required funding authority needed; source or reason for additional obligation, including any subsidiary calculations or source; applicable supporting documentation; and point of contact.
- 6.3.3. Deobligation of prior year funds, and the subsequent reobligation of these same funds in the current or one of the five preceding FYs, is not authorized. Expired funds may only be used for within-scope obligation adjustments until cancellation.

# 6.4 Control of Unliquidated Balances

- 6.4.1. FMS Administrative and SCO accounts remain available for liquidating valid obligations until the end of their fifth expired year; see the example in subparagraph 6.2.3. No new obligations can be started for the CFY after September 30 of that FY.
- 6.4.2. The monthly DoD Status-of-Allotment reports for administrative expenses, showing the DFAS departmental accounting position, will present the current allocation and account balances (obligations and disbursements) for the end of that reporting month.
- 6.4.3. See paragraph 6.5 for the procedure used when canceling funds at the end of the fifth year following their expiration and the process used when deobligations occur in the five preceding FYs.
- 6.4.4. All fund holders will establish procedures to review and validate all ULOs for the CFY and the five preceding FYs.
- 6.4.5. Reference SAMM Table C15.T2 for additional information on BPC programs and authorities, periods of availability of associated funding, and fund cancellation dates.
- 6.5 Administration and Implementation of the Monthly and End-of-Year Closeout Guidance
- 6.5.1. All fund holders will review and use their respective monthly DoD Status-of-Allotment reports for administrative expenses, which present the DFAS departmental accounting position for that month. Use these reports to compare with the installation accounting records. If there are disbursement differences between the departmental and installation accounting records, use the departmental accounting records reconciled with Treasury cash to establish the withdrawal amount.
- 6.5.2. DSCA will issue the annual end-of-year closeout guidance to all holders of FMS Administrative and SCO funds.
- 6.5.3. When the fifth expired year is canceled, the budget allotment authority amount will be decreased on September 30 to equal the departmental accounting disbursement amount that has been reconciled with Treasury.
- 6.5.4. The fund holder will ensure that all obligations and disbursements are equal prior to year-end closeout for the canceling year account (the fifth year following funds expiration) and that no further disbursements are processed. The fund holders need to work closely with the DFAS departmental accounting offices at finalizing the amounts to be withdrawn for the canceling year (the fifth year following funds expiration).

6.5.5. All fund holders will notify DSCA in writing when BA can be decreased on the CFY and the five preceding FYs. Upon receipt of a written request from the fund holder, DSCA will issue an FMS Administrative and SCO Allocation document withdrawing the unobligated BA, citing the concurrence correspondence from the fund holder for the expired and canceling FYs. All records will be maintained with the FY BA documents.

# 6.6 DFAS Responsibilities for Expired and Canceled Accounts

- 6.6.1. DFAS SCA will adjust EAto agree with the DSCA allocation values for the expired and canceling FYs. All unobligated balances will be considered expired and not available for incurring new obligations. FMS Administrative and SCO accounts remain available for liquidating valid obligations until the end of their fifth expired year.
- 6.6.2. At the end of each FY, DFAS SCA will update the canceling FY's obligated and disbursed balances for FMS and SCO Administrative Fund accounting records and maintain related supporting documentation.
- 6.6.3. DFAS SCA will maintain memorandum records of the canceled obligations. Once closed, an account is no longer available for obligation. If it becomes necessary to pay an obligation, which otherwise would have been properly charged to the appropriation before it was canceled, the obligation should be charged to and paid from the applicable CFY FMS or SCO account. Post these obligations against the CFY account when disbursed. Use memorandum records (or equivalent) to record the canceled "valid" obligations offline so that they may later be recognized as valid when disbursed and recorded against the applicable FMS or SCO Administrative CFY account. For more information, see Volume 3, Chapter 10.
- 6.6.4. Once all BPC cases associated with the transportation account are closed, DFAS, in coordination with DSCA, will deposit all unliquidated balances into the Miscellaneous Receipts of the Treasury (11X3230). BPC Transportation accounts will close when all appropriations within the account have canceled.

#### 7.0 BUDGET EXECUTION

# 7.1 Objectives

This section establishes the budget execution requirements that are applicable to the FMS program. Specific objectives are to ensure that:

- 7.1.1. Mandatory budget execution reports that accurately reflect data recorded in accounting records are submitted to Treasury in a timely manner;
- 7.1.2. Unnecessary FMS OA is withdrawn officially from all organizations participating in execution of FMS cases at the end of each FY; and
- 7.1.3. FMS case records maintained by IAs are in agreement with DFAS SCA at the case-line level throughout the life of each FMS case.

# 7.2 Responsibilities

- 7.2.1. DFAS must provide accounting data on FMS Trust Fund operations to the DoD Components.
- 7.2.2. DSCA must monitor the FMS program and submission of required FMS Trust Fund Budget Execution reports in accordance with requirements outlined in Volume 6A, Chapter 2, section 2.0.
  - 7.2.3. IAs and the supporting DoD Components must:
- 7.2.3.1. Conduct year-end reviews of the unobligated FMS reimbursable program to ensure unnecessary BA is identified and returned to the FMS Trust Fund;
- 7.2.3.2. Ensure that the FMS reimbursable program is properly reported in appropriation or DWCF budget execution reports;
- 7.2.3.3. Submit financial Budget Execution reports accurately and timely in accordance with section 8.0;
- 7.2.3.4. Reconcile IA FMS case records to DFAS SCA case-line level accounting transactions on a periodic basis;
- 7.2.3.5. Partner with DFAS to resolve any variances or out of balance conditions in support of monthly FMS financial reporting; and
- 7.2.3.6. Prepare <u>Case Closure Certificates</u> signifying IA completion of all actions necessary for DFAS SCA to close the case as soon as possible after the case supply/services are complete, but no longer than 24 months after such occurrence for cases applicable to countries participating in Accelerated Case Closure Procedures (ACCP). See the SAMM, Appendix 7, "Case Reconciliation and Closure Guide (<u>RCG</u>)," for the Case Closure Certificate format, <u>SAMM Chapter 16</u>, and paragraph 10.2 for case closure information. For case closure procedures required for non-ACCP, including BPC program cases, refer to paragraph 10.2.
- 8.0 FMS TRUST FUND BUDGET EXECUTION REPORTS AND FINANCIAL STATEMENTS

# 8.1 Budget Execution Reports

DFAS submits the following budget execution reports on FMS Trust Fund operations:

- 8.1.1. Monthly <u>Standard Form 133, Report on Budget Execution</u>, for 11X8242. For more information, see Volume 6A, Chapter 4, section 4.0;
- 8.1.2. <u>GTAS</u>. Fiscal Service discontinued use of the Fiscal Service Form 2108 and removed references to the form from current Fiscal Service guidance. Budget execution

information previously provided on Fiscal Service Form 2108 is now available to Treasury through GTAS. For more information, see Volume 6A, Chapter 4; and

8.1.3. Appropriate sections of the annual CFO Financial Statements. For more information, see paragraph 8.2.

#### 8.2 Financial Statements

For financial statement guidance concerning the reporting of FMS amounts, see Volume 6B, Chapters 2 and 10. The Security Assistance reporting entity also provides GTAS submissions as a Significant Entity per Volume 6A, Chapter 3, subparagraph 3.4.2.

#### 9.0 CASE EXECUTION

#### 9.1 FY End

At the end of each FY, IAs should review the reimbursable OA received to implement each FMS case. The total amount of reimbursable BA received is on the OA request. The review serves as the basis to withdraw any unnecessary unobligated balances. Make the withdrawal by submitting a year-end OA request. See Chapter 2, section 3.0 for instructions on the preparation of OA requests.

- 9.1.1. <u>Non-Expiring Accounts</u>. At the close of each FY, retain reimbursable FMS OA in a performing DoD account only to the extent that:
- 9.1.1.1. The amounts are required to cover certifiable obligations incurred by the performing account because of performance of the order;
- 9.1.1.2. The amounts have been committed within a formal commitment accounting system, for example, to cover normal administrative lead time on the next contract escalation clauses; or
- 9.1.1.3. The items have been delivered from inventory or applicable DoD services have been performed (cash earned reimbursement). Withdraw any reimbursable FMS OA not required for these purposes from the performing accounts by September 30 each year. It is recognized that year-end reviews must be made prior to the last day of the FY. Therefore, the amount of OA retained may be somewhat greater than the goal. It is expected, however, that estimating procedures must be improved continually until unnecessary unobligated balances are eliminated.
- 9.1.2. Expiring and Expired Accounts. By the close of each FY, show reimbursable FMS OA in an expiring account only to the extent that the amounts are earned reimbursements or are required to cover certifiable obligations incurred against the performing account. Withdraw any reimbursable FMS OA not required to cover obligations in the expiring account by September 30

each year. During the FY, transfer amounts required in expired accounts from the Trust Fund, as necessary, to cover upward obligation adjustments needed for within-scope changes to contracts or similar transactions.

# 9.2 Reimbursement of Appropriations and Accounts

9.2.1. Reimburse DoD appropriations and fund accounts, or Miscellaneous Receipts Account 3041, "Recoveries Under the Foreign Military Sales Program, Army, Navy, Air Force, Defense," upon delivery of items from inventory or performance of DoD services within 30 calendar days of the occurrence (i.e., date of shipment or performance) for:

# 9.2.1.1. Items sold under AECA § 21, or

- 9.2.1.2. Procurement actions made under AECA § 22, if direct cite procedures for financing applicable contracts are not used.
- 9.2.2. The general rule applicable to the sale of DoD services is that the financing account current at the time of performance is credited with applicable BA and subsequent cash collections. The various cost elements that may be involved in the performance of an FMS order, and the appropriations that are to be reimbursed, are in Table 3-1.
- 9.2.2.1. When items are sold from inventory, the financing account current at the time items are dropped from inventory is credited with applicable BA and subsequent cash collections.
- 9.2.2.2. When items not to be replaced (free or excess assets) are sold from inventory, those receipts are credited to the Special Defense Acquisition Fund (SDAF). For more information on SDAF, see <u>SAMM</u>, <u>section 11.9</u> and Chapter 1, paragraph 2.2.2.
- 9.2.2.3. When appropriation or fund accounts are used to finance FMS procurements, the account current at the time the order is accepted is credited with BA and subsequent cash collections.
- 9.3 DD 2061, "Foreign Military Sales (FMS) Planning Directive," or the Automated Equivalent (Planning Directive)

Update the case Planning Directive as prescribed in Chapter 2, section 4.0. Update cost elements and financing accounts to ensure full recoupment of the costs prescribed in Chapter 7 and to ensure timely identification of cost increases. The Planning Directive serves as the basis for preparing all OA requests during the life of the case.

#### 10.0 FMS CASE CLOSURE REQUIREMENTS

#### 10.1 General

All proper charges and credits must be recorded against the applicable FMS case. Case closure does not stop the billing/reporting process but results in a re-categorization of the case records from active status to inactive status to ensure accessibility for recording subsequent activity. For further guidance on the reconciliation and closure of FMS cases, to include closure checklists, see SAMM Chapter 16, SAMM A7.C4.3, and the RCG.

# 10.2 Initiating FMS Case Closure

- 10.2.1. When all ordered items have been physically delivered and all ordered services performed (i.e., supply/services complete), or there is no activity on a blanket order case for 180 calendar days (and the purchaser agrees no further activity will occur), and all other conditions of the LOA are fulfilled, an FMS case is a candidate for closure. At this time, the responsible IA must determine if there are any unresolved delivery issues, outstanding Supply Discrepancy Reports (SDRs), or litigation claims. Contracting officers must review any contracts that have not been financially closed to determine if significant financial adjustments of open contracts may occur. Cases can be closed under either ACCP or non-ACCP closure procedures.
- 10.2.1.1. <u>ACCP</u>. ACCP must be used only for those countries that explicitly elect such procedures. However, all countries that have cases financed with Military Assistance Program Merger/Foreign Military Financing (non-repayable) are mandatory participants in ACCP, unless specifically excluded by DSCA. Once selected by a country, ACCP must apply to all cases of that country and must govern any case that was opened (or closed) prior to the date of ACCP implementation, unless a specific arrangement between DSCA and the FMS purchaser is made as part of the implementation criteria. Under ACCP, case closure should be initiated within 24 months after the case is supply/services complete, to allow a country to initiate an SDR and allow the IA to reconcile the case. The applicable DoD Component must request DSCA approval to delay closure beyond 24 months.
- 10.2.1.2. <u>Non-ACCP</u>. Under non-ACCP case closure, all logistical and financial transactions must be processed before case closure can be initiated.
- 10.2.2. The case manager must ensure the actions outlined in subparagraphs 10.2.2.1-10.2.2.6 are taken.
- 10.2.2.1. The IA-delivered value must agree with the delivered value recorded in DIFS. If necessary to reconcile IA records, obtain historical transaction records from the DIFS database or equivalent online repositories.
- 10.2.2.1.1. <u>ACCP</u>. If the case is being closed under ACCP, the difference between progress payments and liquidating deliveries, and the difference between total deliveries

and total disbursements in DIFS, must equal the estimated ULO value established by the IA. The IA records must be in balance with each of these values; if not, the IA must submit applicable input to bring the records into balance before issuing a Case Closure Certificate.

- 10.2.2.1.2. <u>Non-ACCP</u>. If the case is being closed under non-ACCP, progress payments must equal liquidating deliveries in DIFS. The IA records must be in balance with each of these values; if not, the IA must submit applicable input to bring the records into balance before issuing a Case Closure Certificate.
- 10.2.2.2. Rectify all problem disbursements in accordance with Volume 3, Chapter 11. A prerequisite for satisfactorily resolving problem disbursements is to validate the accuracy of the disbursed values. Use the authorities in Volume 3, Chapter 11 to facilitate efficient reconciliation and closure actions. Additionally, section 11.0 addresses the applicable write-off authority for FMS problem disbursements.
- 10.2.2.3. Ensure the validity of all obligations in accordance with Volume 3, Chapter 8. Many of those provisions address FMS-specific actions in this regard.
- 10.2.2.4. Use the guidance in subparagraphs 10.2.2.4.1-10.2.2.4.2 for all FMS cases without remaining ULOs.
- 10.2.2.4.1. <u>ACCP</u>. If the case belongs to an ACCP country, the applicable DoD Component must submit a final Case Closure Certificate (see the RCG) to DFAS SCA within 24 months after an FMS case is supply/services complete. If the IA determines that due to reconciliation issues a case under ACCP cannot be closed within 24 months of supply/services completion, then submit the case, along with identification of the problem or cause believed to prevent case closure, to DSCA for resolution.
- 10.2.2.4.2. <u>Non-ACCP</u>. A supply/services complete case for a country not participating in ACCP will not be submitted for closure until ULOs on accounting classification reference numbers (ACRNs) citing the case are resolved. No case under non-ACCP closure procedures can be interim closed, it must be marked final.
- 10.2.2.5. Use guidance in subparagraphs 10.2.2.5.1-10.2.2.5.2 for FMS cases with remaining ULOs.

#### 10.2.2.5.1. ACCP

10.2.2.5.1.1. The applicable IA must submit a Case Closure Certificate to DFAS SCA within 24 months after an FMS case is supply/services complete. Cases with a ULO of zero are final closed (there should be no more transactions of any kind on the case). Cases with a ULO greater than zero are interim closed (there could be additional disbursements on the case, but the purchaser has already paid the FMS Trust Fund enough to cover those disbursements). See paragraph 10.3 and the RCG.

10.2.2.5.1.2. The applicable IA must determine and report the value of any remaining ULO relevant to that case. These amounts should be equal to those recorded in the applicable DoD accounting system.

10.2.2.5.1.3. The applicable IA must request DSCA approval to delay interim closure if the estimated ULO is of significant value and is likely to be deobligated rather than disbursed. DSCA will then determine whether to approve the delay.

10.2.2.5.1.4. DFAS SCA must bill the applicable country using the DoD Component's remaining ULO via normal billing procedures. The ULO is part of the case closure value.

10.2.2.5.1.5. DFAS SCA must record the estimated ULO value in a summary account entitled Case Closure Suspense Account (CCSA). At the same time, DFAS SCA must record applicable charges and credits, by country and case, in subsidiary accounts, which total to the CCSA.

10.2.2.5.1.6. When final costs are known and reported by the IA (i.e., liquidating the ULO), DFAS SCA must record such amounts against the CCSA and subsidiary account by country and case.

10.2.2.5.1.7. Upon receipt and payment of final bills, and reconciliation of the case, the IA must submit a final Case Closure Certificate.

10.2.2.5.1.8. On a quarterly basis, DFAS SCA must submit a status report on the CCSA and subsidiary accounts to the DSCA OBO (Financial Reporting and Compliance) and ACCP-participating FMS purchaser countries.

10.2.2.5.1.9. When a country's CCSA has a negative balance of \$100,000 or more for a period of six consecutive months, DSCA may instruct DFAS SCA to bill the country for the entire balance owed. For example, if the country's suspense account has negative balances of \$100,000 on December 31, \$250,000 on March 31, and \$175,000 on June 30, DFAS SCA will bill the country \$175,000. Such billings will be made through the country's omnibus quarterly billing statement and will cite all the FMS case(s) involved. DSCA should review the country's CCSA periodically to determine if any refund is warranted.

10.2.2.5.2. <u>Non-ACCP</u>. For non-ACCP countries, the DoD Component must submit Case Closure Certificates to DFAS SCA only after all applicable known costs have been recorded and no ULOs exist on ACRNs citing the case.

10.2.2.6. At case closure, DFAS SCA must use the submitted closure certificate/transaction in place of an LOA amendment or modification unless the case meets the criteria for an LOA amendment or modification specified in <u>SAMM</u>, <u>section C6.7</u>.

#### 10.3 Closure Certification

- 10.3.1. The Case Closure Certificate alerts DFAS SCA to initiate actions needed to close a case. The IA must send certificates electronically to DFAS SCA. If any reporting after the issuance of a Case Closure Certificate has caused variances between DIFS and the certified values, DFAS SCA must notify the IA of actions required to enable closure processing to continue. When the IA and DFAS SCA FMS case records are reconciled, DFAS SCA must reclassify the case to an inactive status and provide a final statement of account to the FMS purchaser for the final value of the case. Once a final statement has been sent for an FMS case, the case must be reclassified by the IA from active to inactive status. The IA then closes applicable case records.
- 10.3.2. All closed cases with post-closure activity on or after October 1, 1992, not subject to ACCP, must be reopened as authorized by DSCA to report execution. The IA must cancel the original closure certificate and submit a new certificate prior to case closure. Cases for countries subject to ACCP may be reopened only as authorized by DSCA.

# 10.4 Billings After Case Closure

- 10.4.1. Any cases required to be reverted to implemented status must be approved by DSCA.
  - 10.4.2. The following requirements apply to all ACCP cases.
- 10.4.2.1. The DoD Component will submit an interface transaction to DIFS moving the case from final to interim closure status. After the status is changed, the IA will send an EA request to DFAS SCA. DFAS SCA will then move the cash from CCSA to the EA reserve account and record the disbursement against the country, case, and line.
- 10.4.2.2. When post-closure disbursements exceed \$100,000 (in either direction) because of a verified pricing adjustment, the applicable IA must submit a request to DSCA, with an information copy to DFAS SCA, that the case be reopened. Upon receipt of DSCA approval to reopen the case, both the IA and DFAS records must be reclassified to implemented status. If the case is not reopened, then the disbursement must be processed against the CCSA.
- 10.4.2.3. When all post-closure disbursements/credits have been reported and final costs determined, the DoD Component must certify the case for final status by using the Case Closure Certificate (see the RCG) and by reporting the transaction in DIFS.
- 10.4.3. The following requirements apply to all BPC cases and cases closed under non-ACCP.
- 10.4.3.1. All cases must be reclassified to implemented status, except for those with a transaction adjustment of \$200 or less. Such adjustments may be charged to the FMS Administrative Surcharge account. Otherwise, reestablish accounting records at the amounts recorded at the time closure certification occurred. Reclassification to implemented status must occur in both the IA and DFAS SCA records.

- 10.4.3.2. All post-closure disbursements or credits must be recorded in an undistributed account until case records are reactivated.
- 10.4.3.3. When post-closure activity results in exceeding the case value, a modification to the case is required.
- 10.4.3.4. When cases are reactivated, the IA must request additional OA, commence reporting status of funds data, request EA, process disbursement/credit transactions, and report adjusted delivery information via the delivery transaction.
- 10.4.3.5. Once the disbursement/credit and billing processes are complete, DFAS SCA must bill the FMS Trust Fund purchaser. The IA must recertify the case for closure as specified in paragraph 10.3.
- 10.4.3.6. For FMS cases where funds have canceled, irrespective of funding source, DSCA will provide guidance on how to proceed and how invoices will be paid.

# 10.5 Reopening FMS Cases

Normally, closed cases will not be reopened. If the FMS purchaser requests to reactivate a closed case, first determine if there is a case already implemented and available or if a new case should be developed. Opening a closed case (interim or final) is a last resort and requires DSCA approval. See SAMM, Chapter 16, for additional information on reopening cases.

#### 11.0 WRITE-OFF AUTHORITY

An IA that determines unresolved reconciliation issues exist for a case may write off those imbalances using write-off authority guidelines. The IA is responsible for providing all vouchers it prepares citing the FMS Administrative Surcharge account to DFAS SCA.

#### \*11.1 Problem Disbursements

For problem disbursements (unmatched disbursements, negative unliquidated obligations, and in-transit disbursements) up to \$2,500 per transaction, refer to Volume 3, Chapter 11 for an explanation of the problem disbursements policies. The DSCA OBO and DFAS SCA are responsible for ensuring detailed procedures are issued to the FMS community. Problem disbursements greater than \$2,500 should be brought to the attention of DSCA Comptroller for resolution, provided those problem disbursements have not exceeded the Volume 3, Chapter 11 processing timelines. See <u>SAMM C16.2.16.1</u> for additional information.

# 11.2 Other FMS Financial Transactions

For all other types of FMS financial transactions, up to \$200, charge the FMS Administrative Surcharge account for the amount required to affect prompt financial reconciliation as prescribed in the DSCA annual case review requirement in the SAMM, Chapter 16. For write-off adjustments performed while readying a case for closure, DFAS SCA will provide DSCA

OBO (Financial Reporting and Compliance) with a quarterly summary of closure certificates received in which amounts have been charged in accordance with this paragraph. A comment must be included in the remarks/comments section of the Case Closure Certificate when these write offs are used.

# 12.0 ANTIDEFICIENCY ACT (ADA) VIOLATIONS AND ADVERSE FINANCIAL CONDITION REPORTS

#### 12.1 ADA Violations

For purposes of the ADA, appropriated funds are not limited to those funds specifically appropriated by Congress to federal agencies from the general funds of Treasury. Funds available to agencies are considered appropriated if made available for collection and expenditure pursuant to specific statutory authority, regardless of their source. In applying the ADA, the FMS Trust Fund is considered to be, and will be, treated as appropriated funds. Therefore, the ADA applies to transactions involving the FMS Trust Fund.

- 12.1.1. <u>Types of Potential Violations</u>. Potential violations may occur in FMS Trust Fund transactions when:
  - 12.1.1.1. Issuing OA or awarding an FMS contract without a signed LOA;
- 12.1.1.2. Obligating or expending FMS case funds for an unauthorized purpose, including purposes not provided for by law;
  - 12.1.1.3. Violating apportionments or indemnity clauses; or
- 12.1.1.4. Incurring obligations on a BPC case where the financing appropriation's period of availability to incur new obligations has expired. Additional information on potential violations of the ADA is in Volume 14, Chapter 2.
- 12.1.2. <u>Identifying and Reporting Potential Violations of the ADA</u>. Detailed guidance for identifying, investigating, and reporting violations under the ADA is in Volume 14. Due to the complexities of provisions in the AECA, it is important to consult with appropriate legal counsel and comptroller officials on potential violations of the ADA for FMS.

#### 12.2 Adverse Financial Conditions

Other reportable events occur when FMS case records are out of balance, but these conditions do not necessarily meet the criteria of violations discussed in paragraph 12.1. These conditions are adverse financial conditions and occur when financial reports show that: OA exceeds case or line-item level values, commitments or obligations exceed OA at case or line-item level, total disbursements exceed obligations at case or line-item level, or EA is not requested prior to disbursement. Adverse financial conditions are reported using the same format used for ADA violations.

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#### 12.2.1. Reporting Requirements for Adverse Financial Conditions

- 12.2.1.1. DFAS SCA has the responsibility for determining reportable conditions and notifying IAs of adverse conditions involving EA. DFAS SCA must provide a monthly analysis report to the DoD Components identifying if disbursements are greater than EA at the country case level, or if EAwas requested, remained unused, and was not returned at the end of the month. The DoD Components must review the listings within 15 calendar days of receipt and provide DFAS SCA an explanation of the discrepancy, the required corrective action, and when such action will be processed. This information will be shared with DSCA.
- 12.2.1.2. DoD Components and IAs have the responsibility to resolve adverse conditions involving obligations or expenditures of funds in excess of approved authority at any level lower than case level.
- 12.2.2. <u>Exceptions to Reporting Adverse Financial Conditions</u>. Reports need not be submitted for within-scope cost increases in either of the following circumstances:
- 12.2.2.1. Obligation(s) in excess of the "Total Estimated Cost" shown on the LOA occurs, and a modification is prepared by the DoD Component and submitted to the purchaser through appropriate channels within 60 calendar days of the date of the transaction that resulted in the unfavorable financial condition; or
- 12.2.2.2. Obligation(s) or expenditure(s) in excess of approved authority occurs, the excess amount results from the posting of duplicate or erroneous obligation/expenditure transactions or the posting of obligations from inventory systems, and corrective action is taken within 60 calendar days of the transaction date. These conditions, however, could indicate weaknesses in internal controls and administrative action may be required to improve systems design or to prevent recurrence.

Figure 3-1. Format for the DoD Status-of-Allotment Report

|        |                     |                     |            |                              |                |                        |                          | TYPE             |                   | APPR                 | OPRIATION          | APPROPRIATION AND SUBHEAD   |
|--------|---------------------|---------------------|------------|------------------------------|----------------|------------------------|--------------------------|------------------|-------------------|----------------------|--------------------|---|
|        |                     | DOD ST              | ATUS-0     | DOD STATUS-OF-ALLOTMENT      | TMENT          |                        |                          | ALLOTMENT        | AENT              | AUTHORIZATION NO.    | ATION NO.          | FOR PERIOD ENDED  |
|        |                     |                     |            |                              |                |                        |                          | SUBALL           | SUBALLOTMENT      |                      |                    |   |
| FROM:  |                     | TO:                 |            | FOR AUTHORIZATION ISSUED TO: | ATION ISSUED 1 | :0:                    | I certify that the am    | ounts herin repo | orted are in acci | ordance with U.S.C.  | 200 and prescribed | certify that the amounts herin reported are in accordance with U.S.C. 200 and prescribed accounting directives. |
|        |                     | ACCOUNTABLE AGENCY: | LE AGENCY: |                              |                |                        | REPORTING FISCAL OFFICER | SCAL OFFICER     |                   | (Signature and rank) |                    |   |
|        | AL                  | AUTHORIZATIONS      | S          | GROSS COMMITMENTS            | MITMENTS       | GROSS OBLIGATIONS      | LIGATIONS                | ACCRUED          | UED               | DISBURSEMENTS        | EMENTS             |   |
| BUDGET | CHANGES THIS PERIOD | HIS PERIOD          | THEOREM    | STOWNIO                      | THEOREM        | SHOWALL                | Tivadalla                | EXPENDITURES     | TURES             | CHANGE               | TINDUCTO           | UNCOMMITTED   |
| NO.    | AUTHORIZATIONS      | ADJUSTIMENTS MADE   | TOTAL      | CHANGES<br>THIS PERIOD       | TOTAL          | CHANGES<br>THIS PERIOD | TOTAL                    | ONFAID           |                   | THIS PERIOD          | TOTAL              | BALANCE   |
|        | RECEIVED            | LOCALLY             |            |                              |                |                        |                          | -NON             | GOVT              |                      |                    |   |
| (1).   | (2).                | (3).                | (4).       | (5).                         | (6).           | (7).                   | (8).                     | PONI             |                   | (9).                 | (10).              | (11).   |
|        |                     |                     |            |                              |                |                        |                          |                  |                   |                      |                    |   |

Table 3-1. Cost Elements

|      | Cost Element   | Appropriation Reimbursed   |
|------|--|--|
| A.   | Services of Military Personnel   |  |
| A.1. | Composite standard military pay rate   | Military Personnel (MILPERS)   |
| A.2. | Leave and holiday factor when applicable (see Chapter 7, paragraph 20.2)   | MILPERS  |
| A.3. | Personnel support costs  | Operation and Maintenance (O&M),<br>97*0130, "Defense Health Program,<br>Defense"                              |
| A.4. | Retirement cost prior to October 1, 1984   | Miscellaneous Receipts Account 3041  |
| A.5. | Retirement cost after September 30, 1984   | MILPERS  |
| A.6. | Medicare-Eligible Retiree Health Care accrual  | Miscellaneous Receipts Account 3041  |
| B.   | Services of Civilian Personnel including DWCF Personnel  |  |
| B.1. | Salary cost and wages  | O&M, Research, Development, Test,<br>Evaluation (RDT&E), and DWCF as<br>applicable                             |
| B.2. | Leave and holiday factor when applicable   | O&M, RDT&E, and DWCF as applicable (see Chapter 7, paragraph 20.1)   |
| B.3. | DoD-funded civilian retirement costs   | O&M, RDT&E, and DWCF as applicable   |
| B.4. | Health and life insurance and other employee fringe benefits   | O&M, RDT&E, and DWCF as applicable   |
| B.5. | Civilian unfunded retirement costs and post-retirement health benefits not funded by DoD appropriations                                | Miscellaneous Receipts Account 3041  |
| C.   | Inventory Items  |  |
| C.1. | Non-excess procurement funded items which require replacement  | Financing procurement appropriations, as applicable, current at the time items are dropped from inventory      |
| C.2. | Non-excess procurement funded item that is not to be replaced within the obligation availability of current procurement appropriations | SDAF   |
| C.3. | DWCF items, including the cost recovery elements for operating costs   | DWCF   |
| C.4. | Excess procurement funded principal items  | Funds items in accordance with<br><u>Title 10, U.S.C. § 114(c)(2)</u> , Miscellaneous<br>Receipts Account 3041 |

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Table 3-1. Cost Elements (Continued)

|      | Cost Element  | Appropriation Reimbursed  |
|------|---|---|
| D.   | Nonrecurring cost recoupment charges (Collected as a result of FMS)   | SDAF  |
| E.   | Transportation  | Financing appropriation/fund current at the time transportation is supplied   |
| F.   | LSC   | FMS Trust Fund Administrative Account   |
| G.   | DoD Royalty fee charges   | Miscellaneous Receipts Account 3041   |
| Н.   | Charges for the use of DoD assets (includes depreciation on purchased equipment)  | Miscellaneous Receipts Account 3041 Depreciation which is included in DWCF shop rates must be retained by the DWCF            |
| I.   | Asset Use   | SDAF  |
| J.   | FMS contract costs financed by DoD appropriation or fund accounts   | Financing procurement appropriation or DWCF, as applicable  |
| K.   | Temporary Duty costs financed by appropriation or fund accounts   | O&M and RDT&E appropriations current at the time travel is performed, or DWCF, as applicable                                  |
| L.   | Accessorial charge  |   |
| L.1. | Packing, crating, and handling (PC&H)   | FMS Trust Fund PC&H Account   |
| L.2. | Transportation  | FMS Trust Fund Transportation Accounts  |
| M.   | FMS Administrative Surcharge  | FMS Trust Fund Administrative Account   |
| N.   | FMS CAS Surcharge   | FMS Trust Fund CAS Account  |
| O.   | CAS (This is a combination of cost elements A, B, and K)  | MILPERS, O&M, DWCF, or<br>Miscellaneous Receipts Account 3041, as<br>applicable   |
| P.   | Interest charge resulting from late payment of billings (DD 645, "Foreign Military Sales Billing Statement") for accrued expenditures | Miscellaneous Receipts Account 3210,<br>"General Fund Proprietary Receipts,<br>Defense Military, Not Otherwise<br>Classified" |
| Q.   | Mailing fee, storage, and publications  | O&M or DWCF, as applicable  |
| R.   | Inventory losses  | Applicable procurement or DWCF, as applicable   |
| S.   | Attrition   | FMS Trust Fund Attrition Account  |

Note: DoD Components must maintain internal records of the dollar amounts applicable to each category of collections deposited into Miscellaneous Receipts Account 3041. One decimal sub-account must be used for each type of collection. For example, 3041.3 might be used to designate dollar amounts applicable to non-recurring cost recoupment.

# VOLUME 15, CHAPTER 4: "CASH MANAGEMENT" SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold**, **italic**, **blue**, **and underlined font**.

The previous version dated December 2020 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION                         | PURPOSE  |
|-----------|--|----------|
| ALL       | Updated hyperlinks and internal references throughout. | Revision |

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#### **CHAPTER 4**

#### **CASH MANAGEMENT**

#### 1.0 GENERAL

#### 1.1 Purpose

The purpose of this chapter is to provide policies to ensure cash is available to liquidate Foreign Military Sales (FMS) Trust Fund obligations, as disbursements are due. Funds appropriated by the Congress for defense purposes cannot be used to liquidate obligations resulting from the use of FMS Trust Fund contract authority, except as authorized by law. The FMS purchaser, U.S. Government (USG) appropriation made available to finance FMS Trust Fund purchases, or a third-party payer, must meet the cash requirements (outlay authority) of each FMS Trust Fund purchaser.

#### 1.2 Authoritative Guidance

The Arms Export Control Act (AECA), Public Law 90-629, as amended, codified as <u>Title 22, United States Code, Chapter 39</u> provides the authority and general rules for FMS and commercial sales of defense articles, services, and training. Implementation information on cash management procedures can be found at the Security Assistance Management Manual (<u>SAMM</u>), <u>Chapter 9</u>, "Financial Policies and Procedures."

#### 2.0 RESPONSIBILITIES

<u>Executive Order 13637</u>, "Administration of Reformed Export Controls," delegates authority and responsibility for the administration and functions for Security Assistance (SA), from the President, to the Secretary of Defense and the Secretary of State. The authority of the Secretary of Defense is further delegated in the DoD Directive (<u>DoDD) 5105.65</u>, "Defense Security Cooperation Agency (DSCA)," to the Deputy Secretary of Defense, to the Under Secretary of Defense for Policy, and finally, to the DSCA Director.

#### 2.1 DSCA

DSCA is responsible for:

- 2.1.1. Ensuring adequate cash availability in the FMS Trust Fund to meet DoD's financial requirements;
- 2.1.2. Identifying the specific issue and remedy should cash flow problems arise (e.g., collection of additional funds or other alternative financial arrangements, adjustments to ordered values, delivery timeframes, or ordered quantity);

- 2.1.3. Approving Standby Letters of Credit (SBLCs), Federal Reserve Bank of New York (FRBNY) accounts, and Commercial Bank Accounts (CBAs) as they may pertain to FMS financial requirements;
- 2.1.4. Calculating and approving, on a quarterly basis, the Termination Liability (TL) reserve amounts required to protect the USG against liability if a particular FMS-funded contract (or contract line item number (CLIN)) is terminated prior to completion;
  - 2.1.5. Performing follow-up actions on SA Program arrearages;
- 2.1.6. Constructing standard payment schedules (to include any contract termination costs); and
- 2.1.7. Preparing special bills for those customers with approved special billing arrangements (SBAs).
- 2.2 Defense Finance and Accounting Service (DFAS)

DFAS is responsible for:

- 2.2.1. Posting purchaser cash deposits within 2 business days of notification when the Defense Integrated Financial System (DIFS) is available. When DIFS is unavailable due to scheduled maintenance, update upon availability;
- 2.2.2. Posting disbursements by the 20th day of the following month to FMS case accounting records;
- 2.2.3. Reconciling summary trust fund-level account balances in DIFS with the U.S. Department of the Treasury (Treasury) balance in the Account Summary from the Governmentwide Treasury Account Symbol Adjusted Trial Balance System;
- 2.2.4. Assuring that approved cash expenditure authority (EA) requests do not exceed the FMS purchaser's cash available balance in the FMS Trust Fund; and
- 2.2.5. Working with the accounting activities, contract payment offices, and certifying officers as appropriate to:
- 2.2.5.1. Ensure sufficient cash is available and approve EA requests above a country threshold prior to disbursing FMS funds, when requested;
- 2.2.5.2. Facilitate resolution, or resolve all rejects of EA to lessen Prompt Payment Act interest payments;
- 2.2.5.3. Resolve situations where EA was approved but returned without a disbursement; and

2.2.5.4. Ensure EA is obtained prior to processing a transfer, correction of charges against, or credits to the FMS Trust Fund using <u>Standard Form (SF) 1080</u>, Voucher for Transfers Between Appropriations and/or Funds, or <u>SF 1081</u>, Voucher and Schedule of Withdrawals and Credits.

#### 2.3 Implementing Agencies (IAs)

IAs are responsible for:

- 2.3.1. Providing information needed to the DSCA (Operations Directorate, Case Writing Division) for payment schedule preparation at the line-level, in the Defense Security Assistance Management System (DSAMS). The IA will approve the schedule as part of the Letter of Offer and Acceptance (LOA) document coordination/signature process. Additional information on payment schedule preparation is in the SAMM, Chapter 9, paragraph *C9.9.1*;
- 2.3.2. Developing progress payment schedules or historical cost curves systematically for DoD major weapon systems (used to determine payment schedule distributions for procured materiel requiring progress payments to contractors), and reviewing the schedules or curves when the acquisition strategy changes;
- 2.3.3. Reviewing all case payment schedules, at least annually, in preparation for a formal review with the FMS purchaser, or when the case value adjusts by ten percent or more;
- 2.3.4. Requesting and receiving EA approval prior to processing a disbursement citing the FMS Trust Fund;
- 2.3.5. Resolving problem disbursements using the authorities found in Volume 3, Chapter 11;
- 2.3.6. Validating obligations in accordance with the requirements found in Volume 3, Chapter 8, section 3.0; and
- 2.3.7. Performing case reviews including reviewing and reconciling general case and delivery-related data, expenditures/disbursements, and USG financial requirements.
- 2.3.7.1. If payment schedules are inadequate to meet USG financial requirements, the IA must promptly notify the responsible DSCA Country Financial Director, DFAS Security Cooperation Accounting (SCA), and the FMS purchaser of the additional requirements. The IA must also follow-up on this notification by issuing a revised payment schedule via an LOA modification.
- 2.3.7.2. During the annual review of the case, if payment schedules overstate USG financial requirements due to delays in contract award, delivery slippages, or other reasons, the IA must issue a revised payment schedule via an LOA modification or amendment. The IA is responsible for ensuring that the USG does not prematurely collect customer funds.

#### 2.4 Payment Activities

Payment Activities are defined as the entities responsible for the payment of invoices either to commercial vendors or payees, or for executing intragovernmental payments or collections. Payment Activities are responsible for requesting and receiving EA approval prior to the certification to a disbursing officer of a voucher for a commercial payment, or an intragovernmental payment or payment refund, which cites the FMS Trust Fund.

#### 3.0 CASH MANAGEMENT CHARACTERISTICS

#### 3.1 Cash in Advance

The FMS purchaser must make cash deposits into the FMS Trust Fund, a DSCA-approved Federal Reserve Bank (FRB), or DSCA-approved CBA for defense articles and services sold under AECA, §§ <u>21</u>, <u>22</u>, and <u>29</u> in advance of delivery, performance, or payments to contractors, except as provided in subparagraphs 3.1.3 and 3.1.4. Foreign Military Financing (FMF) and other USG appropriations used to finance a sale executed in the FMS Trust Fund must also make advance cash collections.

- 3.1.1. <u>AECA § 2761, Sales from Stocks</u>. Payment must be made in advance, unless the President determines it to be in the national interest for payment to be made upon delivery of the article or performance of the service.
- 3.1.2. <u>AECA § 2762, Procurement for Cash Sales</u>. Without charge to any appropriation or contract authorization otherwise provided, the President may enter into contracts for the procurement of defense articles, defense services, or design and construction services in U.S. dollars, to any foreign country or international organization, if such country or international organization provides the USG with a dependable undertaking:
- 3.1.2.1. To pay the full amount of such contract that will assure the USG against any loss on the contract; and
- 3.1.2.2. To make funds available in such amounts, and at such times, as may be required 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.
- 3.1.3. <u>AECA § 2761(d) Exception</u>. The President may determine that delayed payment is in the national interest, and allow payment to be made without interest within 60 calendar days after delivery of defense articles from stock or rendering of in-house defense. In addition, the President may extend the 60 calendar day period to 120 calendar days if the President determines an emergency exists.

#### 3.1.4. AECA § 2762(b) Exception

- 3.1.4.1. Payment within 120 calendar days after delivery of procured defense articles or rendering of procured defense services requires the following Presidential determinations:
- 3.1.4.1.1. It is in the national interest to issue letters of offer under this authority, and
- 3.1.4.1.2. The emergency requirements of the purchaser for the acquisition of such defense articles and services exceed the funds available to the purchaser to make payments on a dependable undertaking basis.
- 3.1.4.2. Both determinations in subparagraph 3.1.4.1, together with a special emergency request for authorization and appropriation of additional funds to finance such purchases under the AECA, are submitted to Congress for approval.
- 3.1.5. <u>Initial Deposit</u>. An initial deposit must accompany the accepted LOA to provide the cash advance required to cover the outlays and/or deliveries anticipated until receipt of the first quarterly payment. Several factors affect the initial deposit. On an exception basis, DSCA may approve emergency implementation of an FMS case. The initial deposit may be deferred to a later date agreed to by both the FMS purchaser and DSCA. Refer to the SAMM, Chapter 9, section C9.9 for initial deposit requirements.
- 3.1.6. <u>Billing</u>. DFAS SCA prepares FMS bills on a quarterly basis. The bills include information as of the end of December, March, June, and September. Payments are due on March 15, June 15, September 15, and December 15. DSCA must approve any deviations from this schedule. The bills must include the cash requirements for the calendar quarter following the payment due date. For example, a bill prepared with December data (due March 15) is to project cash requirements through June. Thus, the deposit for an LOA accepted in January would be the cash required through June, or 6 months of advance cash requirements. See Chapter 8 for a full discussion of the FMS billing process.

#### 3.2 FMS Trust Fund

The FMS Trust Fund is managed as a single cash entity, regardless of the source of the deposits. All FMS Trust Fund deposits are accounted for at purchaser and FMS case level by source of financing. Examples of funds include FMF (FMS Credit and FMS Credit (non-repayable)) and the Military Assistance Program (MAP) Merger. Examples of other types of funds are a purchaser's national funds, which include third-party funds, and other DoD appropriated funds.

#### 3.3 SA and Security Cooperation (SC) Funds

The USG may provide SA or SC funds annually to selected allied or friendly countries to finance the purchase of U.S. defense articles and services. It is, therefore, in the USG's interest to use and manage these limited funds as effectively as possible.

- 3.3.1. In determining the order of funds to be paid into the FMS Trust Fund, DSCA normally draws down MAP Merger funds up to the amount reserved for each case prior to using Building Partner Capacity (BPC) available FMF funds, followed by requesting the FMS purchaser to use other funds. Likewise, MAP Merger funds on deposit in the FMS Trust Fund will be expended prior to FMF funds, followed by the expenditure of the purchaser's national funds.
- 3.3.2. SA funds that become excess due to FMS case reduction or closure may be reapplied to other FMS cases with DSCA approval. However, FMS Credit Funds must not be refunded to the FMS purchaser unless those funds originated from loans, have been fully repaid by the FMS purchaser, and no delinquent accounts receivable exist.
- 3.3.3. SC funds are USG appropriations made available in furtherance of the BPC efforts. These funds are deposited into the FMS Trust Fund to enable the acquisition and delivery of articles and services for this purpose. Usually, BPC funds cannot be co-mingled with SA funds on any FMS case. Until such time that BPC funds are fully decoupled from the FMS Trust Fund, strict attention should be given to ensure that the original fiscal identity of these appropriated funds are not lost, leading to fiscally improper financial transactions.

#### 3.4 SBLC

DSCA is authorized to approve an SBLC arrangement instead of the TL prepayment requirements described in subparagraph 5.1.2. An FMS purchaser, with prior approval from DSCA, may provide DSCA with a properly executed, separate SBLC to cover uncollected TL amounts for a billing quarter. In such an event, it will be necessary to deposit into the FMS Trust Fund only the amount of funds needed to cover anticipated expenditures and disbursements during the billing cycle. Refer to SAMM, Chapter 9, paragraph C9.9.1 and/or contact DSCA (Country Financial Management Division) for details on an SBLC.

#### 3.5 FRB Accounts

3.5.1. DSCA is authorized to enter into a national funds investment account agreement with an FMS purchaser and the FRBNY for any country that finances all or a significant part of its FMS programs with national funds. The FRBNY accounts will normally not be considered for a country that finances FMS programs primarily with SA funds.

3.5.2. Upon account establishment, DSCA must compute the amount of funds to be transferred from the FMS Trust Fund to the purchaser's FRB investment account. After the establishment of the investment account, the purchaser remits all national funds payments to the FRBNY, usually identified to specific FMS cases. Payments made from FMF (FMS Credit (non-repayable) only) funds will be made directly to the FMS Trust Fund unless otherwise specified in U.S. law and/or DSCA policy.

3.5.3. DFAS SCA is authorized by the account agreement to make periodic drawdowns, as needed (usually monthly), from the FRBNY account into the FMS Trust Fund, to ensure sufficient funds are available to make payments during the succeeding 30 calendar days.

#### 3.6 CBAs

In accordance with DoDD 5105.65, DSCA is authorized to enter into a national funds investment account agreement with an FMS purchaser who has a duly authorized CBA agreement with a commercial bank. This agreement allows the FMS purchaser to deposit FMS payments into a CBA and earn interest. DSCA manages the CBAs, which operate like the FRBNY accounts. However, funds originating from USG appropriations (e.g., FMF funds (repayable and non-repayable credits) or BPC cases) must not be deposited in this account, and TL amounts must not reside in the CBA. Any deviations must have DoD Office of the Deputy Chief Financial Officer written approval. The USG is not liable for any financial losses resulting from the deposits of the FMS purchaser's funds in the account. However, funds so deposited are considered public funds within the meaning of *Title 31*, *Code of Federal Regulations*, *part 202*, Depositaries and Financial Agents of the Federal Government. For specific details regarding CBA agreements, refer to SAMM, Chapter 9, Section C9.11.3.

#### 3.7 Disbursements

All cash disbursements for FMS Trust Fund purchases must be identified by FMS case identifier and line, and must not exceed the cash available in the purchaser's FMS Trust Fund account (to include MAP Merger and FMF funds). A specific case may be in a deficit cash position with the deficit being funded by the purchaser's cash advances on other cases. The cash deposited by country "X," however, must not be used to liquidate obligations incurred for country "Y" unless an FMS Trust Fund purchaser authorizes the use of its excess cash deposits to meet the cash requirements of another purchaser. A reportable adverse financial condition exists when a single purchaser's FMS Trust Fund cash summary account is in a deficit position (credit balance). See Chapter 3, section 12.0 for more information on adverse financial conditions.

#### 4.0 PAYMENT SCHEDULES

Payment schedules are a consolidated formal presentation to the FMS purchaser of the estimates of cash advances needed to meet USG financial requirements. See section 5.0 for cash requirement calculations. The Department of Defense (DD) Form 645, FMS Billing Statement, reflects the amounts shown on the current case payment schedule or the quarterly forecast of USG financial requirements, whichever is greater. If financial requirements or anticipated disbursements exceed the current payment schedule, or SBAs have been negotiated, the billing

statement, not the payment schedule, contains the required payment amount. The IA must continually monitor USG financial requirements and confirm, at least annually, that payment schedules are accurate to ensure cash is available in an FMS purchaser's trust fund account when disbursements are needed. The DSCA Financial Policy and Analysis Division is responsible for issuing detailed guidance for payment schedule preparation. See SAMM, Chapter 9 for more information on payment schedule preparation and billing requirements.

#### 4.1 Requirements

Payment schedule requirements will be included in each LOA in the format required in the SAMM, Chapter 9, section C9.9.

#### 4.2 Timing

As a standard, new sales agreements can enter the billing system at DFAS SCA through the 10th calendar day of the last month of the quarter. Therefore, if a new agreement is anticipated to be accepted by the purchaser and received by DFAS SCA after the 10th calendar day of the last month of the quarter, the DoD Component should require an initial deposit for the first two quarters of the agreement.

#### 4.3 Initial Deposit

If an LOA requires a deposit upon acceptance, the deposit must equal the FMS administrative surcharge required, plus all anticipated costs and contingencies (e.g., contract holdback and TL), until the first billing statement can be rendered and monies collected.

#### 4.4 Payment Schedule Revision

It is essential to prepare payment schedule revisions in the manner consistent with the parameters of the FMS billing cycle. Since the payment schedule is the basis for billing the FMS purchaser, there must be an audit trail between the original payment schedule and any revision(s).

- 4.4.1. IA case managers are required to initiate payment schedule revisions when the LOA acceptance date is extended beyond the end of the billing quarter, to ensure that the purchaser has an LOA document that matches the payment schedule created in the billing system.
- 4.4.2. The payment dates shown on the revised payment schedule must be compatible with the FMS billing cycle. The payment schedule dates are in the <u>SAMM, Chapter 9, Table C9.T16</u>.
- 4.4.3. Payment schedule revisions due to an amendment (change in scope) or a modification must be in accordance with subparagraphs 2.3.7.

#### 5.0 CASH REQUIREMENT CALCULATIONS

#### 5.1 Calculation of Initial Estimate of Cash Needed

Calculation of the cash advance needed to meet the USG financial requirements for a specific FMS case requires dividing the costs into broad cost categories. The first category is the portion of case value under the authority of AECA § 21, which includes sales from DoD inventories and the services of DoD personnel. The second category is the portion of case value under the authority of AECA § 22, which includes procurement of hardware or contractor services for the FMS purchaser. The third category is the portion of the case under the authority of AECA § 29, which involves rendering design and construction services from DoD resources.

- 5.1.1. Initial Estimates of Cash Needed to Meet USG Financial Requirements in Support of the AECA § 21 Effort, When Dependable Undertaking is Authorized. The cash advance needed to meet USG financial requirements for the portion of the case classified as an AECA § 21 sale must include the estimated earned reimbursements to be realized by DoD appropriation/fund accounts through the 3-month period after the payment due date of the billing statement issued by DFAS SCA.
- 5.1.1.1. <u>Sales From Inventory</u>. The drop from inventory creates the earned reimbursement, to include applicable administrative surcharges and accessorial charges. Therefore, the applicable FMS case manager will develop the estimated portion of cash needed to meet USG financial requirements based on anticipated requisition release dates.
- 5.1.1.2. <u>Sales of DoD Services</u>. Base the estimates of earned reimbursement for DoD services provided directly to the FMS purchaser, and for DoD services provided in support of an AECA § 22 contract, on the estimated portion of the services that will occur in the applicable billing period. Services also include applicable administrative surcharges and accessorial charges.
- 5.1.2. <u>Initial Estimates of Cash Needed to Meet USG Financial Requirements in Support</u> of the AECA § 22 and § 29 Effort, When Dependable Undertaking is Authorized
- 5.1.2.1. The cash advance needed to meet USG financial requirements for the portion of a case classified as an AECA § 22 or § 29 sale, must include estimated disbursements to contractors for contractor invoices and potential disbursements to contractors if the purchaser does not make additional cash deposits in a timely manner, or the purchaser unilaterally cancels the case. Potential disbursements to contractors include payment of contract holdbacks and termination costs that would result if the work were stopped when the cash available to pay contractor invoices is exhausted. The estimate of cash advance needed to meet USG financial requirements covers the period extending through the 3-month period after the payment due date of the FMS billing statement.
- 5.1.2.2. Base the cash advances needed to meet USG financial requirements in support of procurements for FMS purchasers on normal administrative and procurement lead-times for the type of commodity being procured. The use of progress payment schedules from contractors, when available, is preferred over relying on default cost curves when developing LOA

payment schedules. Tables 4-1 and 4-2 show the total cash advance needed to meet USG financial requirements for contracts in terms of percentage of contract costs. The percentages are a function of procurement lead-times. Tables 4-1 and 4-2 also show the percentage of the contract value required as a reserve for potential termination costs and contract holdback in the absence of an SBLC.

- 5.1.2.2.1. Potential termination costs represent the liability the USG has to contractors in the event termination occurs. Such costs include all accrued direct and indirect costs, as well as 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.
- 5.1.2.2.2. In the absence of procurement history for a particular system, a similar system, or cost curves obtained from the prime contractor, Tables 4-1 and 4-2 may be used. The IAs must first exhaust all other avenues for obtaining forecasting or historical data from contractors and internal sources prior to using Tables 4-1 and 4-2 as the basis for calculating expenditure and TL prepayment requirements.
- 5.1.2.2.3. The percentages in Tables 4-1 and 4-2 are for procurement lead-times ranging from 6 months to 60 months. The tables may be used for the development of payment schedules included in the LOA. The percentage figures shown in Tables 4-1 and 4-2 include all applicable costs (e.g., progress payment amounts, contractor holdback, and potential TL). The amount of the cumulative monthly payment applicable to the TL/contractor holdback is shown in the second column (% TL) for each procurement lead-time.
- 5.1.2.2.4. The TL/contractor holdback amount is a percentage of the Cumulative Amount of Contract Cost. TL/contractor holdback amounts are cumulative throughout the life of the case, and the required percentages decline toward the end of the life of the case.

#### 5.2 Administrative Surcharge Included in Initial Deposit

The initial deposit to accompany the LOA must include the FMS administrative surcharge expense and the cash advance needed to meet USG financial requirements (to include other applicable surcharges and accessorial charges) for the time between LOA acceptance and the first payment due date. The FMS administrative surcharge amount included in the deposit is determined by the total amount of the surcharge.

5.2.1. For cases where the calculated administrative surcharge is \$30,000 or less, the entire administrative surcharge value is recouped as part of the initial deposit. For cases that have a Small Case Management Line (SCML), the entire value of the administrative surcharge and SCML is recouped as part of the initial deposit (refer to SAMM, Chapter 9, paragraph C9.4.7, for more information on SCML).

5.2.2. For cases where the calculated administrative surcharge is greater than \$30,000, one-half of the administrative surcharge is recouped as part of the initial deposit. The remainder is proportionally recouped based on the dollar value of items or services delivered in each subsequent year.

#### 5.3 Estimate of Cash Needed to Collect Nonrecurring Cost (NC) Recoupment Charges

NC Recoupment Charges are earned when the title is passed to the FMS purchaser and should be collected within 30 calendar days of being earned. The title is normally transferred at the point of origin, at the time DoD releases the item from DoD's inventory, or at the time the vendor ships the item. Refer to <u>SAMM, Chapter 7, section C7.3</u> for more information on title transfers.

#### 5.4 Forecasting Procedures

Alternative forecasting procedures may be used for requisition cases (i.e., Cooperative Logistics Supply Support Arrangement and other repair parts cases). Most payment schedules for these cases tend to be overstated because of variations in both requisitioning and supply actions. To prevent substantial over-billing, each IA must review and update payment schedules in accordance with subparagraph 2.3.7.2.

#### 6.0 QUARTERLY TL RESERVE REQUIREMENT

TL Reserve is the amount of prepayments placed in reserve on a quarterly basis. For FMS purchasers with an FRB account, the TL Reserve is maintained in their FRB account, provided sufficient funds are on deposit in the FRB to cover the TL reserved amount. Otherwise, the FMS purchaser's Trust Fund TL Reserve Account will be utilized. The TL Reserve is not an additional charge or cost. These funds are fenced for potential termination costs; however, they do not necessarily represent the entire cost to cancel the contract. These funds cannot be used for normal disbursement activities (e.g., to pay for articles/services, administrative surcharges, or accessorial charges).

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

Current contracting procedures permit the procurement of both DoD and FMS purchaser(s) requirements in a single contract. Allocate the amount to be billed to DoD and to each FMS purchaser to implement FMS cash flow requirements. The part of the bill applicable to an FMS purchaser can be paid only to the extent that the FMS purchaser has sufficient cash available in its FMS Trust Fund account.

#### 7.1 Contractor Allocations

Per the <u>Defense Federal Acquisition Regulation Supplement, part 252.232-7002</u>, "Progress Payments for Foreign Military Sales Acquisitions," DoD contracts that include FMS requirements must require the contractor to:

- 7.1.1. Submit a separate progress payment request for each progress payment rate;
- 7.1.2. Submit a supporting schedule showing:
- 7.1.2.1. The amount of each request distributed to each country's requirements, and
- 7.1.2.2. The total price per contract line item applicable to each separate progress payment rate;
- 7.1.3. Identify in each progress payment request the contract requirements to which it applies (i.e., FMS or USG);
- 7.1.4. 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
- 7.1.5. Distribute costs among contract line items and countries in a manner acceptable to the Administrative Contracting Officer.

#### 7.2 Allocation of Payments on Contracts

Allocate progress payments in accordance with Volume 10, Chapter 10, paragraph 4.2. In addition, DoD contracts that include FMS requirements must identify amounts by accounting classification reference numbers (ACRNs), CLINs, and sub-line item numbers (SLINs), if applicable. This will enable the paying office to match payments to the applicable obligations.

#### 7.3 Contract Payment Offices

The contract payment offices must require that all bills submitted by contractors for payment include the proper ACRN/CLIN/SLIN. Contract payment offices must ensure they have all the documentation required to support payment (refer to Volume 10, Chapter 8, section 3.0), and that payments are applied to the proper ACRN/CLIN/SLIN.

#### 8.0 DEPOSIT OF PURCHASER CASH INTO TREASURY ACCOUNTS

#### 8.1 General

DD 645s, SBAs, and LOA financial instructions direct that foreign purchasers forward payments (initial deposits on basic LOAs, amounts due with LOA amendments, or official billing statement payments) by wire transfer or mailed check.

8.1.1. Wire transfers are the preferred method for the foreign purchaser to forward payments.

- 8.1.1.1. Send wire transfers to the Treasury Account at FRBNY, using the standard Federal Reserve Funds Transfer format. The Federal Reserve System (FRS) will accept wire transfers only from banks that are members of FRS. Foreign banks must go through a U.S. correspondent bank that is a member of FRS.
- 8.1.1.2. DFAS SCA retrieves wire transfers daily from the Treasury Financial Communications System and prepares collection vouchers from this data for crediting FMS purchasers.
- 8.1.2. Make checks payable to the U.S. Treasury and mail to Disbursing Operation (DFAS-IN/JFD), DSSN 3801 Center Collections SCA, 8899 E. 56<sup>th</sup> Street, Indianapolis, IN 46249-6300, showing payment from (insert purchaser) for (insert case identifier). Any recipient of a check from an FMS purchaser is responsible for depositing the check into a Treasury account within one working day of receipt.

#### 8.2 Misrouted Payments

When a recipient other than DFAS SCA is making a check deposit, the deposit must be processed as a courtesy deposit for DFAS SCA. The following procedures apply:

- 8.2.1. Prepare a deposit ticket utilizing the Over the Counter Channel (*OTCnet*) application. For information on OTCnet see Volume 5, Chapter 11, section 8.1;
  - 8.2.2. Process the deposit through an FRB or supporting member bank; and
- 8.2.3. Send a copy of the deposit ticket notification to DFAS-IN/JAX, ATTN: Cash Accounting, 8899 East 56th Street, Indianapolis, IN 46249-6300. Attach the supporting documentation received with the misrouted payment. DFAS SCA must voucher the collection into the FMS Trust Fund on receipt of the supporting documentation.

#### 9.0 EA

EA is an FMS country-level authority, which allows payments to be made against obligations previously recorded against a country's trust fund account. EA is formal segregation of trust fund cash in the FMS Trust Fund, making the cash no longer available for any other purpose.

#### 9.1 EA Requirements

- 9.1.1. Most country trust fund disbursements require EA (including expenditure adjustments). All EA for administrative fund disbursements is accomplished by DFAS-IN/SCA.
- 9.1.2. Certifying officers engaged in FMS Trust Fund certification must verify EA was obtained. EA can be obtained by contacting DFAS SCA, or interactively from DIFS.
- 9.1.3. DFAS SCA can only approve and issue EA when sufficient cash is available in an FMS purchaser's trust fund account.

- 9.1.4. EA must be obtained during the same calendar month in which the ensuing disbursement will be made.
- 9.1.5. If the disbursement is not made in the same month as the EA request, the EA must be returned and reissued the subsequent month.
- 9.1.6. Failure to request EA prior to disbursement is subject to reporting and disciplinary requirements. Administrative control of funds and Antideficiency Act violations are outlined in Volume 14.

#### 9.2 Cash Advances

A cash advance to an appropriation account must be obtained when a cash disbursement for an FMS contract would result in the applicable appropriation account being placed in a negative cash position. The amount requested must be equal to anticipated disbursing demands for a 30 calendar day period. Liquidation of outstanding advances (earning the advance through payment to contractors) must be reported to DFAS SCA monthly. The objective is to limit the amount and length of time that outstanding advances remain against the trust fund.

#### 9.3 Cash Flow Problems

DFAS SCA notifies the DSCA Country Financial Director when sufficient, unencumbered cash is not available for DFAS SCA to provide cash advances or EA, and contractor billings cannot be paid by the due date. The DSCA Country Financial Director then takes appropriate action as outlined in subparagraph 2.1.2.

Table 4-1. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered before June 30, 2020

|                                   |                             |         | Proci                       | uremen  | t Lead-Time                 |         |                       |         |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|-----------------------|---------|
|                                   | 6 Month                     | ıs      | 9 Mont                      | hs      | 12 Mont                     | hs      | 15 Mont               | hs      |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum. Monthly Payments | %<br>TL |
| 1                                 | 5.7                         | 30      | 2.7                         | 14      | 1.5                         | 0       | 1                     | 0       |
| 2                                 | 19.6                        | 35      | 8.2                         | 38      | 4.6                         | 30      | 3                     | 20      |
| 3                                 | 44.8                        | 32      | 17.7                        | 35      | 9.4                         | 34      | 6                     | 40      |
| 4                                 | 74.9                        | 18      | 32.4                        | 34      | 16.7                        | 35      | 10.2                  | 33      |
| 5                                 | 95.2                        | 2       | 51.6                        | 29      | 26.8                        | 35      | 16                    | 35      |
| 6                                 | 100                         | 0       | 71.9                        | 18      | 39.9                        | 32      | 23.7                  | 35      |
| 7                                 |                             |         | 88.4                        | 5       | 54.9                        | 27      | 33.4                  | 33      |
| 8                                 |                             |         | 97.2                        | 1       | 70.2                        | 18      | 44.8                  | 30      |
| 9                                 |                             |         | 100                         | 0       | 83.5                        | 7       | 57.2                  | 26      |
| 10                                |                             |         |                             |         | 92.8                        | 2       | 69.6                  | 18      |
| 11                                |                             |         |                             |         | 97.8                        | 0       | 80.8                  | 9       |
| 12                                |                             |         |                             |         | 100                         | 0       | 89.6                  | 3       |
| 13                                |                             |         |                             |         |                             |         | 95.4                  | 1       |
| 14                                |                             |         |                             |         |                             |         | 98.6                  | 0       |
| 15                                |                             |         |                             |         |                             | _       | 100                   | 0       |

Table 4-1. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered before June 30, 2020 (Continued)

|                                   |                             |         | Procu                       | ıremen  | t Lead-Time                 | Lead-Time |                       |         |  |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|-----------|-----------------------|---------|--|
|                                   | 18 Mont                     | hs      | 21 Mont                     | hs      | 24 Mont                     | hs        | 27 Mont               | hs      |  |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL   | Cum. Monthly Payments | %<br>TL |  |
| 1                                 | 0.7                         | 0       | 0.5                         | 0       | 0.4                         | 0         | 0.3                   | 0       |  |
| 2                                 | 2.1                         | 14      | 1.5                         | 9       | 1.2                         | 5         | 0.9                   | 2       |  |
| 3                                 | 4.2                         | 30      | 3.1                         | 23      | 2.4                         | 18        | 1.8                   | 14      |  |
| 4                                 | 7.1                         | 38      | 5.2                         | 37      | 4.0                         | 30        | 3.1                   | 24      |  |
| 5                                 | 10.8                        | 34      | 7.9                         | 36      | 6.0                         | 39        | 4.7                   | 35      |  |
| 6                                 | 15.7                        | 35      | 11.3                        | 34      | 8.5                         | 35        | 6.6                   | 38      |  |
| 7                                 | 21.9                        | 35      | 15.5                        | 35      | 11.5                        | 34        | 8.9                   | 34      |  |
| 8                                 | 29.4                        | 34      | 20.7                        | 35      | 15.2                        | 35        | 11.7                  | 34      |  |
| 9                                 | 38.3                        | 32      | 26.9                        | 34      | 19.6                        | 35        | 15.0                  | 35      |  |
| 10                                | 48.1                        | 29      | 34.1                        | 33      | 24.8                        | 35        | 18.9                  | 35      |  |
| 11                                | 58.5                        | 24      | 42.1                        | 30      | 30.7                        | 33        | 23.4                  | 35      |  |
| 12                                | 68.7                        | 18      | 50.8                        | 28      | 37.4                        | 32        | 28.5                  | 34      |  |
| 13                                | 78.2                        | 10      | 59.7                        | 24      | 44.7                        | 29        | 34.2                  | 32      |  |
| 14                                | 86.1                        | 5       | 68.5                        | 18      | 52.4                        | 27        | 40.4                  | 31      |  |
| 15                                | 92.2                        | 2       | 76.8                        | 11      | 60.2                        | 22        | 47.0                  | 29      |  |
| 16                                | 96.7                        | 1       | 84.0                        | 7       | 67.9                        | 18        | 53.9                  | 27      |  |
| 17                                | 98.7                        | 0       | 89.9                        | 3       | 75.3                        | 12        | 60.9                  | 22      |  |
| 18                                | 100.0                       | 0       | 94.3                        | 1       | 81.8                        | 7         | 67.8                  | 18      |  |
| 19                                |                             |         | 97.3                        | 0       | 87.4                        | 4         | 74.4                  | 13      |  |
| 20                                |                             |         | 99.2                        | 0       | 91.9                        | 2         | 80.4                  | 8       |  |
| 21                                |                             |         | 100.0                       | 0       | 95.2                        | 1         | 85.7                  | 5       |  |
| 22                                |                             |         |                             |         | 97.5                        | 0         | 90.1                  | 2       |  |
| 23                                |                             |         |                             |         | 99.1                        | 0         | 93.6                  | 1       |  |
| 24                                |                             |         |                             |         | 100.0                       | 0         | 96.2                  | 1       |  |
| 25                                |                             |         |                             |         |                             |           | 98.1                  | 0       |  |
| 26                                |                             |         |                             |         |                             |           | 99.4                  | 0       |  |
| 27                                |                             |         |                             |         |                             |           | 100.0                 | 0       |  |

Table 4-1. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered before June 30, 2020 (Continued)

|                                   |                             |         | Procu                       | ıremen  | t Lead-Time                 |         |                             |         |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|
|                                   | 30 Mont                     | hs      | 33 Mont                     | hs      | 36 Mont                     | hs      | 39 Mont                     | hs      |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL |
| 1                                 | 0.3                         | 0       | 0.2                         | 0       | 0.2                         | 0       | 0.2                         | 0       |
| 2                                 | 0.8                         | 0       | 0.6                         | 0       | 0.5                         | 0       | 0.5                         | 0       |
| 3                                 | 1.5                         | 10      | 1.2                         | 8       | 1.1                         | 4       | 1.0                         | 2       |
| 4                                 | 2.6                         | 20      | 2.0                         | 17      | 1.8                         | 14      | 1.6                         | 10      |
| 5                                 | 3.9                         | 30      | 3.1                         | 27      | 2.7                         | 24      | 2.4                         | 18      |
| 6                                 | 5.4                         | 40      | 4.4                         | 38      | 3.8                         | 30      | 3.3                         | 26      |
| 7                                 | 7.2                         | 37      | 5.9                         | 37      | 5.0                         | 39      | 4.4                         | 34      |
| 8                                 | 9.4                         | 33      | 7.6                         | 35      | 6.5                         | 37      | 5.6                         | 39      |
| 9                                 | 11.9                        | 34      | 9.6                         | 33      | 8.1                         | 35      | 7.0                         | 37      |
| 10                                | 14.9                        | 35      | 11.9                        | 34      | 10.0                        | 34      | 8.6                         | 35      |
| 11                                | 18.3                        | 35      | 14.6                        | 35      | 12.2                        | 34      | 10.4                        | 34      |
| 12                                | 22.2                        | 35      | 17.7                        | 35      | 14.7                        | 35      | 12.4                        | 34      |
| 13                                | 26.7                        | 34      | 21.2                        | 35      | 17.5                        | 35      | 14.7                        | 35      |
| 14                                | 31.6                        | 33      | 25.1                        | 34      | 20.6                        | 35      | 17.3                        | 35      |
| 15                                | 36.9                        | 31      | 29.4                        | 33      | 24.1                        | 35      | 20.1                        | 35      |
| 16                                | 42.7                        | 30      | 34.1                        | 32      | 27.9                        | 34      | 23.2                        | 35      |
| 17                                | 48.8                        | 28      | 39.2                        | 31      | 32.1                        | 33      | 26.6                        | 34      |
| 18                                | 55.0                        | 26      | 44.6                        | 29      | 36.6                        | 32      | 30.3                        | 33      |
| 19                                | 61.3                        | 22      | 50.2                        | 28      | 41.3                        | 30      | 34.3                        | 32      |
| 20                                | 67.5                        | 18      | 55.9                        | 25      | 46.3                        | 29      | 38.6                        | 32      |
| 21                                | 73.5                        | 13      | 61.6                        | 22      | 51.5                        | 27      | 43.1                        | 29      |
| 22                                | 79.0                        | 9       | 67.2                        | 18      | 56.7                        | 25      | 47.8                        | 28      |
| 23                                | 83.9                        | 6       | 72.6                        | 14      | 62.0                        | 22      | 52.6                        | 27      |
| 24                                | 88.2                        | 3       | 77.7                        | 10      | 67.2                        | 18      | 57.5                        | 24      |
| 25                                | 91.7                        | 2       | 82.3                        | 7       | 72.2                        | 14      | 62.4                        | 21      |
| 26                                | 94.5                        | 1       | 86.4                        | 4       | 76.9                        | 11      | 67.2                        | 18      |
| 27                                | 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       |

Table 4-1. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered before June 30, 2020 (Continued)

|                                   |                             |         | Proce                 | ıremen  | t Lead-Time           |         |                       |         |
|-----------------------------------|-----------------------------|---------|-----------------------|---------|-----------------------|---------|-----------------------|---------|
|                                   | 30 Mont                     | hs      | 33 Mont               | hs      | 36 Mont               | hs      | 39 Mont               | hs      |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum. Monthly Payments | %<br>TL | Cum. Monthly Payments | %<br>TL | Cum. Monthly Payments | %<br>TL |
| 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                 | 0       |

Table 4-1. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered before June 30, 2020 (Continued)

|                                   |                             |         | Proci                       | ıremen  | t Lead-Time                 |         |                             |         |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|
|                                   | 42 Mont                     | hs      | 45 Mont                     | hs      | 48 Mont                     | hs      | 51 Mont                     | hs      |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL |
| 1                                 | 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       |
| 3                                 | 0.8                         | 2       | 0.6                         | 0       | 0.6                         | 0       | 0.6                         | 0       |
| 4                                 | 1.3                         | 8       | 1.1                         | 6       | 1.0                         | 5       | 0.9                         | 4       |
| 5                                 | 2.0                         | 16      | 1.7                         | 12      | 1.5                         | 10      | 1.3                         | 9       |
| 6                                 | 2.8                         | 23      | 2.4                         | 20      | 2.1                         | 18      | 1.8                         | 15      |
| 7                                 | 3.8                         | 30      | 3.2                         | 26      | 2.8                         | 24      | 2.4                         | 22      |
| 8                                 | 4.8                         | 38      | 4.1                         | 32      | 3.7                         | 30      | 3.1                         | 27      |
| 9                                 | 6.0                         | 38      | 5.1                         | 40      | 4.6                         | 36      | 3.9                         | 32      |
| 10                                | 7.3                         | 36      | 6.3                         | 38      | 5.6                         | 39      | 4.8                         | 39      |
| 11                                | 8.8                         | 34      | 7.6                         | 36      | 6.7                         | 37      | 5.8                         | 38      |
| 12                                | 10.5                        | 34      | 9.0                         | 33      | 8.0                         | 35      | 6.9                         | 36      |
| 13                                | 12.4                        | 34      | 10.6                        | 34      | 9.4                         | 33      | 8.1                         | 35      |
| 14                                | 14.5                        | 35      | 12.4                        | 34      | 10.9                        | 34      | 9.4                         | 33      |
| 15                                | 16.9                        | 35      | 14.2                        | 35      | 12.6                        | 34      | 10.8                        | 34      |
| 16                                | 19.5                        | 35      | 16.6                        | 35      | 14.4                        | 35      | 12.3                        | 34      |
| 17                                | 22.3                        | 35      | 19.0                        | 35      | 16.5                        | 35      | 14.0                        | 35      |
| 18                                | 25.5                        | 34      | 21.6                        | 35      | 18.7                        | 35      | 15.8                        | 35      |
| 19                                | 28.8                        | 34      | 24.4                        | 34      | 21.1                        | 35      | 17.8                        | 35      |
| 20                                | 32.5                        | 33      | 27.5                        | 34      | 23.7                        | 35      | 19.9                        | 35      |
| 21                                | 36.3                        | 32      | 30.8                        | 33      | 26.5                        | 34      | 22.2                        | 35      |
| 22                                | 40.4                        | 30      | 34.3                        | 32      | 29.6                        | 33      | 24.7                        | 34      |
| 23                                | 44.6                        | 29      | 38.0                        | 31      | 32.8                        | 33      | 27.3                        | 33      |
| 24                                | 49.0                        | 28      | 41.9                        | 30      | 36.1                        | 32      | 30.1                        | 33      |
| 25                                | 53.5                        | 26      | 45.9                        | 28      | 39.7                        | 31      | 33.1                        | 32      |
| 26                                | 58.0                        | 23      | 50.0                        | 27      | 43.4                        | 30      | 36.2                        | 31      |
| 27                                | 62.5                        | 22      | 54.2                        | 26      | 47.2                        | 28      | 39.5                        | 30      |
| 28                                | 66.9                        | 18      | 58.4                        | 24      | 51.0                        | 27      | 42.9                        | 29      |
| 29                                | 71.2                        | 14      | 62.6                        | 22      | 55.0                        | 26      | 46.4                        | 28      |
| 30                                | 75.4                        | 11      | 66.7                        | 18      | 58.9                        | 23      | 50.6                        | 27      |
| 31                                | 79.2                        | 9       | 70.7                        | 15      | 62.9                        | 20      | 53.6                        | 26      |
| 32                                | 82.8                        | 6       | 74.6                        | 12      | 66.7                        | 18      | 57.2                        | 23      |
| 33                                | 86.1                        | 4       | 78.3                        | 9       | 70.5                        | 15      | 60.9                        | 20      |

Table 4-1. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered before June 30, 2020 (Continued)

|                                   |                             |         | Proci                       | uremen  | t Lead-Time                 |         |                       |         |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|-----------------------|---------|
|                                   | 42 Mont                     | hs      | 45 Mont                     | hs      | 48 Mont                     | hs      | 51 Mont               | hs      |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum. Monthly Payments | %<br>TL |
| 34                                | 88.9                        | 3       | 81.7                        | 6       | 74.2                        | 13      | 64.5                  | 18      |
| 35                                | 91.4                        | 2       | 84.8                        | 4       | 77.7                        | 9       | 68.1                  | 15      |
| 35                                | 93.5                        | 1       | 87.6                        | 3       | 80.9                        | 7       | 71.6                  | 13      |
| 37                                | 95.3                        | 1       | 90.1                        | 2       | 84.0                        | 6       | 75.0                  | 10      |
| 38                                | 96.7                        | 1       | 92.2                        | 2       | 86.7                        | 4       | 78.2                  | 8       |
| 39                                | 97.8                        | 0       | 94.0                        | 1       | 89.2                        | 3       | 81.2                  | 6       |
| 40                                | 98.8                        | 0       | 95.5                        | 1       | 91.3                        | 2       | 84.0                  | 4       |
| 41                                | 99.5                        | 0       | 96.8                        | 1       | 93.2                        | 2       | 86.6                  | 3       |
| 42                                | 100.0                       | 0       | 97.8                        | 0       | 94.8                        | 1       | 88.9                  | 2       |
| 43                                |                             |         | 98.6                        | 0       | 96.2                        | 1       | 91.0                  | 2       |
| 44                                |                             |         | 99.3                        | 0       | 97.3                        | 1       | 92.8                  | 1       |
| 45                                |                             |         | 100.0                       | 0       | 98.2                        | 0       | 94.4                  | 1       |
| 46                                |                             |         |                             |         | 98.9                        | 0       | 95.8                  | 1       |
| 47                                |                             |         |                             |         | 99.6                        | 0       | 97.0                  | 0       |
| 48                                |                             |         |                             |         | 100.0                       | 0       | 98.0                  | 0       |
| 49                                |                             |         |                             |         |                             |         | 98.8                  | 0       |
| 50                                |                             |         |                             |         |                             |         | 99.5                  | 0       |
| 51                                |                             |         | _                           |         | _                           | _       | 100.0                 | 0       |

Table 4-1. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered before June 30, 2020 (Continued)

|                                   | Procurement Lead-Time       |         |                       |         |                       |         |  |  |  |  |
|-----------------------------------|-----------------------------|---------|-----------------------|---------|-----------------------|---------|--|--|--|--|
|                                   | 54 Mont                     | hs      | 57 Mont               | hs      | 60 Mont               | hs      |  |  |  |  |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum. Monthly Payments | %<br>TL | Cum. Monthly Payments | %<br>TL |  |  |  |  |
| 1                                 | 0.1                         | 0       | 0.1                   | 0       | 0.1                   | 0       |  |  |  |  |
| 2                                 | 0.2                         | 0       | 0.2                   | 0       | 0.2                   | 0       |  |  |  |  |
| 3                                 | 0.5                         | 0       | 0.4                   | 0       | 0.4                   | 0       |  |  |  |  |
| 4                                 | 0.8                         | 2       | 0.7                   | 1       | 0.6                   | 0       |  |  |  |  |
| 5                                 | 1.2                         | 8       | 1.1                   | 6       | 1.0                   | 3       |  |  |  |  |
| 6                                 | 1.7                         | 14      | 1.5                   | 12      | 1.4                   | 10      |  |  |  |  |
| 7                                 | 2.3                         | 18      | 2.0                   | 17      | 1.8                   | 15      |  |  |  |  |
| 8                                 | 2.9                         | 24      | 2.6                   | 22      | 2.3                   | 20      |  |  |  |  |
| 9                                 | 3.6                         | 30      | 3.2                   | 27      | 2.9                   | 25      |  |  |  |  |
| 10                                | 4.4                         | 35      | 3.9                   | 33      | 3.6                   | 30      |  |  |  |  |
| 11                                | 5.3                         | 40      | 4.7                   | 38      | 4.3                   | 35      |  |  |  |  |
| 12                                | 6.3                         | 38      | 5.6                   | 39      | 5.1                   | 40      |  |  |  |  |
| 13                                | 7.3                         | 36      | 6.6                   | 37      | 5.9                   | 38      |  |  |  |  |
| 14                                | 8.5                         | 34      | 7.6                   | 35      | 6.9                   | 36      |  |  |  |  |
| 15                                | 8.7                         | 33      | 8.7                   | 33      | 7.9                   | 35      |  |  |  |  |
| 16                                | 11.2                        | 34      | 9.9                   | 33      | 9.0                   | 33      |  |  |  |  |
| 17                                | 12.7                        | 34      | 10.2                  | 34      | 10.1                  | 33      |  |  |  |  |
| 18                                | 14.3                        | 35      | 12.6                  | 34      | 11.4                  | 34      |  |  |  |  |
| 19                                | 16.1                        | 35      | 14.2                  | 35      | 12.8                  | 35      |  |  |  |  |
| 20                                | 18.1                        | 35      | 15.9                  | 35      | 14.3                  | 35      |  |  |  |  |
| 21                                | 20.2                        | 35      | 17.7                  | 35      | 15.9                  | 35      |  |  |  |  |
| 22                                | 22.4                        | 35      | 19.7                  | 35      | 17.6                  | 35      |  |  |  |  |
| 23                                | 24.8                        | 35      | 21.8                  | 35      | 19.4                  | 35      |  |  |  |  |
| 24                                | 27.4                        | 34      | 24.0                  | 34      | 21.4                  | 35      |  |  |  |  |
| 25                                | 30.1                        | 33      | 26.4                  | 34      | 23.5                  | 35      |  |  |  |  |
| 26                                | 33.0                        | 32      | 28.9                  | 33      | 25.7                  | 34      |  |  |  |  |
| 27                                | 36.0                        | 32      | 31.6                  | 33      | 28.1                  | 33      |  |  |  |  |
| 28                                | 39.1                        | 31      | 34.4                  | 32      | 30.6                  | 33      |  |  |  |  |
| 29                                | 42.4                        | 30      | 37.3                  | 32      | 33.2                  | 32      |  |  |  |  |
| 30                                | 45.7                        | 29      | 40.3                  | 31      | 35.9                  | 31      |  |  |  |  |
| 31                                | 49.1                        | 28      | 43.4                  | 29      | 38.7                  | 31      |  |  |  |  |
| 32                                | 52.6                        | 27      | 46.6                  | 28      | 41.6                  | 30      |  |  |  |  |
| 33                                | 56.1                        | 26      | 49.9                  | 27      | 44.6                  | 29      |  |  |  |  |

Table 4-1. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered before June 30, 2020 (Continued)

|                                   | Procurement Lead-Time       |         |                             |         |                             |         |  |  |  |  |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|--|--|--|--|
|                                   | 54 Mont                     | hs      | 57 Mont                     | hs      | 60 Mont                     | hs      |  |  |  |  |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL |  |  |  |  |
| 34                                | 59.6                        | 22      | 53.2                        | 26      | 47.6                        | 28      |  |  |  |  |
| 35                                | 63.1                        | 20      | 56.5                        | 24      | 50.7                        | 27      |  |  |  |  |
| 36                                | 66.6                        | 18      | 59.8                        | 22      | 53.9                        | 26      |  |  |  |  |
| 37                                | 70.0                        | 15      | 63.1                        | 20      | 57.0                        | 24      |  |  |  |  |
| 38                                | 73.3                        | 13      | 66.4                        | 18      | 60.2                        | 22      |  |  |  |  |
| 39                                | 76.4                        | 10      | 69.6                        | 16      | 63.4                        | 20      |  |  |  |  |
| 40                                | 79.4                        | 8       | 72.7                        | 13      | 66.5                        | 18      |  |  |  |  |
| 41                                | 82.2                        | 6       | 75.7                        | 10      | 69.5                        | 16      |  |  |  |  |
| 42                                | 84.8                        | 5       | 78.6                        | 9       | 72.5                        | 13      |  |  |  |  |
| 43                                | 87.2                        | 3       | 81.3                        | 7       | 75.4                        | 11      |  |  |  |  |
| 44                                | 89.4                        | 2       | 83.8                        | 6       | 78.1                        | 9       |  |  |  |  |
| 45                                | 91.3                        | 2       | 86.1                        | 4       | 80.7                        | 7       |  |  |  |  |
| 46                                | 93.0                        | 1       | 88.2                        | 3       | 83.2                        | 6       |  |  |  |  |
| 47                                | 94.4                        | 1       | 90.1                        | 2       | 85.5                        | 4       |  |  |  |  |
| 48                                | 95.7                        | 1       | 91.8                        | 2       | 87.6                        | 3       |  |  |  |  |
| 49                                | 96.8                        | 1       | 93.3                        | 1       | 89.5                        | 2       |  |  |  |  |
| 50                                | 97.7                        | 0       | 94.6                        | 1       | 91.2                        | 2       |  |  |  |  |
| 51                                | 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                                |                             |         | 100.0                       | 0       | 98.6                        | 0       |  |  |  |  |
| 58                                |                             |         |                             |         | 99.2                        | 0       |  |  |  |  |
| 59                                |                             |         |                             |         | 99.6                        | 0       |  |  |  |  |
| 60                                |                             |         |                             |         | 100.0                       | 0       |  |  |  |  |

Table 4-2. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered on or after June 30, 2020

|                                   |                             | Procurement Lead-Time |                             |          |                             |           |                       |         |  |  |  |
|-----------------------------------|-----------------------------|-----------------------|-----------------------------|----------|-----------------------------|-----------|-----------------------|---------|--|--|--|
|                                   | 6 Month                     | ıs                    | 9 Montl                     | 9 Months |                             | 12 Months |                       | hs      |  |  |  |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL               | Cum.<br>Monthly<br>Payments | %<br>TL  | Cum.<br>Monthly<br>Payments | %<br>TL   | Cum. Monthly Payments | %<br>TL |  |  |  |
| 1                                 | 0.0                         | 0                     | 0.0                         | 0        | 0.0                         | 0         | 0.0                   | 0       |  |  |  |
| 2                                 | 0.0                         | 0                     | 0.0                         | 0        | 0.0                         | 0         | 0.0                   | 0       |  |  |  |
| 3                                 | 0.7                         | 0                     | 1.1                         | 0        | 1.0                         | 0         | 0.8                   | 0       |  |  |  |
| 4                                 | 22.2                        | 35                    | 6.7                         | 14       | 3.9                         | 0         | 2.9                   | 0       |  |  |  |
| 5                                 | 59.7                        | 32                    | 18.0                        | 35       | 9.1                         | 30        | 5.9                   | 20      |  |  |  |
| 6                                 | 100.0                       | 0                     | 36.4                        | 34       | 17.0                        | 35        | 10.2                  | 33      |  |  |  |
| 7                                 |                             |                       | 59.5                        | 29       | 28.7                        | 35        | 16.4                  | 35      |  |  |  |
| 8                                 |                             |                       | 81.8                        | 18       | 43.4                        | 32        | 24.9                  | 35      |  |  |  |
| 9                                 |                             |                       | 100.0                       | 0        | 60.2                        | 27        | 35.5                  | 33      |  |  |  |
| 10                                |                             |                       |                             |          | 76.5                        | 18        | 47.9                  | 30      |  |  |  |
| 11                                |                             |                       |                             |          | 89.1                        | 7         | 61.2                  | 26      |  |  |  |
| 12                                |                             |                       |                             |          | 100.0                       | 0         | 74.2                  | 18      |  |  |  |
| 13                                |                             |                       |                             |          |                             |           | 85.3                  | 9       |  |  |  |
| 14                                |                             |                       |                             |          |                             |           | 93.0                  | 3       |  |  |  |
| 15                                |                             |                       |                             |          |                             |           | 100.0                 | 0       |  |  |  |

Table 4-2. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered on or after June 30, 2020 (Continued)

|                                   |                             |         | Procu                       | ıremen  | t Lead-Time           |         |                       |         |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------|---------|-----------------------|---------|
|                                   | 18 Mont                     | hs      | 21 Months                   |         | 24 Months             |         | 27 Months             |         |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum. Monthly Payments | %<br>TL | Cum. Monthly Payments | %<br>TL |
| 1                                 | 0.0                         | 0       | 0.0                         | 0       | 0.0                   | 0       | 0.0                   | 0       |
| 2                                 | 0.0                         | 0       | 0.0                         | 0       | 0.0                   | 0       | 0.0                   | 0       |
| 3                                 | 0.5                         | 0       | 0.3                         | 0       | 0.3                   | 0       | 0.2                   | 0       |
| 4                                 | 2.0                         | 0       | 1.5                         | 9       | 1.2                   | 5       | 0.8                   | 0       |
| 5                                 | 4.3                         | 30      | 3.2                         | 23      | 2.5                   | 18      | 1.9                   | 14      |
| 6                                 | 7.1                         | 38      | 5.4                         | 37      | 4.1                   | 30      | 3.3                   | 24      |
| 7                                 | 11.1                        | 34      | 8.2                         | 36      | 6.3                   | 39      | 4.9                   | 35      |
| 8                                 | 16.3                        | 35      | 11.6                        | 34      | 8.7                   | 35      | 6.8                   | 38      |
| 9                                 | 22.7                        | 35      | 16.1                        | 35      | 11.9                  | 34      | 9.2                   | 34      |
| 10                                | 31.0                        | 34      | 21.5                        | 35      | 15.7                  | 35      | 12.1                  | 34      |
| 11                                | 40.3                        | 32      | 28.1                        | 34      | 20.4                  | 35      | 15.5                  | 35      |
| 12                                | 50.9                        | 29      | 35.6                        | 33      | 25.7                  | 35      | 19.6                  | 35      |
| 13                                | 61.6                        | 24      | 44.1                        | 30      | 31.9                  | 33      | 24.2                  | 35      |
| 14                                | 72.3                        | 18      | 53.1                        | 28      | 38.9                  | 32      | 29.6                  | 34      |
| 15                                | 81.5                        | 10      | 62.3                        | 24      | 46.6                  | 29      | 35.5                  | 32      |
| 16                                | 88.8                        | 5       | 71.4                        | 18      | 54.4                  | 27      | 41.8                  | 31      |
| 17                                | 95.2                        | 2       | 79.6                        | 11      | 62.4                  | 22      | 48.7                  | 29      |
| 18                                | 100.0                       | 0       | 86.6                        | 7       | 70.4                  | 18      | 55.7                  | 27      |
| 19                                |                             |         | 92.1                        | 3       | 77.6                  | 12      | 62.9                  | 22      |
| 20                                |                             |         | 95.9                        | 1       | 84.0                  | 7       | 69.9                  | 18      |
| 21                                |                             |         | 100.0                       | 0       | 89.4                  | 4       | 76.4                  | 13      |
| 22                                |                             |         |                             |         | 93.5                  | 2       | 82.4                  | 8       |
| 23                                |                             |         |                             |         | 96.3                  | 1       | 87.5                  | 5       |
| 24                                |                             |         |                             |         | 100.0                 | 0       | 91.7                  | 2       |
| 25                                |                             |         |                             |         |                       |         | 94.8                  | 1       |
| 26                                |                             |         |                             |         |                       |         | 97.1                  | 1       |
| 27                                |                             |         |                             |         |                       |         | 100.0                 | 0       |

Table 4-2. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered on or after June 30, 2020 (Continued)

|                                   |                             |         | Procu                       | ıremen  | t Lead-Time                 |         |                             |         |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|
|                                   | 30 Mont                     | hs      | 33 Mont                     | hs      | 36 Months                   |         | 39 Months                   |         |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL |
| 1                                 | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       |
| 2                                 | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       |
| 3                                 | 0.3                         | 0       | 0.2                         | 0       | 0.0                         | 0       | 0.1                         | 0       |
| 4                                 | 0.7                         | 0       | 0.6                         | 0       | 0.6                         | 0       | 0.6                         | 0       |
| 5                                 | 1.6                         | 10      | 1.2                         | 8       | 1.1                         | 4       | 1.0                         | 2       |
| 6                                 | 2.8                         | 20      | 2.1                         | 17      | 1.9                         | 14      | 1.7                         | 10      |
| 7                                 | 4.1                         | 30      | 3.3                         | 27      | 2.9                         | 24      | 2.5                         | 18      |
| 8                                 | 5.6                         | 40      | 4.6                         | 38      | 3.9                         | 30      | 3.5                         | 26      |
| 9                                 | 7.5                         | 37      | 6.1                         | 37      | 5.3                         | 39      | 4.6                         | 34      |
| 10                                | 9.7                         | 33      | 7.9                         | 35      | 6.7                         | 37      | 5.8                         | 39      |
| 11                                | 12.4                        | 34      | 9.9                         | 33      | 8.4                         | 35      | 7.3                         | 37      |
| 12                                | 15.4                        | 35      | 12.3                        | 34      | 10.3                        | 34      | 8.9                         | 35      |
| 13                                | 18.8                        | 35      | 15.1                        | 35      | 12.6                        | 34      | 10.7                        | 34      |
| 14                                | 23.0                        | 35      | 18.3                        | 35      | 15.2                        | 35      | 12.8                        | 34      |
| 15                                | 27.6                        | 34      | 21.9                        | 35      | 18.0                        | 35      | 15.2                        | 35      |
| 16                                | 32.6                        | 33      | 25.9                        | 34      | 21.3                        | 35      | 17.8                        | 35      |
| 17                                | 38.1                        | 31      | 30.3                        | 33      | 24.8                        | 35      | 20.7                        | 35      |
| 18                                | 44.2                        | 30      | 35.2                        | 32      | 28.7                        | 34      | 23.8                        | 35      |
| 19                                | 50.3                        | 28      | 40.4                        | 31      | 33.1                        | 33      | 27.3                        | 34      |
| 20                                | 56.7                        | 26      | 45.9                        | 29      | 37.6                        | 32      | 31.1                        | 33      |
| 21                                | 63.0                        | 22      | 51.6                        | 28      | 42.4                        | 30      | 35.2                        | 32      |
| 22                                | 69.4                        | 18      | 57.4                        | 25      | 47.6                        | 29      | 39.6                        | 32      |
| 23                                | 75.3                        | 13      | 63.2                        | 22      | 52.7                        | 27      | 44.2                        | 29      |
| 24                                | 80.7                        | 9       | 68.8                        | 18      | 58.1                        | 25      | 48.9                        | 28      |
| 25                                | 85.6                        | 6       | 74.3                        | 14      | 63.5                        | 22      | 53.8                        | 27      |
| 26                                | 89.6                        | 3       | 79.2                        | 10      | 68.7                        | 18      | 58.8                        | 24      |
| 27                                | 92.9                        | 2       | 83.8                        | 7       | 73.6                        | 14      | 63.8                        | 21      |
| 28                                | 95.5                        | 1       | 87.7                        | 4       | 78.4                        | 11      | 68.5                        | 18      |
| 29                                | 97.2                        | 1       | 91.1                        | 2       | 82.7                        | 7       | 73.1                        | 14      |
| 30                                | 100.0                       | 0       | 93.8                        | 1       | 86.4                        | 5       | 77.5                        | 11      |
| 31                                |                             |         | 95.9                        | 1       | 89.7                        | 3       | 81.5                        | 9       |
| 32                                |                             |         | 97.5                        | 0       | 92.4                        | 2       | 85.1                        | 6       |
| 33                                |                             |         | 100.0                       | 0       | 94.8                        | 1       | 88.3                        | 3       |

Table 4-2. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered on or after June 30, 2020 (Continued)

|                                   |                             | Procurement Lead-Time |                       |           |                             |           |                       |           |  |  |  |
|-----------------------------------|-----------------------------|-----------------------|-----------------------|-----------|-----------------------------|-----------|-----------------------|-----------|--|--|--|
|                                   | 30 Mont                     | hs                    | 33 Mont               | 33 Months |                             | 36 Months |                       | 39 Months |  |  |  |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL               | Cum. Monthly Payments | %<br>TL   | Cum.<br>Monthly<br>Payments | %<br>TL   | Cum. Monthly Payments | %<br>TL   |  |  |  |
| 34                                |                             |                       |                       |           | 96.6                        | 1         | 91.2                  | 2         |  |  |  |
| 35                                |                             |                       |                       |           | 97.8                        | 0         | 93.5                  | 2         |  |  |  |
| 36                                |                             |                       |                       |           | 100.0                       | 0         | 95.3                  | 1         |  |  |  |
| 37                                |                             |                       |                       |           |                             |           | 96.9                  | 1         |  |  |  |
| 38                                |                             |                       |                       |           |                             |           | 98.0                  | 0         |  |  |  |
| 39                                |                             |                       |                       |           |                             |           | 100.0                 | 0         |  |  |  |

Table 4-2. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered on or after June 30, 2020 (Continued)

|                                   |                             |         | Proci                       | ıremen  | t Lead-Time                 |         |                             |         |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|
|                                   | 42 Mont                     | hs      | 45 Mont                     | hs      | 48 Months                   |         | 51 Mont                     | hs      |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL |
| 1                                 | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       |
| 2                                 | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       |
| 3                                 | 0.1                         | 0       | 0.1                         | 0       | 0.1                         | 0       | 0.1                         | 0       |
| 4                                 | 0.4                         | 0       | 0.2                         | 0       | 0.3                         | 0       | 0.4                         | 0       |
| 5                                 | 0.8                         | 2       | 0.7                         | 0       | 0.6                         | 0       | 0.6                         | 0       |
| 6                                 | 1.4                         | 8       | 1.2                         | 6       | 1.1                         | 5       | 0.9                         | 4       |
| 7                                 | 2.1                         | 16      | 1.8                         | 12      | 1.6                         | 10      | 1.4                         | 9       |
| 8                                 | 3.1                         | 23      | 2.5                         | 20      | 2.1                         | 18      | 1.9                         | 15      |
| 9                                 | 3.9                         | 30      | 3.4                         | 26      | 3.0                         | 24      | 2.5                         | 22      |
| 10                                | 5.0                         | 38      | 4.2                         | 32      | 3.9                         | 30      | 3.2                         | 27      |
| 11                                | 6.2                         | 38      | 5.3                         | 40      | 4.8                         | 36      | 4.1                         | 32      |
| 12                                | 7.5                         | 36      | 6.6                         | 38      | 5.7                         | 39      | 5.0                         | 39      |
| 13                                | 9.1                         | 34      | 7.8                         | 36      | 7.0                         | 37      | 6.0                         | 38      |
| 14                                | 10.8                        | 34      | 9.3                         | 33      | 8.3                         | 35      | 7.1                         | 36      |
| 15                                | 12.7                        | 34      | 11.1                        | 34      | 9.6                         | 33      | 8.4                         | 35      |
| 16                                | 15.0                        | 35      | 12.4                        | 34      | 11.3                        | 34      | 9.7                         | 33      |
| 17                                | 17.4                        | 35      | 14.8                        | 35      | 12.8                        | 34      | 11.0                        | 34      |
| 18                                | 19.9                        | 35      | 17.1                        | 35      | 14.9                        | 35      | 12.7                        | 34      |
| 19                                | 23.0                        | 35      | 19.5                        | 35      | 16.9                        | 35      | 14.3                        | 35      |
| 20                                | 26.0                        | 34      | 22.1                        | 35      | 19.2                        | 35      | 16.2                        | 35      |
| 21                                | 29.7                        | 34      | 25.0                        | 34      | 21.6                        | 35      | 18.2                        | 35      |
| 22                                | 33.2                        | 33      | 28.2                        | 34      | 24.2                        | 35      | 20.3                        | 35      |
| 23                                | 37.3                        | 32      | 31.5                        | 33      | 27.2                        | 34      | 22.8                        | 35      |
| 24                                | 41.3                        | 30      | 35.1                        | 32      | 30.3                        | 33      | 25.2                        | 34      |
| 25                                | 45.6                        | 29      | 38.9                        | 31      | 33.4                        | 33      | 27.9                        | 33      |
| 26                                | 50.1                        | 28      | 42.8                        | 30      | 36.9                        | 32      | 30.8                        | 33      |
| 27                                | 54.6                        | 26      | 46.9                        | 28      | 40.6                        | 31      | 33.7                        | 32      |
| 28                                | 59.2                        | 23      | 51.1                        | 27      | 44.4                        | 30      | 37.0                        | 31      |
| 29                                | 63.7                        | 22      | 55.3                        | 26      | 48.0                        | 28      | 40.3                        | 30      |
| 30                                | 68.1                        | 18      | 59.5                        | 24      | 52.1                        | 27      | 43.3                        | 29      |
| 31                                | 72.6                        | 14      | 63.7                        | 22      | 55.9                        | 26      | 48.4                        | 28      |
| 32                                | 76.5                        | 11      | 67.8                        | 18      | 60.1                        | 23      | 50.9                        | 27      |
| 33                                | 80.3                        | 9       | 71.8                        | 15      | 63.9                        | 20      | 54.4                        | 26      |

Table 4-2. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered on or after June 30, 2020 (Continued)

|                                   | Procurement Lead-Time       |         |                             |         |                             |         |                       |         |  |  |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|-----------------------|---------|--|--|
|                                   | 42 Mont                     | hs      | 45 Months                   |         | 48 Months                   |         | 51 Months             |         |  |  |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum. Monthly Payments | %<br>TL |  |  |
| 34                                | 84.0                        | 6       | 75.8                        | 12      | 67.7                        | 18      | 58.2                  | 23      |  |  |
| 35                                | 87.0                        | 4       | 79.4                        | 9       | 71.6                        | 15      | 61.8                  | 20      |  |  |
| 35                                | 89.8                        | 3       | 82.7                        | 6       | 75.3                        | 13      | 65.5                  | 18      |  |  |
| 37                                | 92.2                        | 2       | 85.7                        | 4       | 78.6                        | 9       | 69.1                  | 15      |  |  |
| 38                                | 94.3                        | 1       | 88.5                        | 3       | 82.0                        | 7       | 72.6                  | 13      |  |  |
| 39                                | 95.9                        | 1       | 90.9                        | 2       | 84.8                        | 6       | 76.0                  | 10      |  |  |
| 40                                | 97.1                        | 1       | 92.9                        | 2       | 87.6                        | 4       | 79.1                  | 8       |  |  |
| 41                                | 98.3                        | 0       | 94.5                        | 1       | 89.9                        | 3       | 82.1                  | 6       |  |  |
| 42                                | 100.0                       | 0       | 96.1                        | 1       | 92.0                        | 2       | 84.9                  | 4       |  |  |
| 43                                |                             |         | 97.2                        | 1       | 93.8                        | 2       | 87.3                  | 3       |  |  |
| 44                                |                             |         | 98.1                        | 0       | 95.4                        | 1       | 89.7                  | 2       |  |  |
| 45                                |                             |         | 100.0                       | 0       | 96.6                        | 1       | 91.6                  | 2       |  |  |
| 46                                |                             |         |                             |         | 97.7                        | 1       | 93.4                  | 1       |  |  |
| 47                                |                             |         |                             |         | 98.4                        | 0       | 94.9                  | 1       |  |  |
| 48                                |                             |         |                             |         | 100.0                       | 0       | 96.3                  | 1       |  |  |
| 49                                |                             |         |                             |         |                             |         | 97.4                  | 0       |  |  |
| 50                                |                             |         |                             |         |                             |         | 98.3                  | 0       |  |  |
| 51                                | _                           |         | _                           |         | _                           |         | 100.0                 | 0       |  |  |

Table 4-2. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered on or after June 30, 2020 (Continued)

|                                   | Procurement Lead-Time       |         |                             |         |                             |         |  |  |  |  |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------------|---------|--|--|--|--|
|                                   | 54 Mont                     | hs      | 57 Mont                     | hs      | 60 Mont                     | hs      |  |  |  |  |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL |  |  |  |  |
| 1                                 | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       |  |  |  |  |
| 2                                 | 0.0                         | 0       | 0.0                         | 0       | 0.0                         | 0       |  |  |  |  |
| 3                                 | 0.0                         | 0       | 0.1                         | 0       | 0.1                         | 0       |  |  |  |  |
| 4                                 | 0.3                         | 0       | 0.2                         | 0       | 0.3                         | 0       |  |  |  |  |
| 5                                 | 0.5                         | 0       | 0.4                         | 0       | 0.3                         | 0       |  |  |  |  |
| 6                                 | 0.8                         | 2       | 0.8                         | 1       | 0.7                         | 0       |  |  |  |  |
| 7                                 | 1.3                         | 8       | 1.1                         | 6       | 1.1                         | 3       |  |  |  |  |
| 8                                 | 1.9                         | 14      | 1.6                         | 12      | 1.4                         | 10      |  |  |  |  |
| 9                                 | 2.4                         | 18      | 2.2                         | 17      | 1.9                         | 15      |  |  |  |  |
| 10                                | 3.0                         | 24      | 2.7                         | 22      | 2.4                         | 20      |  |  |  |  |
| 11                                | 3.7                         | 30      | 3.3                         | 27      | 3.1                         | 25      |  |  |  |  |
| 12                                | 4.6                         | 35      | 4.0                         | 33      | 3.7                         | 30      |  |  |  |  |
| 13                                | 5.6                         | 40      | 4.9                         | 38      | 4.5                         | 35      |  |  |  |  |
| 14                                | 6.4                         | 38      | 5.9                         | 39      | 5.2                         | 40      |  |  |  |  |
| 15                                | 8.4                         | 36      | 6.8                         | 37      | 6.2                         | 38      |  |  |  |  |
| 16                                | 6.8                         | 34      | 7.8                         | 35      | 7.1                         | 36      |  |  |  |  |
| 17                                | 10.1                        | 33      | 9.7                         | 33      | 8.2                         | 35      |  |  |  |  |
| 18                                | 11.5                        | 34      | 8.4                         | 33      | 9.1                         | 33      |  |  |  |  |
| 19                                | 13.0                        | 34      | 11.4                        | 34      | 10.4                        | 33      |  |  |  |  |
| 20                                | 14.6                        | 35      | 12.9                        | 34      | 11.7                        | 34      |  |  |  |  |
| 21                                | 16.5                        | 35      | 14.6                        | 35      | 13.1                        | 35      |  |  |  |  |
| 22                                | 18.6                        | 35      | 16.2                        | 35      | 14.6                        | 35      |  |  |  |  |
| 23                                | 20.6                        | 35      | 18.1                        | 35      | 16.3                        | 35      |  |  |  |  |
| 24                                | 22.9                        | 35      | 20.2                        | 35      | 17.9                        | 35      |  |  |  |  |
| 25                                | 25.4                        | 35      | 22.2                        | 35      | 19.8                        | 35      |  |  |  |  |
| 26                                | 27.9                        | 34      | 24.5                        | 34      | 21.9                        | 35      |  |  |  |  |
| 27                                | 30.8                        | 33      | 26.9                        | 34      | 23.9                        | 35      |  |  |  |  |
| 28                                | 33.7                        | 32      | 29.5                        | 33      | 26.2                        | 34      |  |  |  |  |
| 29                                | 36.6                        | 32      | 32.2                        | 33      | 28.7                        | 33      |  |  |  |  |
| 30                                | 39.9                        | 31      | 35.1                        | 32      | 31.2                        | 33      |  |  |  |  |
| 31                                | 43.2                        | 30      | 38.0                        | 32      | 33.8                        | 32      |  |  |  |  |
| 32                                | 46.5                        | 29      | 41.0                        | 31      | 36.5                        | 31      |  |  |  |  |
| 33                                | 50.0                        | 28      | 44.1                        | 29      | 39.4                        | 31      |  |  |  |  |

Table 4-2. Cumulative Monthly Payment Schedule and TL Percentages (As a percentage of contract cost) for basic cases entered on or after June 30, 2020 (Continued)

|                                   | Procurement Lead-Time       |         |                             |         |                       |         |
|-----------------------------------|-----------------------------|---------|-----------------------------|---------|-----------------------|---------|
| 54 Months                         |                             | 57 Mont | hs                          | 60 Mont | hs                    |         |
| Admin<br>Lead-<br>Time<br>(Month) | Cum.<br>Monthly<br>Payments | %<br>TL | Cum.<br>Monthly<br>Payments | %<br>TL | Cum. Monthly Payments | %<br>TL |
| 34                                | 53.5                        | 27      | 47.4                        | 28      | 42.4                  | 30      |
| 35                                | 57.0                        | 26      | 50.7                        | 27      | 45.3                  | 29      |
| 36                                | 60.5                        | 22      | 54.0                        | 26      | 48.3                  | 28      |
| 37                                | 64.1                        | 20      | 57.3                        | 24      | 51.6                  | 27      |
| 38                                | 67.5                        | 18      | 60.6                        | 22      | 54.6                  | 26      |
| 39                                | 71.0                        | 15      | 64.0                        | 20      | 57.8                  | 24      |
| 40                                | 74.2                        | 13      | 67.3                        | 18      | 61.1                  | 22      |
| 41                                | 77.3                        | 10      | 70.5                        | 16      | 64.3                  | 20      |
| 42                                | 80.3                        | 8       | 73.5                        | 13      | 67.3                  | 18      |
| 43                                | 83.0                        | 6       | 76.6                        | 10      | 70.3                  | 16      |
| 44                                | 85.6                        | 5       | 79.4                        | 9       | 73.4                  | 13      |
| 45                                | 88.0                        | 3       | 82.1                        | 7       | 76.2                  | 11      |
| 46                                | 90.0                        | 2       | 84.5                        | 6       | 78.8                  | 9       |
| 47                                | 92.0                        | 2       | 86.8                        | 4       | 81.5                  | 7       |
| 48                                | 93.4                        | 1       | 88.8                        | 3       | 83.9                  | 6       |
| 49                                | 94.9                        | 1       | 90.7                        | 2       | 86.2                  | 4       |
| 50                                | 96.1                        | 1       | 92.3                        | 2       | 88.2                  | 3       |
| 51                                | 97.2                        | 1       | 93.8                        | 1       | 90.0                  | 2       |
| 52                                | 97.9                        | 0       | 95.0                        | 1       | 91.8                  | 2       |
| 53                                | 98.7                        | 0       | 96.1                        | 1       | 93.2                  | 1       |
| 54                                | 100.0                       | 0       | 97.0                        | 0       | 94.6                  | 1       |
| 55                                |                             |         | 97.8                        | 0       | 95.6                  | 1       |
| 56                                |                             |         | 98.4                        | 0       | 96.6                  | 1       |
| 57                                |                             |         | 100.0                       | 0       | 97.6                  | 0       |
| 58                                |                             |         |                             |         | 98.2                  | 0       |
| 59                                |                             |         |                             |         | 98.9                  | 0       |
| 60                                |                             |         |                             |         | 100.0                 | 0       |



# DEPARTMENT OF DEFENSE FINANCIAL MANAGEMENT REGULATION

**CHAPTER 5: "ARCHIVED"** 

## UNDER SECRETARY OF DEFENSE (COMPTROLLER)

## VOLUME 15, CHAPTER 6: "CASE FILES" SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold**, **italic**, **blue**, **and underlined font**.

The previous version dated June 2021 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION                           | PURPOSE  |
|-----------|--|----------|
| All       | Updated hyperlinks and formatting to comply with current | Revision |
|           | administrative instructions.                             |          |

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#### **CHAPTER 6**

#### **CASE FILES**

#### 1.0 GENERAL

#### 1.1 Overview

- 1.1.1 <u>National Archives and Records Administration (NARA)</u>. Within the Federal Government, NARA is responsible for promulgating procedures for the disposal of all U.S. Government (USG) records. The NARA Records Management Program provides guidance and assistance for the management and disposition of Federal records in the General Records Schedules (GRS).
- 1.1.2. <u>DoD Records Management Program</u>. The DoD Records Management Program outlines records management policy and responsibilities. Within DoD, there are 26 Records Management Programs, each with an appointed <u>Federal Agency Records Officer</u>, Records Management Manual, Instruction or Regulation, and Records Disposition Schedules (RDS). DoD's RDS must comply with NARA guidelines and may include additional financial records used in DoD business operations that are not listed in the NARA GRS.
- 1.1.2.1. DoD requires documentation to be retained for longer than the NARA requirement if the documentation will be used to support an audit. See Volume 1, Chapter 9, subparagraph 2.1.3 and Figure 9-1 for more information.
- 1.1.2.2. The Defense Security Cooperation Agency (DSCA) may issue exceptions to retention periods if there is a determination that Security Cooperation cases (hereafter "case files") are needed for any other business purpose that may require access to the documentation (e.g., records associated with ongoing litigation proceedings and country suspensions). Consult your DoD-appointed Federal Agency Records Officer for additional guidance regarding Foreign Military Sales (FMS) records retention.
- 1.1.3. <u>Case Files</u>. Case files may be maintained in a decentralized manner by the various activities having responsibility for actions associated with the case. Each activity must maintain a comprehensive record of relevant correspondence, worksheets, and officially prepared forms that constitute a complete audit trail from the time of case initiation through case closeout or retirement.
- 1.1.4. <u>Electronic Files</u>. Reference to the Defense Security Assistance Management System (DSAMS) and other electronic files (including e-mail correspondence and compact disk read-only memory) is encouraged, provided such files are complete, secure, and readily retrievable. Electronic imaging is strongly encouraged to preserve documentation (e.g., historical documents and signature pages), when retention of the paper originals, or a copy of such documents, is materially expensive but necessary to protect USG interests.

1.1.5. <u>Supporting Documentation</u>. The case manager must maintain a directory of supporting documentation locations. All supporting documentation must be reviewed carefully prior to disposal or retirement. In addition, coordinate with your DoD-appointed Federal Agency Records Officer for appropriateness and any potential litigation holds. A closed case from an FMS purchaser perspective may remain open from a DoD accounting perspective.

#### 1.2 Purpose

This chapter establishes guidance on maintaining documents for case files. The guidance is designed to facilitate uniformity of case file maintenance and ensure that all necessary documentation is readily available and retrievable by the appropriate activities. All policy applies regardless of storage media (i.e., electronic and/or hard copy).

#### 1.3 Authoritative Guidance

Authorities for case file policy include:

- 1.3.1. <u>Title 36 of the Code of Federal Regulations, subchapter B, parts 1220-1239</u>, "Records Management;"
- 1.3.2. The Federal Acquisition Regulation (*FAR*) 4.805, "Storage, Handling, and Contract Files;"
- 1.3.3. NARA, <u>GRS 1.1</u>, "Financial Management and Reporting Records," which maintains FMS minimum document retention requirements; and
  - 1.3.4. **DoD Instruction (DoDI) 5015.02**, "DoD Records Management Program."

#### 2.0 CONCEPTS AND REQUIREMENTS

#### 2.1 General

- 2.1.1. Maintain case files in official folders, uniformly titled, and filed by section as discussed in paragraph 3.1. When more than one file folder is required, the folders must be appropriately numbered (e.g., 1 of 2 or 2 of 2). The documents placed in each folder must be maintained in chronological sequence by section.
- 2.1.2. When a case is implemented, each implementing DoD Component must identify and direct which supporting activities are to maintain the required documentation on file. For example, a copy of the Letter of Offer and Acceptance (LOA) may be on file with several activities, while copies of contracts applicable to that case would have a more limited distribution.
- 2.1.3. Certain records associated with a case may be voluminous listings that are too large to be printed and placed in official folders. Instead of filing the listing in the folder, annotate on the General Information Cover Sheet, or within the file itself, where such electronic information is located. The purpose of filing such documents, or cross-referencing notes to such documents,

is to maintain the integrity of the case audit trail and to consider all applicable information during case execution and at case closure.

- 2.1.4. The uniform case folder, as outlined in section 3.0, lists those documents considered to be of primary relevance on a DoD-wide basis. DoD Components may also wish to include additional documents as part of the case file. The inclusion of such documents is encouraged, and it is recommended that they be filed in the form of numbered appendices following in sequence after the required sections.
- 2.1.5. The value of the uniform case folder is in maintaining a complete and accurate record for audit purposes and ensuring a standard and systematic approach to case file maintenance. With management support, it may also serve as a checklist of planned and completed actions, thereby facilitating the case execution and closure process. In addition, the existence of a comprehensive and well-maintained file facilitates supervisory reviews and brings greater efficiency to the transfer of ongoing case management responsibilities.

#### 2.2 Responsibilities

Each DoD Component, Implementing Agency (IA), and the Defense Finance and Accounting Service (DFAS), in its role as an accounting service provider, is responsible for maintaining its respective portion of the case file as required in section 3.0.

#### 3.0 UNIFORM CASE DOCUMENTATION

#### 3.1 **Documentation Requirements**

The minimum required documentation for complete and effective case management includes the following sections:

- 3.1.1. General Information Cover Sheet: see Table 6-1:
- 3.1.2. Letter of Request (LOR) Documentation: see Table 6-2:
- 3.1.3. Planning Information: see Table 6-3;
- 3.1.4. Security Assistance (SA) Survey Documentation: see Table 6-4;
- 3.1.5. FMS Contractual Instruments Documentation: see Table 6-5:
- 3.1.6. Financing Arrangements Documentation: see Table 6-6;
- 3.1.7. Financial Control Documentation: see Table 6-7;
- 3.1.8. Implementation Directives Documentation: see Table 6-8;
- 3.1.9. DSAMS and DSCA 1200 System Update Documentation: see Table 6-9;

- 3.1.10. Case Execution Documentation: see Table 6-10;
- 3.1.11. Special Logistics Documentation: see Table 6-11;
- 3.1.12. Accessorial Charges Documentation: see Table 6-12;
- 3.1.13. Government Furnished Materiel (GFM) Documentation: see Table 6-13;
- 3.1.14. FMS Billing Documentation: see Table 6-14;
- 3.1.15. Supply Discrepancy Report (SDR) Billing Documentation: see Table 6-15;
- 3.1.16. Review Information: see Table 6-16;
- 3.1.17. Case Closure Documentation: see Table 6-17; and
- 3.1.18. Reopened Case Documentation: see Table 6-18.

#### 3.2 Documentation Maintenance and Disposition

The documentation must be accumulated throughout the life of the case from inception through final case closure. IAs may retire, but not destroy, closed case file records to document storage areas upon final case closure by DFAS. DFAS may retire, but not destroy, closed case file records, including delivery listings, no earlier than one year from the date of the latest case-related correspondence with the purchaser or final case closure, whichever is later. DoD Components, IAs, and DFAS must maintain an accurate record of the location of all retired records to ensure they can be located as needed. For more detailed guidance on records retention policy, consult the appropriate DoD-appointed Federal Agency Records Officer using the link provided in subparagraph 1.1.2.

General Information Cover Sheet Table 6-1.

| General Information Cover Sheet                                  |  |  |  |
|--|--|--|--|
| 1. Case Identifier   |  |  |  |
| 2. Cognizant Personnel Information                               | A. Country/Case Manager at each level      |  |  |
| a) Name  | Major/Systems Command                      |  |  |
| <b>b</b> ) Phone number  | International Logistics Control Office     |  |  |
| c) E-mail address  | DFAS Security Cooperation Accounting (SCA) |  |  |
| <b>d</b> ) Dates of tenure, if                                   | <b>B.</b> Others as required               |  |  |
| responsibilities are transferred                                 | Inventory/Item manager focal point         |  |  |
| from one individual to another                                   | Procurement office focal point             |  |  |
| during the life of the case                                      | Troops and the point                       |  |  |
| <b>3.</b> Key planning milestones; see Figure 6-1 for an example |  |  |  |

Table 6-2. LOR Documentation

| LOR Documentation   |
|---|
| 1. LOR for price and availability data or LOA data                  |
| 2. Correspondence and other information relative to primary inquiry |

Planning Information Table 6-3.

| Planning Information   |   |  |
|--|---|--|
| 1. Price and availability/LOA data relative to the case                                      |   |  |
| 2. LOA data used to prepare the LOA  | <b>A.</b> Tasking direction                     |  |
| format   |   |  |
|  | <b>B.</b> Internal memoranda/worksheets         |  |
|  |   |  |
|  | C. Financial analysis and termination liability |  |
|  | reserve data                                    |  |
|  | <b>D.</b> Methodology for computing the payment |  |
|  | schedule reflected in the LOA                   |  |
|  | E. Pricing data (e.g., DSAMS Document Pricing   |  |
|  | Calculations Report - RP069)                    |  |
| <b>3.</b> Response(s) to foreign purchaser if initial  | ally presented in a format other than an LOA    |  |
| <b>4.</b> Correspondence related to exceptions or waivers (e.g., nonrecurring cost recovery) |   |  |

SA Survey Documentation Table 6-4.

| SA Survey Documentation               |  |
|---------------------------------------|--|
| 1. Defense Requirements Survey Report |  |
| 2. Site Survey Report                 |  |

FMS Contractual Instruments Documentation Table 6-5.

| FMS Contractual Instruments Documentation  |  |  |  |
|--|--|--|--|
| 1. Congressional notification documentation                                      |  |  |  |
| 2. LOA   |  |  |  |
| 3. Amendment(s) to the LOA   |  |  |  |
| <b>4.</b> Modification(s) of the LOA   |  |  |  |
| 5. Any memoranda of understanding or memoranda of agreement relating to the LOA, |  |  |  |
| amendments, or modifications   |  |  |  |
| <b>6.</b> Correspondence relative to internal review(s)/coordination             | <b>A.</b> Letter forwarding an advanced copy of (unsigned) LOA to purchaser pending the results of congressional review, if applicable |  |  |
|  | <b>B.</b> Letter of transmittal of countersigned LOA, if applicable  |  |  |
| 7. Correspondence/letters of transmittal to purchaser and acceptance of the LOA  |  |  |  |

Financing Arrangements Documentation Table 6-6.

| Financing Arrangements Documentation   |  |  |
|--|--|--|
| 1. Financing agreements  |  |  |
| 2. North Atlantic Treaty Organization country-to-country agreements                |  |  |
| 3. Requests and approvals for special waivers from routine loan conditions         |  |  |
| 4. FAR/Defense Federal Acquisition Regulation Supplement exception requests and    |  |  |
| approvals  |  |  |
| 5. Supporting documentation for pricing waiver requests and approvals (see DSCA    |  |  |
| Manual 5105.38-M, "Security Assistance Management Manual" (SAMM), Chapter 9, C9.6, |  |  |
| "Pricing Waivers" for waiver types and descriptions)                               |  |  |

Table 6-7. Financial Control Documentation

| Financial Control Documentation  |
|--|
| <b>1.</b> Request and Approval of <u>DoD (DD) Form 2060</u> , FMS Obligational Authority (or |
| automated system equivalent)   |
| 2. DD Form 2061, FMS Planning Directive (or automated system equivalent). See Chapter 2,     |
| Figure 2-4 for an example  |
| <b>3.</b> Expenditure authorizations   |
| 4. Documentation concerning DoD Component internal allotments or delegations of              |
| obligational and expenditure authorizations  |
| 5. Final Case Closure Worksheet, as applicable   |

Table 6-8. Implementation Directives Documentation

#### **Implementation Directives Documentation**

- 1. FMS program/case directives
- 2. Program management plans
- **3.** Implementing project directives
- **4.** Implementation letters
- **5.** Amendments or updates to #1-4

Table 6-9. DSAMS and DSCA 1200 System Update Documentation

### **DSAMS and DSCA 1200 System Update Documentation**

Copies of worksheets or other evidence that the DSAMS and DSCA 1200 systems were updated at the appropriate times

Table 6-10. Case Execution Documentation

#### **Case Execution Documentation**

- 1. Documents substantiating annual financial and logistical reconciliation (see Chapter 7)
- **2.** Documents substantiating payment schedule revisions (see Chapter 4) to include purchaser-requested schedules (and approvals)
- **3.** Purchase requests
- **4.** USG contracts with commercial vendor, to include statements of work, as applicable
- **5.** Work requests and project orders
- **6.** Reimbursable Orders. Include records management documentation as defined in Section 4 of *DoDI 4000.19*, "Support Agreements," to substantiate general terms and conditions. Also retain accepted order documentation such as Military Interdepartmental Purchase Requests (MIPR) and/or Interagency Agreements, and applicable receipt and acceptance documentation
- **7.** Assisted Acquisitions. Accepted MIPR and/or funding documentation. Copies of contract documentation and associated statements of work, as applicable
- **8.** Internal billing documentation (e.g., <u>Standard Form 1080</u>, Voucher for Transfers Between Appropriations and/or Funds; <u>DD Form 250</u>, Material Inspection and Receiving Report (or automated system equivalent); temporary duty orders/vouchers)
- **9.** Receipt document from FMS purchaser or purchaser's representative (a freight forwarder), with official purchaser signature
- **10.** Invitational travel orders
- 11. DFAS SCA-prepared Command Pay Listing (if filed in the case file folder)

Table 6-11. Special Logistics Documentation

#### **Special Logistics Documentation**

- 1. Cooperative Logistics Supply Support Arrangements FMS Order I Equity Listing
- 2. Concurrent Spare Parts listing
- **3.** Other (e.g., Air Force Security Assistance Management Integration System local management reports)

Table 6-12. Accessorial Charges Documentation

#### **Accessorial Charges Documentation**

Applicable documentation to substantiate the reporting of actual (instead of the estimated percentage) packing, crating, and handling (PC&H); transportation; port loading and unloading; and staging costs

#### Table 6-13. GFM Documentation

#### **GFM Documentation**

**Note:** The inclusion of GFM as part of a case requires special attention from a financial standpoint since the GFM becomes a part of the major item being procured. Unless this information is included as part of another section, this section should have the documentation listed in #1-3

- **1.** Listing, by contract number, of contracts under which GFM may be requisitioned by contractors
- **2.** Listing of GFM by requisition or document numbers
- **3.** Worksheets/backup data showing that PC&H and transportation costs for other than Defense Working Capital Funds items has been added to the base price of GFM

Table 6-14. FMS Billing Documentation

#### **FMS Billing Documentation**

**Note:** The detailed nature and size of this documentation may render inclusion in the case folder impractical. In such instances, it is sufficient to maintain a local record or checklist showing that the documentation and lists have been reviewed, as necessary, to monitor progress, detect errors, and perform satisfactory financial oversight.

- **1.** DD Form 645, FMS Billing Statement (or automated system version equivalent), and financial forecast attachments. Replies to purchaser requests for adjustments are filed in a subsequent section. Include any documents pertaining to special billing arrangements directly associated with the case.
- **2.** Documentation relating to delivery transactions
- **3.** DFAS SCA worksheets and correspondence maintained in the case file folder appendices
- **4.** Correspondence related to authorized exceptions to normal billing procedures

Table 6-15. SDR Billing Documentation

#### **SDR Billing Documentation**

- 1. SDRs
- **2.** Correspondence/documentation relative to such discrepancies
- **3.** DFAS SCA reply to purchaser requests for listing of adjustments

Table 6-16. Review Information

| <b>Review Information</b>            |                                       |
|--------------------------------------|---------------------------------------|
| The minutes and other correspondence | <b>A.</b> FMS implementation review   |
| resulting from:                      | <b>B.</b> Country program/case review |
|                                      | C. FMS financial management review    |

Table 6-17. Case Closure Documentation

#### **Case Closure Documentation**

- **1.** The DoD Component's case closure certification to DFAS SCA. The final DD Forms 2060 and 2061s should be on file in the "Financial Control Documents" section
- **2.** Any correspondence with DFAS SCA, or other organizations, relative to the case closure certification
- **3.** The final DD Form 645 (DFAS SCA only)
- **4.** The case closure checklist (see <u>SAMM, Appendix 7 Chapter 4, A7.C4.3</u>)
- **5.** The case closure notification sent to DFAS SCA via e-mail or fax, as well as the system generated C1I case closure transaction (see <u>SAMM</u>, <u>Appendix 7 Chapter 4</u>, <u>A7.C4.7</u>)
- **6.** A directory identifying the location of stored case records

Table 6-18. Reopened Case Documentation

#### **Reopened Case Documentation**

**Note:** This section is only operative if the case, once closed, must be reopened.

- **1.** All correspondence and data about why the case had to be reopened, including the written authorization(s) approving the reopening
- **2.** The re-finalized DD Forms 2060 and 2061s (filed in the "Financial Control Documentation" section)
- **3.** The closure certification
- **4.** The final DD Form 645

Figure 6-1. Key Planning Milestones Template

| Planned Date of Completion | Actual Date of Completion  |
|----------------------------|----------------------------|
|                            |                            |
|                            |                            |
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|                            |                            |
|                            |                            |
|                            |                            |
|                            | Planned Date of Completion |

**Note:** Other milestone plans as developed by the IAs may be used.

## **VOLUME 15, CHAPTER 7: "PRICING"**

#### **SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by bold, italic, blue, and underlined font.

The previous version dated August 2022 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION   | PURPOSE  |
|-----------|--|----------|
| All       | Updated references, hyperlinks, and terminology.   | Revision |
| 24.2      | Section 1202 of the National Defense Authorization Act for Fiscal Year 2025 amended 10 U.S. Code Section 352(e). With that update, the Naval Small Craft Instruction and Technical Training School is dedicated as a course listed in the paragraph. | Addition |

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#### **CHAPTER 7**

#### **PRICING**

#### 1.0 GENERAL

#### 1.1 Purpose

The purpose of this chapter is to establish a pricing policy for articles, services, and training and to ensure the DoD Components engaged in Security Cooperation (SC) uniformly and consistently apply pricing methodologies that recoup current period costs and a reasonable contribution to nonrecurring Research, Development, Test, and Evaluation (RDT&E) and production costs. Nonrecurring RDT&E and production costs represent historical decisions to expend RDT&E funds to develop new equipment or to purchase assets or facilities. Foreign Military Sales (FMS) customers and Building Partner Capacity (BPC) partner nations benefit from the investment decision, although it is based entirely on DoD requirements when they purchase related equipment or when the use of the assets and facilities is necessary to provide ordered services or to deliver ordered material.

#### 1.2 Authoritative Guidance

The Arms Export Control Act (AECA), Public Law 90-629, as amended, codified as Title 22, United States Code (U.S.C.) Chapter 39 (<u>22 U.S.C. Chapter 39</u>) and the Foreign Assistance Act (FAA), Public Law 87-195, as amended, codified as <u>22 U.S.C. Chapter 32</u>, provide the authority and general rules for FMS pricing policy.

#### 2.0 RESPONSIBILITIES

#### 2.1 Price Establishment

The DoD Components that sell defense articles or services under the authority of the AECA and/or the FAA must:

- 2.1.1. Ensure defense articles and services provided to FMS purchasers are priced in accordance with the policies established in this chapter; and
- 2.1.2. Establish a single selling price for defense articles and services. A single selling price includes the additional charges for nonrecurring RDT&E and production costs, costs for recurring procurement support efforts, transportation costs when the use of DoD transportation is approved, and other applicable surcharges.

#### 2.2 Price Information

The DoD Components must:

2.2.1. Ensure each price estimate provided to a FMS purchaser is a reasonable

approximation of the final price. However, the fact that an estimate is not consistent with the final cost accumulation does not negate the requirement to establish a final price (actual cost) in accordance with this chapter;

- 2.2.2. Provide detailed price and cost information upon request by the FMS purchaser. Proprietary cost and pricing data must not be disclosed unless there is prior authorization from the contractor concerned;
- 2.2.3. Present prices of defense articles and services to FMS purchasers and DoD Components in the format of FMS Letters of Offer and Acceptance (LOAs) or BPC pseudo-LOAs (unless otherwise specified, references to an LOA in this chapter apply to both types of documents). Surcharges prescribed in this chapter are subject to change without prior approval of the purchaser. The administrative surcharge applicable to each line on the LOA is to be specified in a note in each LOA document. The LOA must be used unless a waiver is obtained from the Director, Defense Security Cooperation Agency (DSCA), to use a suitable substitute instrument. Any substitute instrument must contain the same cost elements as those identified on the LOA; and
- 2.2.4. Directly cite the FMS Trust Fund (11X8242) purchaser(s) subaccount(s) on contractual documents for new procurements initiated as a result of accepted and implemented FMS LOAs. When funds are provided by another Implementing Agency (IA), when possible, coordinate to directly cite the FMS Trust Fund (11X8242) purchaser(s) subaccount(s) on contractual documents for new procurements.

#### 2.3 Transportation

The DoD Components must ensure that the transportation of material, other than Defense Working Capital Fund (DWCF) material, sold to FMS purchasers is accomplished through the use of Collect Commercial Bills of Lading (CCBL) to the maximum extent possible. When transportation is accomplished through the use of Government Bills of Lading (GBLs), including DWCF material, the GBL must be annotated to show that Interstate Commerce Act, Section 10721 (49 U.S.C. Section 10721) is not applicable and that normal commercial rates must be billed to the U.S. Government (USG) for the shipment. Refer to the DSCA 5105.38-M, Security Assistance Management Manual (SAMM) C7.6 and SAMM C15 for guidance on the use of the Defense Transportation System (DTS) in support of FMS and BPC cases.

#### 2.4 Case Management

- 2.4.1. The DoD Components must assign a case manager to each active FMS case. The case manager is responsible for the total financial and logistical aspects of the case including:
  - 2.4.1.1. Prescribed pricing policies are followed;
- 2.4.1.2. Delivery reports have been submitted to the Defense Finance and Accounting Service (DFAS), Security Cooperation Accounting (SCA) Directorate; and

- 2.4.1.3. Reconciliation of the FMS case financially and logistically throughout the life of the FMS case has occurred, and not less than annually:
  - 2.4.1.3.1. On the anniversary of each major case, and/or
  - 2.4.1.3.2. In preparation for a review with the FMS purchaser.
- 2.4.2. The case manager's authority to direct other supporting activities must be commensurate with the responsibilities in subparagraphs 2.4.1.1-3. Refer to <u>SAMM C2</u> for additional discussion on case management responsibilities.

#### 2.5 Buy Back

The DoD Component must ensure that the USG "buy back" of items from foreign governments initially sold under FMS programs is conducted in accordance with procurement rules involving the obligation of DoD appropriations. Monies due as a result of such procurement may be paid by the DoD Payment Activity into the FMS Trust Fund in accordance with the foreign government's instructions (e.g., applied to a case or a cash refund). The FMS purchaser's "buy back" holding account is used as an audit trail for the transaction. A direct exchange is permitted for a reparable item of the same type under certain circumstances (see subparagraphs 15.2.2.2-3).

#### 3.0 ESTIMATING PRICES AND BILLED VALUES FOR AN LOA

FMS pricing policy for an LOA stipulates how costs are determined when the FMS purchaser is billed and establishes how to develop a price estimate. An essential difference between the billed price and the estimated price on an offer is the degree of firmness associated with each pricing method. 22 U.S.C. § 2751 states that sales are approved only when they are consistent with the foreign policy interest of the United States and the purpose and principles of the United Nations Charter.

#### 3.1 Pricing Requirements

- 3.1.1. <u>Defense Articles and Services from Stock</u>. <u>Title 22 U.S.C. § 2761(a)(1)</u> states that a foreign country or international organization pays in U.S. dollars for:
- 3.1.1.1. Defense articles not intended to be replaced at the time a sales agreement is entered into, not less than the actual value;
- 3.1.1.2. Defense articles intended to be replaced at the time a sales agreement is entered into, the estimated cost of replacement of such article, including the contract or production costs less any depreciation in the value of such article; or
- 3.1.1.3. Defense services, for the full cost to the USG of furnishing such service, except in the case of training sold to a purchaser under the terms in paragraph 21.1. In this latter case, only those additional costs that are incurred in furnishing such assistance must be recovered.

- 3.1.2. <u>Charges Applicable to the Sale of Defense Articles or Services</u>. Title 22, U.S.C. § 2761(e)(1) states that the selling price must include appropriate charges for:
- 3.1.2.1. Administrative services, calculated on an average percentage basis to recover the full estimated costs (excluding a pro rata share of fixed base operations costs) of administration of sales made to all purchasers of such defense articles and services as specified in 22 U.S.C. § 2792(b) and (c);
- 3.1.2.2. A proportionate amount of any nonrecurring costs (NC) of Research and Development (R&D) and production of major defense equipment (MDE), except for equipment wholly paid for either from U.S. military assistance funds under 22 U.S.C. § 2311(a)(3), or from U.S. credit funds made available on a non-repayable basis under 22 U.S.C. § 2763; and
- 3.1.2.3. The recovery of ordinary inventory losses associated with the sale of defense articles that are being stored at the expense of the purchaser of such articles.
- 3.1.3. <u>Price of New Procurement</u>. <u>22 U.S.C. § 2762</u> requires eligible countries or international organizations to pay the full amount of the contract and any damages and costs that may accrue due to the cancellation of such contracts (termination liability) when the USG enters into a contract for a new procurement on their behalf. Payment to the USG by the foreign country or international organization must be in U.S. dollars.
- 3.1.4. <u>Price of Design and Construction Services</u>. <u>22 U.S.C. § 2769</u> requires that foreign countries or international organizations pay the full cost of design and construction services and any damages and costs that may accrue due to the cancellation of such contracts when the USG enters into a contract for design and construction services on their behalf.

#### 3.2 LOA Values

On the LOA, the estimated price is to be a reasonable approximation of the amount that will ultimately be billed, including the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) inflation indices and other factors. Amounts to be placed on the LOA, except unit price, will be rounded to the next whole dollar. LOAs are written either as a defined order, blanket order, or as a Cooperative Logistics Supply Support Agreement (CLSSA). Pricing for each type of LOA requires special treatment. Moreover, an LOA may involve lines that are defined order or blanket order, while CLSSA cases have no other lines. An LOA must include only prices for defense articles and services sold to FMS purchasers and must not be adjusted for any reason other than authorized by this chapter (such as for inflation or for contingencies).

- 3.2.1. <u>Defined Order LOAs</u>. Defined Order LOAs are for specified defense articles or services and are usually written for the acquisition of systems. Orders are normally placed by the IA following LOA implementation.
- 3.2.1.1. <u>Cost Estimates</u>. IAs involved in procuring such systems should have available estimates of the expected costs as the basis for developing the FMS price. These estimates, however, must be validated for the configuration to be delivered. Additional charges

detailed in other sections of this chapter must also be applied. When developing estimates for weapon systems in different configurations than those for which IA estimates are available, the IA should obtain contractor estimates for the different configurations.

- 3.2.1.2. <u>Inflation</u>. When a price estimate must be inflated for delivery of a weapon system several years in the future, OUSD(C)-published inflation indices must be used. If other price inflation or alternate OUSD(C)-published factors apply, those factors must be documented in case files and justified to OUSD(C) for approval before finalizing LOAs.
- 3.2.2. <u>Blanket Order LOAs</u>. Blanket Order LOAs are for categories of defense articles or services with no definitive listing of items or quantities to be provided.

#### 3.2.2.1. Cost Estimates

- 3.2.2.1.1. For hardware support items, the price developed may be based on either a computer listing of specified parts or a percentage of the cost of the major system to be supported. In other instances, the price on the LOA may simply be a dollar value line to enable the purchaser to requisition those items up to the dollar ceiling in the Letter of Request. In the latter case, the amount written into the LOA can rely in part on the estimated activity in the country's program.
- 3.2.2.1.2. In developing a price for LOA purposes where a blanket order is involved, the source of supply might not be known. In this case, certain assumptions must be made. For example, in writing a blanket order case for spare parts for an aircraft, an agency may have to make assumptions about the source and value of items in order to estimate various pricing elements. This allows the analyst to apply the appropriate costs and charges. At the time of the billing for delivery of an item charged to the case, the appropriate surcharges must be applied by DFAS SCA in accordance with Chapter 8. Agencies that have developed an ordering history for certain countries or weapon systems may be able to develop a ratio for items using procurement data and items from stock that enable a more precise application of surcharges for the estimate.
- 3.2.2.2. <u>Inflation</u>. When developing a price for items to be delivered beyond the period for which pricing data is available, it will be necessary to apply inflation factors as in defined order cases.
- 3.2.3. <u>CLSSA</u>. CLSSA LOAs are designed to provide responsive and continuous supply support at the depot level for U.S.-made military material possessed by foreign countries and international organizations. CLSSAs are normally the most effective means for providing common repair parts and secondary item support for equipment of U.S. origin that is in allied and friendly country's inventories. Pricing for CLSSA LOAs must be estimated per section 8.0.

#### 3.3 Billing Values

On the DoD (DD) Form 645, FMS Billing Statement, or automated equivalent, the price, at the point in time when actual costs are known and reported to DFAS SCA, should be firm and

exact (the exception being "E" (Estimated) price code transactions). The billed cost (except when a rounded dollar indicator code is utilized) is detailed in dollars and cents.

#### 4.0 ACCESSORIAL COSTS

Accessorial costs represent certain expenses incidental to issues, sales, and transfers of material that may or may not be included in the standard price or contract cost of material. The various types of accessorial costs that may be applicable to FMS shipments include packing, crating, and handling (PC&H); transportation; port loading and unloading; and staging.

#### 4.1 PC&H

PC&H includes the costs incurred at DoD facilities for labor, materials, or services in removing requisitioned articles from storage locations, preparing them for shipment from the storage or distribution points, and processing necessary material release confirmation documents.

- 4.1.1. PC&H costs will be based on the original acquisition value of material sold from DoD inventories to recover the cost, except for DWCF items delivered after October 1, 1990, since DWCF standard pricing already includes PC&H. PC&H will not be assessed on articles shipped directly from the manufacturer since no in-house DoD labor, materials, or services are involved. Actual costs should be used when known. If actual costs are not available or are not cost effective to obtain, a surcharge rate can be used. Prescribed PC&H rates are:
- 4.1.1.1. A PC&H rate of 3.5 percent is added to the original acquisition value of material with a unit price of \$50,000 or less (<u>SAMM C9.T4</u>); and
- 4.1.1.2. An additional charge added at a rate equal to 1 percent of that portion of the original acquisition value of material with a unit price over \$50,000 (SAMM C9.T4).
- 4.1.2. The PC&H charge for service/maintenance cases is applied to the acquisition cost of the item(s) sold or serviced, not the cost of the service. The rate(s) in subparagraphs 4.1.1.1-2 apply.
- 4.1.3. For items, PC&H is computed on the original acquisition value and not the reduced value. Actual costs should be used when known.
- 4.1.4. For pricing blanket order lines on LOAs, use 3.5 percent on the line value since the unit price is unknown.

#### 4.2 Transportation

Transportation costs include DoD-supplied or DoD-financed transportation (land, air, inland and coastwise waterways) within and outside the United States, and overseas transportation by vessel or air. This includes parcel post via surface or air.

- 4.2.1. <u>Non-DWCF</u>. The transportation of FMS material must be on CCBLs to the maximum extent possible. When transportation is accomplished using a GBL, it must show that 49 U.S.C. § 10721 is not applicable and that normal commercial rates must be billed to the USG for the shipment. Shipping activities must clearly identify the material as DWCF or non-DWCF to ensure the appropriate fund cite is issued for inland Continental United States (CONUS) transportation.
- 4.2.2. <u>DWCF</u>. Effective October 1, 1990, DWCF standard pricing includes transportation costs within CONUS. If the first destination transportation is accomplished through GBLs, it must contain the DWCF fund cite, and show that 49 U.S.C. § 10721 is not applicable and that normal commercial rates must be billed to the USG for the shipment. Shipping activities must clearly identify the material as DWCF or non-DWCF to ensure the appropriate fund cite is issued for inland CONUS transportation.
  - 4.2.3. <u>Pricing Transportation</u>. Price transportation on LOAs as follows.
- 4.2.3.1. <u>Above-the-Line Transportation Services</u>. When FMS purchasers use DTS, an estimated amount is placed above the line to pay for transportation services that are not appropriate to be funded with below-the-line estimates. Examples of these transportation services include premium transportation such as Special Assignment Airlift Mission flights, securing a vessel for a one time only shipment, staging cost for consolidating shipments, Radio-Frequency Identification tagging and tracking devices, special security (guards hired to escort the shipment), and other unique requirements.
- \* 4.2.3.2. <u>Below-the-Line Transportation Services</u>. When FMS purchasers use DTS, a Delivery Term Code (DTC) percentage is applied to the line to compute an estimated amount for these costs on the LOA. DTC percentages are based on the mode of transportation provided (e.g., port-to-port, depot-to-in-country destination) and the rate area where articles are being delivered. For more information on DTC percentages, see the <u>SAMM C7</u>. Pursuant to <u>DSCA Policy Memorandum 20-47</u>, "Department of Defense Appropriated Building Partner Capacity (BPC) Accounting Interim Solution," dated September 29, 2020, effective fiscal year (FY) 2021, all new BPC cases funded with Title 10, U.S.C. authority must not include any indirect, or below-the-line, charges. All indirect charges are excluded from these cases and will be paid for through a separate program-wide support case or funded via a Funding Authorization Document coordinated through the applicable supporting entity.
- 4.2.3.3. Exception. The DoD Components must apply estimated actual totals contained in the <u>SAMM, Transportation Cost Look-Up Tables, Appendix 2</u>, to estimate transportation costs for items normally shipped in DTS (e.g., sensitive/hazardous end items) when costs using standard transportation percentages are significantly different from actual charges.
- 4.2.3.4. <u>Items</u>. For items, transportation is computed on the original acquisition value and not the reduced value, except when accountability for excess items has been transferred to "Property Disposal." The provisions of the <u>DoD Manual (DoDM) 4160.21</u>, "Defense Material Disposition: Reutilization, Transfer, and Sale of Property," Volume 3 must apply. The use of actual costs, when known, is highly encouraged.

#### 4.3 Port Loading and Unloading Costs

Port loading and unloading costs include DoD-supplied or DoD-financed labor, materials, or services for loading, unloading, and handling at ports of embarkation or debarkation.

#### 4.4 Staging

The actual costs of staging must be recovered as part of an above-the-line service charge. Such charges must not be duplicative of any other accessorial cost.

- 4.4.1. Costs for the staging of material in CONUS DoD (non-DWCF owned/operated) facilities are additional to DTS costs, and a 3 percent staging charge is applicable, if DSCA has authorized below-the-line recoupment of staging.
  - 4.4.2. DWCF activities must bill actual costs incurred as an above-the-line service.
- 4.4.3. When non-excess material is supplied for DoD storage points located Outside CONUS (OCONUS), the applicable rates must be charged as a prepositioning cost.

#### 5.0 FMS ADMINISTRATIVE SURCHARGE

An administrative surcharge must be added to all FMS cases (unless waived pursuant to legal authority, see section 13.0) to recover DoD expenses. SAMM C9.T4 gives further guidance on the current FMS administrative surcharges and how they are applied.

#### 5.1 Prescribed Standard FMS Administrative Surcharge

5.1.1. FMS Administrative Surcharge. The applicable FMS administrative surcharge is dependent upon variables associated with the LOA. For cost increases within the scope of the LOA, modifications retain the FMS administrative surcharge rates associated with the lines modified. With respect to contracts issued in support of an LOA, a within-scope change is a unilateral change to the general scope of the contract, subject to the applicable changes clause. A within-scope change to the contract includes but is not limited to, cost growth, or an equitable price adjustment such as cost overruns, a Period of Performance (PoP) extension granting the contractor additional time to complete the deliverables specified in the existing Statement of Work, or a change in PoP due to excusable delays beyond the control of the contractor and without the fault or negligence of the contractor. A change in scope occurs when there is a material change to the product or service from the requirements of the original purpose of a case line or note changes. A material change to a supporting contract to an LOA can include changes that exceed the scope of the original contract by adding new work through an increase to the total estimated cost of the contract as a result of increases or changes to the specification (form, fit, function/type of work), increases in quantity, increase in the number of hours worked/deliverable services, or an increase to the time of performance/extending the PoP. DSCA will determine within-scope and scope changes for USG-provided goods and services. DSCA will coordinate and consult with the cognizant contracting officer to determine within-scope and scope changes for contractorprovided goods and services. See SAMM C6.7 for additional guidance on Amendments and

Modifications. When an amendment adds a new line to an existing FMS case, or changes the scope of the LOA, the FMS administrative surcharge rate in effect at that time is applied. The following FMS administrative surcharge rates are applicable for LOA standard cases/lines and for the periods shown.

- 5.1.1.1. <u>Effective June 1, 2018</u>. A uniform 3.2 percent FMS administrative surcharge is effective for all new LOA lines accepted by the purchaser on or after June 1, 2018.
- 5.1.1.2. <u>November 1, 2012 May 31, 2018</u>. A uniform 3.5 percent FMS administrative surcharge was used for all new LOA lines accepted by the purchaser during this period.
- 5.1.1.3. <u>August 1, 2006 October 31, 2012</u>. A uniform 3.8 percent FMS administrative surcharge rate was used for all new LOA lines accepted by the purchaser during this period. Program Management Lines were no longer applicable to new cases accepted on or after this date. USG services, over or above those covered by the FMS administrative surcharge, were provided on well-defined line items. All cases accepted on or after August 1, 2006 through October 31, 2012, collected a minimum charge to ensure sufficient funds to prepare and implement each case by including small case management lines (SCML). The FMS administrative surcharge rate is not applied against the SCML. This application was suspended for cases accepted, implemented, or decreased on or after July 3, 2012. Refer to the <u>SAMM C9.4.7</u> for specific information concerning the application of the SCML.
- 5.1.1.4. <u>June 1, 1999 July 31, 2006</u>. A uniform 2.5 percent FMS administrative surcharge rate was used for standard LOA lines implemented during this period. See 5.1.3 for nonstandard lines.
- 5.1.1.5. October 1, 1977 May 31, 1999. A uniform 3 percent FMS administrative surcharge rate was used for standard LOA lines implemented during this period. See 5.1.3 for nonstandard lines.
- 5.1.1.6. <u>March 10, 1977 September 30, 1977</u>. A uniform 2 percent FMS administrative surcharge rate was effective for LOAs signed by the IA during this period.
- 5.1.1.7. <u>January 29, 1970 March 9, 1977</u>. A 2 percent FMS administrative surcharge rate was applied during this period, unless the supplying Military Department determined that the rate was either insufficient or in excess of actual administrative expenses, for any single FMS case. The use of actual FMS case administrative expenses was authorized.
- 5.1.2. <u>Supply Support Arrangements</u>. An FMS administrative surcharge of 5 percent must be added to the basic sales price of the initial on-hand portion of CLSSA. See paragraph 8.3 and SAMM C9.T4.
- 5.1.3. FMS Administrative Surcharges for Nonstandard Articles and Services. For case lines accepted prior to August 1, 2006, an FMS administrative surcharge rate of 5 percent must

be added to the basic sales price of LOA lines for nonstandard articles and services. However, the standard rate in effect must be applied under the following circumstances:

- 5.1.3.1. A contractor is designated as the source of supply in lieu of a DoD Component performing additional work for the nonstandard articles and services, or
- 5.1.3.2. A case/program management line is included in the LOA that specifically recovers costs associated with the tasks performed in support of the sale of nonstandard articles or services.

#### 5.2 DoD Component Administrative Expenses

Administrative services cost calculations (as identified in paragraph 3.1) of component Security Assistance (SA) direct and indirect costs must include a pro rata share of manpower and contractor-provided support costs for SA administrative functions. The DoD Component administrative support costs must not include costs prescribed in Volume 15 as above-the-line costs, nor should the costs include DoD mission costs. See <u>SAMM C9.4</u> for case-related manpower functions and appropriate funding sources.

- 5.2.1. The personnel portion of actual administrative expenses must include a pro rata share of those personnel performing and supporting SA duties. This same measure applies to contractor-provided support for SA administrative functions. These functions may be indirect (e.g., support across multiple purchasers/cases) or direct (e.g., support to a specific case or program).
- 5.2.2. DoD organizations that provide general administrative support to SA programs must recoup the full cost (excluding a pro rata share of fixed base operations costs) to provide such support.

#### 5.3 FMS Administrative Surcharge on Cases Closed at Reduced or No Value

- 5.3.1. For any case that is closed, the USG will retain funds to pay for estimated administrative costs associated with the case, even if no articles or services have been delivered (\$0 delivered value). The minimum, nonrefundable amount will be the value when combining the SCML (if applicable) and the FMS administrative surcharge value; one-half of the FMS administrative surcharge estimated on the case; or the standard FMS administrative surcharge percentage of the expended value, whichever is greater. See <u>SAMM C6.8</u>.
- 5.3.2. DSCA Office of Business Operations (OBO) may approve reductions to the minimum nonrefundable amount when it can be clearly shown that the actual values of administrative costs on the case are less than the minimum nonrefundable amount, or if the case is canceled for the convenience of the USG.
- 5.3.3. Case Managers wishing to request that a case be closed at \$0 articles and/or services value, must contact DSCA OBO for approval. The DSCA OBO reply is sent to the Case Manager and DFAS SCA.

- 5.3.4. Cases canceled for the convenience of the USG may not incur an administrative cancellation fee but require the amount of the FMS administrative surcharge assessed to be approved by DSCA OBO.
- 5.3.5. For cases with an ordered value greater than or equal to \$25,000,000, and closing at \$0 delivered articles and/or service value, the IA will submit a recommended, nonrefundable FMS administrative surcharge amount to DSCA OBO for approval.

#### 5.4 Waived FMS Administrative Surcharge

- 5.4.1. General. Normally, the amount of the FMS administrative surcharge that has been waived or reduced for a particular FMS case, pursuant to statute, must be reimbursed to the FMS administrative surcharge account. For such reimbursements, the IA (which is the proponent of the case on which the charge has been waived) must obligate its current available appropriations for the full amount being waived when the case is implemented. DFAS SCA calculates the amount of the earned FMS administrative surcharge on cases with waived administrative surcharge and submits quarterly billings to the appropriate IA.
- 5.4.2. <u>Funds Control</u>. The LOA package for cases with waived FMS administrative surcharge must cite the authority, dollar amount waived, and obligating document number in a case note. The IA must include a copy of the certified document committing the funds as part of the LOA coordination package. See Volume 14 for guidance on the administrative control of appropriations.

#### 6.0 LOGISTICS SUPPORT CHARGE (LSC)

LSC was applicable to material and services identified on the Military Articles and Services List, excluding DWCF material. LSC was assessed at 3.1 percent of the articles and services reported delivered on or after April 1, 1987 and prior to October 1, 2007. The SAMM C9.T4 explains the elimination of the LSC and how to treat prior year LSC charges.

#### 7.0 PROGRAM MANAGEMENT SERVICES

#### 7.1 Level of Service

- 7.1.1. <u>FMS Administrative Surcharge Funded Manpower</u>. There is a certain level of routine support provided to an FMS customer in each case. Costs associated with this workload are captured via the assessed FMS administrative surcharge.
- 7.1.2. LOA Funded Manpower. An IA may determine there are additional services directly related to the defense articles or services being provided, that are over or above the routine level of support generally provided to an FMS customer. These costs may be included on an FMS case as an above-the-line cost at the request of the FMS purchaser, or by the USG, based on the analysis of what will be required to successfully implement and execute the requested program/case. An auditable methodology must be used to document all costs included on these lines.

- 7.1.3. <u>DoD Component Operating Funds</u>. In accordance with OUSD(C) Memo, "Budget Policy on use of DoD Component Operating Funds in Support of Foreign Security Forces," Military Departments have the responsibility to develop, maintain, and institutionalize the capabilities of Service members and DoD Expeditionary Civilian personnel to support DoD efforts to organize, train, equip, and advise foreign military forces and relevant supporting institutions. DoD Components are to budget in their operating accounts all costs for DoD military and civilian personnel in Afghanistan, Iraq, and other countries, as well as reach back support, encompassed by DoD Assistance Appropriations.
- 7.1.3.1. Costs include but are not limited to: military pay, special pay, transportation, pre-deployment training and training in theater, forward base operating costs, life support, communications, vehicle maintenance, program management, and contracts for linguists, logistics, security, and infrastructure needed to support such DoD personnel in-country.
- 7.1.3.2. Where the Military Department has discretion, as a matter of budget policy, the following activities will be budgeted and paid from DoD Assistance Appropriations and not budgeted or paid from DoD Component operating accounts:
- 7.1.3.2.1. In circumstances where DSCA provides services pursuant to the Economy Act to the organization designated by the Secretary of Defense or Deputy Secretary of Defense to have management responsibility for the DoD Assistance Appropriation (Managing Organization), amounts from such DoD Assistance Appropriation will be used to reimburse DSCA for its administrative expenses in providing the ordered services;
- 7.1.3.2.2. In circumstances where the Multi-National Aviation Special Project Office (MASPO) provides services pursuant to the Economy Act to the Managing Organization, amounts from such DoD Assistance Appropriation will be used to reimburse MASPO for the actual costs of the procurement, sustainment, and technical support services;
- 7.1.3.2.3. In circumstances where the U.S. Army Corps of Engineers (USACE) provides services to the Managing Organization, amounts from such DoD Assistance Appropriation will be used to reimburse USACE for its project design, contract preparation and award, and supervision and administration expenses in providing the ordered services;
- 7.1.3.2.4. In circumstances where an organization funded by a DWCF provides supplies or services pursuant to <u>10 U.S.C. § 2208</u> to the Managing Organization, amounts from such DoD Assistance Appropriation will be used to pay the working capital-funded organization for the costs of providing the ordered supplies or services;
- 7.1.3.2.5. In circumstances where the Managing Organization arranges for a member of an eligible foreign security force to receive education or training at a U.S. Service

school, amounts from such DoD Assistance Appropriation will be used to reimburse the Service school at the lowest rate charged to other foreign countries; and

7.1.3.2.6. In circumstances where the Managing Organization arranges for a member of an eligible foreign security force to attend a U.S. Service Academy, amounts from such DoD Assistance Appropriation will be used to reimburse the U.S. Service Academy at the lowest rate charged to other foreign countries, unless reimbursement for the cost of attendance is waived pursuant to  $10 \text{ U.S.C.} \S 347(a)(6)(B)$ .

#### 7.2 Cost Allocation

DoD Components must ensure that each type of cost is allocated only once and only on one basis to an FMS case. Additional discussion on consistency in allocating costs incurred for the same purpose is contained in Volume 4. Care must be taken to ensure against "double charging" for the same costs. The FMS Case-Related Manpower Functions and Funding Source Manpower Matrix (<u>SAMM C9.T2</u>) describes in detail the manpower functions that may be funded on FMS cases and the funding source for those related costs.

#### 8.0 CLSSA

#### 8.1 CLSSA Management

<u>DoD Instruction (DoDI) 2010.06</u>, "Material Interoperability and Standardization with Allies and Coalition Partners," and the <u>SAMM C5.4.3.3</u> prescribe the policies and criteria for establishing CLSSAs. CLSSAs provide for the execution of Foreign Military Sales Orders (FMSO) covering stock, consumption, and storage. Two FMS cases are required for supply support arrangements, an FMSO I case and an FMSO II case. Both cases must be executed in order for FMS requirements to be anticipated and to be satisfied on an equal footing with U.S. requirements.

#### 8.1.1. FMSO I

8.1.1.1. The FMSO I case is subdivided into two parts: Part A represents the on-hand portion of the inventory (normally 5 months), and Part B represents an on-order dependable undertaking (normally a 12-month period). In unusual circumstances, it may be determined that the 5-month on-hand and 12-month on-order levels are inappropriate for the particular equipment being supported. In these circumstances, the on-hand and on-order requirements may be adjusted to more realistically reflect DoD on-hand and on-order levels for the items being supported; a renegotiation of the CLSSA may be necessary. The office that developed the CLSSA must retain documentation in support of such determinations.

8.1.1.2. For new FMSO I cases accepted on or after September 20, 2005, the on-hand portion of the inventory list will be 30 percent of the total investment/equity list. For FMSO I cases accepted prior to September 20, 2005, the on-hand portion of the inventory list will remain at 5/17 of the total investment/equity list.

8.1.2. <u>FMSO II</u>. The FMSO II case represents the foreign purchaser's anticipated yearly consumption under CLSSA.

#### 8.1.3. Cash Requirements

- 8.1.3.1. Cash paid on acceptance of the FMSO I should equal the Part A on-hand portion of the inventory and administrative surcharge. The cash required to liquidate obligations incurred with suppliers for the on-order portion is the cash paid by the purchaser in connection with the FMSO II case and, in turn, creates a new order received and recreates obligational authority (OA) back to the FMSO I.
- 8.1.3.2. If the amount of progress payments required by the IA varies by more than 10 percent of the Part A value, the DoD Component must:
- 8.1.3.2.1. Amend the case to bring the Part A value in line with the DoD Component progress payment requirement; or
  - 8.1.3.2.2. Request additional progress payments to equal the Part A value.
- 8.1.3.3. Cash to cover requisitions is paid in advance of each quarter covered by the case. The cycle of obligation, acquisition, requisition, issuance, and payment can be summarized as follows:
- 8.1.3.3.1. The FMSO I, Parts A and B, grant the DoD Components OA up to the case amount;
- 8.1.3.3.2. The cash provided under the FMSO I, Part A, finances the on-hand inventory;
- 8.1.3.3.3. Requisitions made by the purchaser are filled from the on-hand inventory;
- 8.1.3.3.4. Replenishment of on-hand inventory is made from contracts awarded under OA granted by the FMSO I, Part B;
- 8.1.3.3.5. Payments to contractors are made from funds provided in accordance with the FMSO II terms; and
- 8.1.3.3.6. Liquidation of obligations by payment to contractors in effect recreates OA granted by the FMSO I, Part B, and the cycle commences again.

#### 8.1.4. OA

8.1.4.1. The entire amount of the FMSO I case represents OA. Normally, no cash billings are required against the FMSO I, Part B, unless the CLSSA is either partly or wholly terminated. The FMSO II case provides OA only to the extent purchaser orders are received.

Thus, proper working of the FMSO I and II should result in a constant 12 months of OA in the applicable appropriation or fund account, never more or less, after the on-hand inventory of the FMSO I, Part A, has been acquired.

- 8.1.4.2. The cash and OA derived from the FMSO I and FMSO II are to be transferred to the commodity command or supply agency that is expected to provide supply support to the foreign country. This command or supply agency must use such cash and OA to increase stock and on-order quantities in anticipation of requisitions from the country that entered into the CLSSA.
- 8.1.5. Both parts of the FMSO I provide OA equal to its value in the DoD Component activity giving the supply support to the purchaser.

### 8.2 General Pricing

Use the pricing requirements in subparagraph 15.2.2 to price CLSSA cases.

#### 8.3 FMS Administrative Surcharge

8.3.1. <u>FMSO I (Part A)</u>. A one-time nonrefundable, administrative surcharge of 5 percent must be charged on the on-hand portion (Part A) of the FMSO I case. For amendments that decrease the value of the on-hand portion (Part A), there must be no adjustment made to the administrative surcharge. However, for amendments that increase the value of the on-hand portion (Part A), the 5 percent nonrefundable administrative surcharge must be charged on the total value of the increase. The following is an example of the administrative fee computation:

| Document  | Revised<br>On-Hand<br>Material Value | Increase or (Decrease)<br>to Previous On-Hand<br>Material Value | 5% Admin Fee<br>Charge on<br>Increase | Admin Fee<br>Accrued<br>Expenditures |
|-----------|--------------------------------------|---|---------------------------------------|--------------------------------------|
| Basic LOA | \$3,000,000                          | \$3,000,000   | \$150,000                             | \$150,000                            |
| Amend 1   | 4,000,000                            | 1,000,000   | 50,000                                | 200,000                              |
| Amend 2   | 2,000,000                            | (2,000,000)   | N/A (Decrease)                        | 200,000                              |
| Amend 3   | 3,000,000                            | 1,000,000   | 50,000                                | 250,000                              |
| Amend 4   | 5,000,000                            | 2,000,000   | 100,000                               | 350,000                              |
| Amend 5   | 4,000,000                            | (1,000,000)   | N/A (Decrease)                        | 350,000                              |

8.3.2. <u>FMSO I (Part B)</u>. No administrative surcharge will be charged on the on-order portion (Part B) of the FMSO I case. The current administrative surcharge (3.2 percent) must be charged on requisitions processed under FMSO II cases. If an FMSO I agreement is terminated, the current administrative surcharge must be charged for the inventory over and above the on-hand portion of the case. There must be no additional surcharge on the on-hand portion of the case since the purchaser has made advance payment of the administrative charges applicable to this portion of the case.

# 8.4 Storage Costs

There is no annual inventory maintenance and storage charge for DWCF items for CLSSAs, as the DWCF standard (stabilized) price recoups all costs. For non-DWCF items, storage fees must be charged, on the value of stored assets, based on the on-hand portion of the FMSO I. The annual storage fee is 1.5 percent. For cases not remaining open for a full year, a fee of 0.125 percent per month must be charged (SAMM C9.T4).

# 8.5 Normal Operating Inventory Loss

The standard prices paid by the foreign government for the stock level of DWCF items already include a surcharge for estimated normal operating losses in storage.

# 8.6 Unusual Inventory Loss

Stock losses due to enemy action, major disaster, or other casualty from a natural phenomenon must be assessed against the foreign government in an amount proportionate to the ratio that the value of its stock case bears to the total value of stocks in storage.

## 8.7 Obsolete Material

- 8.7.1. Obsolete or Excess to the United States. If an item becomes obsolete or excess to the United States but not to the foreign government, the United States may request the foreign government to withdraw its undelivered quantity of the item. Additional quantities may be offered to the foreign government at fair value prices (see subparagraphs 15.3.1-2).
- 8.7.2. Obsolete or Excess to the Foreign Government. If items become obsolete or excess to the requirements of the foreign government but not to the United States, the foreign government may request the United States to consider cancellation of its order and to apply its equity in the undelivered quantity to subsequent orders for other items. If cancellation is not agreed to, arrangements must be made for the United States to dispose of the material and credit the net proceeds to the foreign government. If the United States has a need for the material, credit the stock level for the return of the material to U.S. stocks in accordance with departmental procedures.
- 8.7.3. Obsolete or Excess to the United States and Foreign Government. If items become obsolete or excess to the requirements of both the United States and the foreign government, arrangements must be made for the United States to dispose of the material, and the proportional share of the net proceeds of sale must be credited to the foreign government.

# 8.8 Purchaser Equity

CLSSAs are written in terms of an absolute dollar amount of support to be provided under the arrangement. A listing of the specific items required to support the weapon system is not developed. Under this "dollar value" concept, the FMS purchaser's equity must remain valued at the cash deposited for the FMSO I. Upon termination, a review must be made of the foreign country's demand data for specific items. When demand data results in the procurement of stock

above the DoD-approved retention levels, the foreign country must be informed that applicable stocks owned by that country must be drawn down or that a settlement agreeable to both parties must be reached.

## 9.0 STORAGE, REPAIR, OR MODIFICATION OF PURCHASER-OWNED MATERIAL

## 9.1 Storage

Costs applicable to the storage of purchaser-owned articles include the functions of receiving, care and preservation, set assembly and related activities, and overhead operations (such as re-warehousing, maintenance of operating equipment, physical inventories, and cleaning areas).

- 9.1.1. Storage charges are applicable to the non-DWCF, on-hand portion of FMSO I cases, cases on which DoD is ready to deliver applicable items, but the purchaser has requested to delay delivery, and cases on which DoD cannot deliver due to legal or policy restrictions.
- 9.1.2. Charges commence 15 days following the date of availability (there is no annual inventory maintenance and storage charge for DWCF items for CLSSAs, as the DWCF standard (stabilized) price recoups all costs).
- 9.1.3. A uniform DoD annual rate of 1.5 percent or 0.125 percent of the average monthly value of purchaser-owned material will be charged to applicable FMS cases to recover an activity's storage cost unless a separate charge is negotiated with the storage facility.
- 9.1.4. A separate line on the LOA(s) should capture the storage-related costs. If this line did not previously exist, it can be added via an LOA modification.

## 9.2 Repair or Modification

When a foreign government requests the repair and/or modification of items from non-DWCF activities, the actual or estimated cost of the work will be priced on a job order basis or through the contract procurement process. An illustration of price computation is in Exhibit 7-1.

- 9.2.1. Labor costs will be computed in accordance with section 20.0.
- 9.2.2. Materials and supplies obtained from the military supply system stocks will be priced in accordance with section 15.0.
- 9.2.3. Materials, supplies, or services obtained directly from contractors will be priced in accordance with section 16.0.
- 9.2.4. Transportation and related costs incurred in the movement of the materials and supplies used during repair and/or modification must be priced in accordance with paragraph 4.2. See subparagraph 4.2.2 for treatment of DWCF material.

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- 9.2.5. Indirect labor, materials, and contractual services will be priced in accordance with the guidance in this chapter and allocated to job orders.
- 9.2.6. Appropriate incoming and outgoing transportation costs related to FMS equipment or material processed by repair or overhaul facilities will be paid by the FMS purchaser. If the repair facility ships the repaired item to the purchaser, then the transportation costs must be charged to the FMS case.

# 9.3 FMS Administrative Surcharge

The FMS administrative surcharge must be applied to all direct and indirect costs billed in connection with storage, repair, and/or modification.

# 9.4 Special Instructions Applicable to DWCF Activities

DWCF activities must charge approved DoD stabilized rates and prices for defense articles and services in support of FMS cases. Material funded by DWCF, including depot-level reparables, must be priced at the standard (stabilized) price in effect at the time the item is dropped from inventory or at the net/exchange price, if applicable, for a direct exchange transaction. The standard (stabilized) price or rate charged to FMS purchasers of DWCF activities for defense articles and services must be adjusted to include an amount for unfunded civilian retirement (UCR) and post-retirement health benefits costs in accordance with paragraph 20.5.

## 10.0 USE OR EXPANSION OF DOD FACILITIES AND EQUIPMENT

All costs of construction, or expansion of facilities, desired by and for the exclusive use of the foreign government must be financed and funded by the foreign government. Charges by the USG for labor, material, or services must be reimbursed in accordance with the provisions of sections 15.0 and 20.0. Any expansion of facilities or equipment required for DoD use, which may also be available for FMS, must be funded through the normal DoD budget process.

## 10.1 Reimbursement of Proportionate Share

In addition to the costs identified in paragraph 10.0, a proportionate share of operating costs must be reimbursed.

#### 10.2 Work at DoD Test Facilities and Laboratories

Case and line managers must inform performing activities when work requested at DoD test facilities and laboratories involves FMS. Work is priced to ensure full reimbursement of direct, indirect, and overhead costs to the test facility or laboratory for the FMS effort.

## 10.3 Embedded Computer Software (ECS) Facilities

10.3.1. ECS support is normally supplied through a services case (or line) of a system sale. A requirement for a new facility, or augmentation of an existing facility, that is funded by the FMS

purchaser is incidental to the service. Regardless of the costs charged to an FMS purchaser for the use or augmentation of a facility, DoD owns and operates the facility.

10.3.2. Software support may be supplied by a separate facility dedicated to FMS or from a facility supporting both DoD and FMS programs. The FMS purchaser pays a prorated share of the total software support costs.

## 11.0 COSTS ALLOCABLE FOR JOINTLY USED FACILITIES

When specific agreements or arrangements are made for the joint use of USG facilities (e.g., sharing of storage spaces or dedicated training facilities), a pro rata share of the operating cost financed by operating appropriations must be charged to the foreign purchaser.

## 11.1 Joint Use of Office or Storage Space

- 11.1.1. When jointly used storage or office space is involved, the pro rata share of operating costs must be determined based on space assigned to the foreign government compared to the total space available for assignment.
- 11.1.2. Operating costs must include, but are not necessarily limited to, the cost of maintenance and upkeep of the facilities, including access roads, security, communications, utilities, and rent if the USG must make rental payments under lease agreements.

## 11.2 Joint Use of Satellites

When jointly used satellites are involved, the launch cost must be allocated to each participant based on pre-launch negotiations that consider the expected benefits accruing to each participant. Recurring operating costs must be prorated based on the time each participant actually uses the satellite.

#### 12.0 PERIODIC REVIEW AND RATES/SURCHARGE REVISION

#### 12.1 Periodic Review

Rates that may be developed to recoup accessorial costs and surcharges (see sections 4.0, 5.0, and 16.3.1) are subject to periodic review. OUSD(C) should notify the applicable DoD Components when such reviews are being conducted and request the DoD Components' participation.

#### 12.2 Rate Revision

No charges, or surcharges based on a percentage rate, may be made to recover any element of cost unless the charge or percentage charge is expressly prescribed in Volume 15, or the charge based on the percentage rate is proposed in writing to and is approved by OUSD(C). Whenever a DoD Component believes a prescribed rate should be revised, it should submit its request with supporting data to OUSD(C), through the DoD Component Senior Financial Manager and

DSCA OBO. DSCA OBO will conduct its assessment of the request and provide either its endorsement of or objection to OUSD(C). Sufficient data must accompany the request to enable evaluation of the merits of the proposed revision.

#### 13.0 COST RECOUPMENT WAIVERS AND EXCLUSIONS

A cost recoupment waiver is the exercise of legal authority to partially or totally waive the recoupment of incurred costs. A cost recoupment waiver is not an exception to the pricing policy.

# 13.1 Waiver of NC Recoupment Charges

- 13.1.1. Title 22, U.S.C. § 2761(e)(2)(A) authorizes the President to reduce or waive the NC recoupment charge or charges, which would otherwise be considered appropriate under 22 U.S.C. § 2761(e)(1)(B) for particular sales that would, if made, significantly advance USG interest in North Atlantic Treaty Organization (NATO) standardization; standardization with the Armed Forces of Japan, Australia, the Republic of Korea, Israel, or New Zealand, in furtherance of the mutual defense treaties between the United States and those countries; or foreign procurement in the United States under coproduction agreements.
- 13.1.2. Title 22, U.S.C. § 2761(e)(2)(B) authorizes the President to waive NC recoupment charges for a particular sale if it is determined that:
- 13.1.2.1. Imposition of the charge or charges likely would result in the loss of the sale; or
- 13.1.2.2. The waiver of the charge or charges for MDE would result in savings to the United States that substantially offset the revenue due to this waiver.
- 13.1.3. Title 22, U.S.C. § 2761(e)(2)(C) gives the President the authority to waive, for particular sales of MDE, any increase in a charge or charges previously considered appropriate under 22 U.S.C. § 2761(e)(1)(B). This authority is given if the increase results from a correction of an estimate (reasonable when made) of the production quantity base that was used for calculating the charge or charges for purposes of such paragraph.
- 13.1.4. The authority to waive NC recoupment charges has been delegated to the Director, DSCA. All waiver requests must be coordinated with OUSD for Research and Engineering (R&E), OUSD for Acquisition and Sustainment (A&S), and OUSD(C).
- 13.2 Special Waiver Authority for NATO Airborne Warning and Control System (AWACS)

Notwithstanding subparagraph 5.4.1, <u>10 U.S.C. § 2350e</u> authorizes the Secretary of Defense in carrying out the NATO AWACS program, to:

13.2.1. Waive reimbursement for the costs of the following functions performed by personnel other than personnel employed in the U.S. Air Force AWACS program office:

- 13.2.1.1. Auditing;
- 13.2.1.2. Quality assurance;
- 13.2.1.3. Codification;
- 13.2.1.4. Inspection;
- 13.2.1.5. Contract administration;
- 13.2.1.6. Acceptance testing;
- 13.2.1.7. Certification services; and
- 13.2.1.8. Planning, programming, and management services;
- 13.2.2. Waive any surcharge for administrative services otherwise chargeable; and
- 13.2.3. Assume contingent liability for:
- 13.2.3.1. Any program losses resulting from the gross negligence of any contracting officer of the United States;
- 13.2.3.2. Identifiable taxes, customs duties, and other charges levied within the United States on the program; and
  - 13.2.3.3. The U.S. share of unfunded termination liability.
- 13.3 Waiver of Contract Administration Services (CAS) and Cataloging Services
- 13.3.1. Title 22, U.S.C. § 2761(h) authorizes the President to provide (without charge) quality assurance, inspection, CAS, contract audit defense services, cataloging data, and cataloging services. Title 22, U.S.C. § 2761(h) applies to:
- 13.3.1.1. Any contract or subcontract for defense articles, defense services, or design and construction services entered into after October 29, 1979, under FMS or direct commercial sales on behalf of a foreign government that is a member of NATO or the Governments of Australia, New Zealand, Japan, the Republic of Korea, or Israel. The authority applies only if the foreign government provides these services in accordance with an agreement on a reciprocal basis, without charge, to the USG;
- 13.3.1.2. Any contract or subcontract for defense articles, defense services, or design and construction services pursuant to the NATO Security Investment Program. The authority applies only in accordance with a reciprocal agreement under which the foreign governments participating in the NATO Security Investment Program provide such services, without charge, in connection with similar contracts or subcontracts; and

- 13.3.1.3. Cataloging data and cataloging services provided to NATO, to any member government of NATO, or to the Governments of the Republic of Korea, Australia, New Zealand, Japan, or Israel, if that organization, member government, or the Governments of the Republic of Korea, Australia, New Zealand, Japan, or Israel provide such data and services without charge to the United States in accordance with a reciprocal agreement.
- 13.3.2. The authority to negotiate and conclude these reciprocal agreements has been delegated to OUSD(A&S). Upon approval of the agreement, OUSD(A&S) will provide a copy of that agreement to DSCA.
- 13.3.3. When a waiver is approved, the cost of CAS in support of the applicable effort must be funded by a DoD appropriation. Billings for such actual costs must not be submitted against the FMS Trust Fund. The waiver under each agreement applies only to new FMS LOAs with implementation dates (as recorded in the Defense Security Assistance Management System) on or after the effective date of the reciprocal agreement.
- 13.3.4. Countries with CAS waivers are listed in the <u>SAMM C9.T5</u>, <u>SAMM C9.T6</u>, and <u>SAMM C9.T7</u>. DSCA is responsible for updating and maintaining the CAS waiver tables.
- 13.4 Special Waiver Authority for NATO Cooperative Projects
- 13.4.1. <u>Title 22 U.S.C. § 2767(e)(1)</u> stipulates that the President may reduce or waive the charge or charges in connection with cooperative projects or agreements entered into under the authority of that section. The charges that may be reduced or waived are those that are otherwise considered appropriate under 22 U.S.C. § 2761(e) (see subparagraph 13.1.2) for sales of defense articles and services from stocks or new procurements when the other participants agree to waive or reduce such charges.
- 13.4.2. Waiver authority of the President under 22 U.S.C. § 2767 has been delegated to the Director, DSCA.
- 13.4.3. Administrative surcharges must not be increased on other sales made under the U.S.C. in order to compensate for any cost waivers that are granted pursuant to 22 U.S.C. § 2767(d). Funds received pursuant to such other sales must not be available to reimburse the costs incurred by the USG for which waiver or reduction is approved by the President under 22 U.S.C. § 2767.
- 13.5 Exclusion of the Cost of Military Pay and Entitlements for Defense Services Funded by the Military Assistance Program (MAP) or Non-Repayable Foreign Military Financing (FMF).
- 13.5.1. Title 22, U.S.C. § 2311(a)(3) permits the exclusion of salaries of members of the Armed Forces (other than Coast Guard) if the sales case for defense articles, services (including training), or for design and construction services is totally financed by MAP Merger or by non-repayable FMF.

- 13.5.2. For cases with LOAs exclusively citing MAP Merger funds and/or non-repayable FMF or BPC and Foreign Security Forces (FSF) cases, which are funded with DoD or Department of State (DoS) appropriated funds, services provided under 22 U.S.C. §2761, 22 U.S.C. §2762, 22 U.S.C. §2769, or 22 U.S.C. §2770 must be priced to exclude military pay and entitlements (including retired pay accrual). Examples of DoD and DoS appropriated funds are: Pakistan Counterinsurgency Fund, Pakistan Counterinsurgency Capability Fund, Coalition Readiness Support Program, FSF: authority to build capacity under 10 U.S.C. § 333, Counter-Islamic State in Iraq and Syria, Counter-Islamic State of Iraq and the Levant Train and Equip Fund, Afghanistan Security Forces Fund, and Iraq Train and Equip Fund.
- 13.5.2.1. The exclusion of military pay and entitlements in pricing applies when services are performed regardless of the date of the LOA. For MAP Merger, this pricing applies to services provided after September 30, 1985; for non-repayable FMF, this pricing applies to services provided after September 30, 1989.
- 13.5.2.2. Any subsequent amendment or modification that reduces MAP Merger or non-repayable FMF funding below 100 percent requires re-pricing to add military pay and entitlements to the entire case.
- 13.5.3. A separate price for DWCF goods and services must not be established to exclude military pay and entitlements when the case is fully funded by MAP Merger, is a non-repayable FMF, or is a BPC case.

# 13.6 Exchange of Unit Training and Related Support

- Title 22, U.S.C. § 2770a authorizes the reciprocal unit exchange of training and related support between the United States and a friendly foreign country or an international organization. This authority applies only to established military units, not to ad hoc units or individual members of units. DoD Directive (*DoDD*) 5530.03, "International Agreements," provides that unit exchanges must only be arranged as part of an international agreement.
- 13.6.1. As outlined in <u>SAMM C10</u>, each country should pay its students Travel and Living Allowance. In addition, exchanges can be made on either an individual-to-individual or unit-to-unit basis.
- 13.6.2. Reciprocal unit exchanges or related support arrangements must use the following pricing guidelines.
- 13.6.2.1. The Military Department official with the delegated authority to negotiate agreements must perform a price analysis based on prior experience and/or current supporting data. The price determined for the unit exchange of training or related support must be fair and reasonable. If a pricing determination cannot be made, the training may not be performed and the related support may not be exchanged.
- 13.6.2.2. Reciprocal unit exchanges of any training or related support by the United States are subject to the applicable pricing provisions contained throughout this chapter.

The estimated cost of the reciprocal unit exchange to be provided, and the value of the unit to be received, must be computed and documented by the Military Department's designated resource management function. The documented estimated cost is the basis for reporting costs incurred and for reimbursement purposes in the event, exchanges are not reciprocated.

- 13.6.3. Compensation for the acquisition or transfer of a unit exchange of training and related support must be accomplished through either of the following methods.
- 13.6.3.1. <u>Reciprocal Exchange</u>. Training or related support that is to be exchanged requires a written determination by the approving U.S. organization that the reciprocal unit exchange of training or related support has a substantially comparable value. Comparable value received is the sum of those monetary and nonmonetary values that comprise the total exchange value. Methodologies depicting comparable value, both monetary and nonmonetary, must be retained and available for audit purposes.
- 13.6.3.2. <u>Reimbursable</u>. Payments for training and related support are to be in the currency of the supplying nation and must be provided in the event reciprocity is not achieved within 12 months from the date the training began.
- 13.6.4. The servicing accounting and finance office must take the following actions when reciprocal training or related support is not provided or not received.
- Reciprocal Training or Related Support. When the United States does not provide reciprocal training and related support within 12 months after such training or support begins, the exchange transaction must be converted to a reimbursable transaction and an obligation must be recorded. The obligation must be recorded against the appropriation current at the time the determination is made that reciprocal training will not be provided or 12 months from the date the training began, whichever occurs first. The resulting accounts payable is to be paid 30 days from the date established. The accompanying documentation must fully explain the reasons for not providing reciprocal training or related support during the preceding 12 months.
- 13.6.4.2. Actions to be Taken When the United States Does Not Receive Reciprocal Training or Related Support. When the United States does not receive reciprocal training or related support within 12 months after such training or support begins for a foreign country, the exchange transaction must be converted to an accounts receivable. The accounts receivable must be established against miscellaneous receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified." See *Volume 16, Chapter 6*, "Debt Owed to the Department of Defense (DoD) by Foreign Entities" for procedures for billing foreign countries.

# 13.7 Special Authorities

In accordance with the administration of the European Air Defense Agreements, the Secretary of Defense is authorized under the International Security and Development Cooperation Act of 1985, Section 132 (see 22 U.S.C. § 2767(e)) to:

- 13.7.1. Waive any surcharge for administrative services otherwise chargeable under 22 U.S.C. § 2761(e)(1)(A), and
- 13.7.2. Waive any charge not otherwise waived for services associated with contract administration for the sale (under the AECA) of Patriot Air Defense Missile Fire units to the Federal Republic of Germany contemplated in the agreements.

# 13.8 Fair Pricing

Under 22 U.S.C. §§ 2761 and 2792, the recoupment of NC is not required for FMS cases wholly funded with MAP Merger or non-repayable FMF, BPC, or FSF cases that are funded with DoD or DoS appropriated funds. Effective with delivery reports after December 1, 1989, DFAS no longer applies asset use charges to FMS transactions. When such asset use expenses are included in, or are a part of, the standard prices/stabilized rates charged for defense articles and services, a separate price must not be established for sales from or services furnished by, DoD Components in connection with FMS cases. In addition, military salaries and the unfunded costs of civilian retirement and other benefits are not included in the FMS administrative account.

#### 14.0 EXCEPTION TO PRICING POLICIES

An exception to prescribed pricing policies refers to approval of an alternative method of identifying applicable cost(s). Requests for exceptions to the policies prescribed herein, or waivers of DoD costs for which DSCA is not delegated as the waiver authority, must be submitted to OUSD(C), through the DoD Component Senior Financial Manager, and DSCA OBO (Note: A cost recoupment waiver is not an exception to pricing policy). DSCA OBO will conduct its assessment of the request and provide either endorsement or objections to OUSD(C). Sufficient data must accompany the request to enable OUSD(C) to evaluate the merits of the proposed deviation.

#### 15.0 CASH SALES OF DEFENSE ARTICLES ISSUED FROM STOCK

#### 15.1 General

Title 22, <u>U.S.C.</u> § 2761 authorizes the sale of defense articles from stock to eligible foreign governments and international organizations. These sales include all sales of items from DoD inventories, whether delivered from storage or from procurements that were initiated to maintain adequate DoD inventory levels. Procurements specifically for FMS requirements (excluding CLSSAs) may not be considered a sale from stock. Procurements initiated to replace stocks sold from DoD inventories are not FMS new procurements.

#### 15.2 Sale of Defense Articles

15.2.1. <u>Sale Price of Non-Excess Defense Articles</u>. Non-excess defense articles are assets within the approved force acquisition objective and approved force retention stock of all DoD Components. Also included in the non-excess category are articles procured in anticipation of military assistance or sales requirements as a result of CLSSAs, or pursuant to a military

assistance or sales order. The selling price must be determined when the item is dropped from inventory or the LOA is prepared if a firm price is determined in accordance with the provisions of paragraph 15.4.

#### 15.2.2. Sale of DWCF Articles

- 15.2.2.1. The selling price of DWCF articles to FMS purchasers must be determined at the time the article is dropped from inventory. The standard price charged to FMS purchasers for DWCF articles must be adjusted to include an amount for unfunded civilian retirement and post-retirement health benefits costs (see paragraph 20.5). See *Volume 2B, Chapter 9*; *Volume 11A, Chapter 1*; and *Volume 11B, Chapter 11* for additional information.
- 15.2.2.2. If a purchaser returns a reparable DWCF item for repair or replacement, the overhaul service must be priced in accordance with paragraph 9.2. The price of the replacement/exchange item would be the exchange price or net price (standard price less credit) basis adjusted for the unfunded retirement and benefits.
- 15.2.2.3. As an invested participant, a CLSSA purchaser may return a fully serviceable, reparable item to the appropriate DWCF activity for credit, when the item is within the activity's approved acquisition objective. The credit will only be issued after the item is received and inspected at the activity. Funds credited may be paid by the DoD disbursing office into the FMS Trust Fund in accordance with the instruction of the foreign purchaser or DSCA.
- 15.2.2.4. Prior to October 1, 2001, petroleum, oil, and lubricants (POL) were priced at standard (stabilized) prices. Effective October 1, 2001, the selling price of POL is the replacement cost of the POL, during the period of the sale, plus associated overhead. See Volume 11A, Chapter 1 and Volume 11B, Chapter 11 for additional information on overhead.
- 15.2.3. <u>Sale of Non-DWCF Articles</u>. The pricing and treatment of reimbursements of non-DWCF articles sold are dependent upon whether the item(s) being sold require replacement. An illustration of the price computation is in Exhibit 7-2.
- 15.2.3.1. <u>Item Not to be Replaced</u>. When an item is sold from the stocks of DoD and is not intended to be replaced, it is considered a free asset. The free asset price is not less than the actual value of the article.
- 15.2.3.1.1. The price of the item must be the most recent actual procurement cost of the series and model being sold, plus the cost of any modifications or improvements incorporated after production and the applicable NC recoupment charge.
- 15.2.3.1.2. Reductions to the sale price may be made when there is an actual difference in utility or desirability among units of issue of an item due to age or condition.
- 15.2.3.1.3. The cost of the last major overhaul or outfitting accomplished before the sale date is added to the calculated price and is not reduced for age or condition. The

overhaul costs will be prorated over the interval between the last actual overhaul and the next scheduled overhaul (see Exhibit 7-3).

- 15.2.3.1.3.1. If a future overhaul is not scheduled, the cost of the previous overhaul will be prorated over the normal average interval between overhauls.
- 15.2.3.1.3.2. If an overhaul schedule is not available, the most appropriate time span for that series and model should be used.
- 15.2.3.1.3.3. In the case where actual costs are not available for the last overhaul, a reasonable estimate from the facility normally performing overhauls for the type of item to be sold may be used.
- 15.2.3.1.3.4. In the case where a maintenance schedule has not been established, a period of at least five years should be used.
- 15.2.3.1.3.5. A request for waiver of the overhaul cost may be submitted to OUSD(C) in accordance with section 13.0.
- 15.2.3.1.4. In the case of a naval vessel that is 20 or more years old, and 3,000 tons or less, 22 U.S.C. § 2761(a)(2) provides that the actual value is not less than the greater of the scrap value or the fair value (including conversion costs) as determined by the Secretary of Defense. See Exhibit 7-4 for an example of the price computation for a ship that is greater than 3,000 tons.
- \* 15.2.3.1.5. The amounts received as payment for free assets from the FMS purchaser must be deposited into the Special Defense Acquisition Fund (SDAF). See *Volume 3, Chapter 15*, subparagraph 3.5.6. and *SAMM C11.9* for additional information on proceeds from assets sold.
- 15.2.3.2. <u>Item to be Replaced</u>. The sale from stock with replacement represents the sale of assets for cash and the subsequent replacement of assets with cash proceeds. The sale and replacement represent two separate transactions generally occurring months or years apart.
- 15.2.3.2.1. <u>Like Items</u>. Title 22, U.S.C. § 2761 authorizes the replacement of material using proceeds from sales without further congressional approval, so long as the item sold will be replaced with an item of the identical type, model, and series (e.g., the sale of C-130E aircraft and purchase of C-130E aircraft) or a modified version of the same basic model. Obligations to replace the assets will be recognized as direct obligations.
- 15.2.3.2.1.1. The price of the item to be replaced must be the best-estimated cost of the replacement item available at the time the item is dropped from inventory, plus the NC recoupment charge of the item being sold, adjusted for its remaining service life. The final bill will utilize the best pricing information available if the actual replacement procurement cost is not known. This must be the final cost to the purchaser regardless of the actual cost of final replacement procurement. Inventory managers must realize that this prescribed

pricing methodology may not result in a one-for-one replacement. If exact quantities are needed in inventory in order to maintain readiness, the inventory manager must recommend FMS procurement and not approve a shipment out of stock.

15.2.3.2.1.2. When it is imperative that stock be replaced through accelerated procurements, and normal pricing policies will not adequately recoup replacement costs, an exception to DoD pricing policies must be requested from the OUSD(C). Section 14.0 specifies guidance on exception requests. Normally, the exception would be to add a replacement factor or delay final pricing until the contract for replacement items is financially complete.

15.2.3.2.2. <u>Dissimilar or Modified Items.</u> Congress authorizes the replacement of material using proceeds from sales of dissimilar or modified items. The replacement item must be a later series, a modified version of the same basic model (e.g., sale of a C-130A aircraft and the purchase of a C-130E aircraft), or an acceptable substitute item (e.g., sale of an M-48 tank and the purchase of an M-60 tank). The purchase of upgrading or a modification kit is not considered a replacement even though the upgrade or modification would result in an end item similar to the items that are being acquired. In this situation, an item of material sold will require replacement to compensate DoD inventories for the resultant loss of capability or readiness. The replacement must be shown under the direct budget program and reprogramming action taken prior to replacement. The obligations to replace the assets will be recognized and accounted for as direct obligations, rather than as reimbursements to annual procurement appropriations.

15.2.4. <u>Sale of Ammunition</u>. The selling price of an ammunition item must be the current standard price plus any applicable NC recoupment charge.

#### 15.3 Excess Defense Articles

Excess defense articles are assets in excess of the Approved Force Acquisition Objective and Approved Force Retention Stock of all the DoD Components (see paragraph 15.2 for additional discussion). Excess defense articles must be sold in an "as is" condition. The cost of repairing, rehabilitating, or modifying such articles must be computed in accordance with paragraph 9.2.

- 15.3.1. Excess articles may be sold at reduced prices to recognize depreciation for the age and condition of the article. PC&H and Transportation (PCH&T) is computed on the original acquisition value and not on the reduced price. The level of effort for the PCH&T is not less for an article that is considered excess; therefore, the expenses for the PCH&T do not decrease and must be recovered in total from purchasers. This policy applies to procurement appropriations and DWCF. An illustration of the price computation for Non-DWCF is in Exhibit 7-5.
- 15.3.2. The selling price of excess articles, exclusive of repair or modification costs, must be the highest of:

- 15.3.2.1. Its market value for which the applicable NC recoupment charge must be assumed to be included (market value is the price at which bona fide sales have been consummated for products of like kind, quality, and quantity);
- 15.3.2.2. Its scrap value plus NC recoupment charge and the last major overhaul costs incurred (scrap value is the amount that would be expected to be obtained from selling the asset at the end of its useful life); or
- 15.3.2.3. Its fair value, plus NC recoupment charge and prorated major overhaul costs (fair value is the price for which an item can be bought or sold in an arm's length transaction between unrelated parties).
- 15.3.3. The fair value is computed using the fair value rates associated with the Federal Condition Code of the asset multiplied by the established inventory price. See Table 7-1. If the IA proposes the price of the material to be less than the 5 percent minimum threshold indicated in Table 7-1 or proposes to waive the overhaul costs, a detailed justification must be sent to the DSCA OBO in accordance with section 13.0. If DSCA endorses the IA proposal, it will forward that package to OUSD(C) for final approval.
- 15.3.4. The overhaul costs will be prorated over the interval between the most recent prior overhaul and the next scheduled overhaul. If a future overhaul is not scheduled, the cost of the last overhaul will be prorated over the normal average interval between overhauls. In the case where actual costs are not available for the last overhaul, a reasonable estimate from the facility normally performing overhauls for the type of item to be sold may be used. In the case where a maintenance schedule has not been established, a period of at least five years should be used. An example of computing these costs is illustrated in Exhibit 7-3.
- 15.3.5. When accountability for excess items has been transferred to "Property Disposal," the provisions of the DoDM 4160.21, Volume 3 must apply. This manual provides specific guidance for the disposition of amounts realized from the sale of such equipment. Defense Logistics Agency Disposition Services will calculate PC&H based on the original acquisition value of assets sold or transferred.
- 15.3.6. A request for an exception to the established pricing policy of excess material for FMS will be submitted in accordance with section 14.0 and must address the following:
- 15.3.6.1. Whether the item has been screened for potential sale to purchasers and whether there is any existing purchaser interest at the price determined in accordance with the established pricing policy;
- 15.3.6.2. Whether the alternative proposed price is equal to or greater than the scrap value plus the established recoupment charge for DoD NC;
- 15.3.6.3. Whether demilitarization costs will be incurred by DoD if the item is sold and, if so, the estimated amount of such demilitarization costs;

- 15.3.6.4. What the price to repair the item would be and its percentage of the original acquisition cost of the item; and
- 15.3.6.5. Whether the proposed sale has any other economic or political benefit to DoD and/or the USG.

## 15.4 Quotation of Firm Prices

- 15.4.1. The DoD Components are authorized to quote firm prices for items to be sold from stock and for in-house services to be furnished, pursuant to 22 U.S.C. § 2761. Such prices are not subject to further adjustment, provided the purchaser accepts the LOA before the expiration date. A firm price may be quoted only for:
- 15.4.1.1. An actual or estimated replacement price for a procurement-funded end item, including ammunition, or major items to be sold from inventory as authorized in subparagraph 15.2.3.2, when the price is based on budgetary data or contractor quotation;
- 15.4.1.2. A price for procurement-funded or major item developed under provisions of subparagraph 15.2.3.1 and paragraph 15.3; and
- 15.4.1.3. Training tuition rates (only for current year). Refer to section 21.0 for additional information on rates for training of international students.
- 15.4.2. The reason for quoting firm prices is to minimize difficulties that might arise should prices undergo several revisions due to budgetary decisions made subsequent to the country's acceptance of LOAs. Firm prices may be quoted only after careful and coordinated development of such pricing data. LOAs (other than for training) that specify firm pricing must be coordinated, at a minimum, with the OUSD(C), the Offices of the Assistant Secretaries of the Military Departments (Financial Management and Comptroller), and DSCA.
- 15.4.3. All LOAs authorized to be on a firm price basis must include a note that specifies that the pricing data presented is firm (except for changes authorized in paragraph 22.5) and will not be changed, provided the country accepts the LOA before its offer expiration date.

# 15.5 Charges for NC

Non-USG purchasers must pay a fair price, determined in accordance with <u>DoDD 2140.02</u>, "Recoupment of Nonrecurring Costs (NCs) on Sales of U.S. Items," for the value of DoD nonrecurring investment in the development and production of MDE, as required by law, unless an NC recoupment charge waiver has been approved by the Director, DSCA. For FMS, an NC recoupment charge is applicable to all MDEs. MDE is any item of Significant Military Equipment (SME) listed on the U.S. Munitions List having a DoD nonrecurring RDT&E cost accumulation of \$50 million or a total DoD production cost of more than \$200 million. A listing of MDE with associated NC charges can be found in the <u>SAMM Appendix 1</u>. The NC recoupment charge is not applicable to BPC cases.

# 15.5.1. Cost Pool Methodology

- 15.5.1.1. A cost pool methodology is used to determine the pro rata share of NC to be recouped. The NC recoupment charge computation (nonrecurring RDT&E and nonrecurring production cost pools divided by estimated benefiting units) is submitted to the Director, DSCA for approval. The NC recoupment computation must be supported with an MDE calculation worksheet, illustrated in Exhibits 7-6, 7-7, and 7-8. The Director, DSCA will review each DoD Component's calculations and publish the approved charge in the SAMM Appendix 1.
- 15.5.1.2. Each DoD Component must establish a system to accumulate cost pools, recognize when a cost pool meets recoupment thresholds, and calculate an NC recoupment charge for items releasable to foreign countries and international organizations when FMS sales are anticipated. The NC recoupment charge must be based upon information recorded in DoD accounting records or DoD budget justification documents. If adequate documentation is unavailable, the DoD Component will calculate the pro rata NC at 5 percent of the last known DoD acquisition cost.

# 15.5.2. Nonrecurring RDT&E Cost Pool

- 15.5.2.1. The nonrecurring RDT&E cost pool includes costs funded by RDT&E appropriations to develop or improve the product or technology under consideration. The costs to be included in the nonrecurring RDT&E investment cost pool must be determined on the budget and accounting classifications established for RDT&E appropriations in Volume 2B. *Volume 2B, Chapter 5*, paragraph 10.5 establishes the following RDT&E categories:
  - 15.5.2.1.1. Budget Activity 1, Basic Research;
  - 15.5.2.1.2. Budget Activity 2, Applied Research;
- 15.5.2.1.3. Budget Activity 3, Advanced Technology Development (ATD). ATD is sometimes further broken down into budget activities 3A (strictly research efforts that involve the production of breadboards or brass boards to model all or part of a design) and 3B (applied to projects to produce a prototype, which although not suitable for fielding, is closer to representation of an end item for military application);
- 15.5.2.1.4. Budget Activity 4, Advanced Component Development and Prototypes;
  - 15.5.2.1.5. Budget Activity 5, System Development and Demonstration;
  - 15.5.2.1.6. Budget Activity 6, RDT&E Management Support; and
  - 15.5.2.1.7. Budget Activity 7, Operational System Development.

- 15.5.2.2. Costs in budget activities 3B, 4, 5, 6, and 7 are subject to recoupment and must be included in the nonrecurring RDT&E cost pools upon which the pro rata charge is calculated. The costs incurred for nonrecurring RDT&E in budget activities 1, 2, and 3A may not be included in the nonrecurring RDT&E cost pool.
- 15.5.2.3. All applicable NC efforts, including in-house or multiple contractors, must be included in the nonrecurring RDT&E cost pool; the source of the NC effort to develop a product is not relevant to the calculation of the NC recoupment charge. The costs of improvement programs that are designed to continuously improve the safety, reliability, availability, and maintainability of an end item, or major component, over the projected life of the item will be shared equitably by all users of the item.
- 15.5.2.3.1. Normally, each user will pay a share of the total annual cost through a Component Improvement Program (CIP) or comparable program. All users are expected to participate in such a program.
- 15.5.2.3.2. The cost-sharing calculation will be established at the time the nonrecurring RDT&E cost pool is established and the NC recoupment charge is approved. First, the total life of the item will be projected, and then the point in time when half of all projected deliveries to non-DoD purchasers will occur will be estimated. Using actual cost data and data from historical files for similar CIP or comparable programs, the total U.S. investment costs over the life of the program will be estimated. The amount of U.S. investment projected to be incurred up to the previously determined point of half of the deliveries to non-DoD purchasers will be included in the weapon system nonrecurring RDT&E cost pool.
- 15.5.2.3.3. The annual cost of operating the CIP or comparable program will be shared in proportion to the number of items in the possession of each user. This will ensure that the remaining costs of operating the CIP, or comparable program, will be shared equally by all users of the item.
- 15.5.3. <u>Nonrecurring Production Cost Pool</u>. The costs to be included in the nonrecurring production cost pool are those financed by, or to be financed in the future by, procurement or operations and maintenance appropriations that benefit current and future production runs. DoDD 2140.02 stipulates that the pool must capture such costs as preproduction, special tooling, special testing equipment, production engineering, product improvement, destructive testing and product model production, and testing and evaluation. Other costs may be included if they benefit both current and future production runs. Descriptions of the major categories of costs to be accumulated in this NC pool are as follows.
- 15.5.3.1. <u>Production Cost</u>. Preproduction cost refers to the cost of such activities as tooling manufacture and tryout (i.e., jigs, dies, and fixtures) and the implementation of layout plans. A lump sum payment for license costs is part of the preproduction cost. See subparagraph 15.5.3.8 for more information on license costs.
- 15.5.3.2. <u>Special Tooling Cost</u>. Special tooling cost refers to the costs of all jigs, dies, fixtures, molds, patterns, taps, gauges, other equipment and manufacturing aids, and

replacement thereof, that are of such a specialized nature that substantial modifications or alteration of their use is limited to the development of production of particular supplies or parts, or the performance of particular services. The term includes all components of such items, but does not include:

15.5.3.2.1. Material;

15.5.3.2.2. Special testing equipment; or

15.5.3.2.3. Building and non-serviceable structures (except foundations and similar improvements necessary for the installation of special tooling), general or special machine tools, or similar capital items.

15.5.3.3. Special Test Equipment Cost. Special test equipment cost refers to the cost funded by procurement appropriations for either single or multipurpose integrated test units engineered, designed, fabricated, or modified to accomplish special-purpose testing in the performance of the contract. Such testing units comprise electrical, electronic, hydraulic, pneumatic, mechanical, or other items or assemblies of equipment that are mechanically, electrically, or electronically interconnected so as to become a new functional entity, causing the individual item or items to become interdependent and essential in the performance of special test equipment procured with RDT&E appropriations.

15.5.3.4. <u>Developmental Production Engineering Cost.</u> Developmental production engineering cost includes the cost of product design improvement intended to enhance the producibility of an item; examination of available manufacturing processes to determine the need for new techniques (and their development, if necessary); the optimum marshalling of resources for efficient manufacturing (such as optimum lot size, scheduling, production control, production line design and balancing, and plant layout); and tool design and detailed manufacturing planning. Although a continuing activity, most of this effort is rightfully considered a nonrecurring production cost.

15.5.3.5. Product Improvement Cost. Product improvement programs may be accomplished by contractors as an engineering change proposal, modification work order, or an in-house project. Categories listed in subparagraphs 15.5.3.5.1 – 15.5.3.5.5 are to be included in the end item nonrecurring production cost pool, even though a participating product improvement program has been established that prorates the annual cost of the program based upon worldwide asset position (both U.S. and foreign-owned end items). The DoD cost of the category listed in subparagraph 15.5.3.5.6 must be recovered as part of the selling price of a new model item if the item is MDE. Product improvement is subdivided into six distinct types of effort:

15.5.3.5.1. Safety;

15.5.3.5.2. Cost reduction;

15.5.3.5.3. Reliability, availability, and maintainability;

- 15.5.3.5.4. Deficiency corrections;
- 15.5.3.5.5. Compatibility standardization, and simplification; and
- 15.5.3.5.6. New or improved operational capability.
- 15.5.3.6. <u>Destructive Testing Cost</u>. Destructive testing is a technique for performing tests on a component, assembly, or end item. It involves the testing of an article beyond its design limits (and ultimately its destruction), or the actual consumption of the article to determine if it is performing to design specifications.
- 15.5.3.7. <u>Pilot Model Testing Cost</u>. Pilot model testing includes the following efforts:
- 15.5.3.7.1. Qualification testing is a very severe testing to determine if a product will do what it is designed to do. It usually involves the testing of a product to the limits of its performance. It is often destructive and the test articles are not intended to be used operationally in the future; and
- 15.5.3.7.2. First article testing performed to evaluate a new manufacturer's ability to produce a specified design (could be the new manufacturer's design or that of another manufacturer). It is normally more stringent and costly than routine acceptance testing, but less stringent and costly (and less destructive) than qualification testing.
- 15.5.3.8. <u>License Cost</u>. License cost refers to the cost of the license DoD obtains to allow competitive awards for the production of an item when its design is owned by a contractor. In effect, DoD buys the rights to allow other contractors to produce an item for DoD purposes through the payment of royalties or a lump sum fee. These royalties are customarily on a per item basis and should be charged as recurring production costs. The lump sum fee is a nonrecurring production cost.
- 15.5.4. Components for USG Use Only. In computing NC pools for items to be sold under FMS, NC of major components that are restricted to USG use must not be included. For example, the costs of nuclear devices and features, countermeasure devices and features, security devices (black boxes), carrier-peculiar adaptations, and special fuel tank devices must be excluded. Estimates may be used if accounting records do not identify associated costs.

# 15.5.5. Benefiting Units

- 15.5.5.1. Benefiting units is the number of items that must be included in all known or projected DoD production quantities and must be determined as follows.
- 15.5.5.1.1. The production quantities of end items required by DoD must be obtained from either Selected Acquisition Reports or the Future Years Defense Program Procurement Annex.

or

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- 15.5.5.1.2. The production quantities of end items to be procured for foreign countries or international organizations under SA programs must be obtained from DoD Component SA plans.
- 15.5.5.1.3. If end item data is not available from any of these sources, then the developing command must estimate the total number of end items to be produced.
- 15.5.5.1.4. The production quantities of systems components that meet the investment threshold must be derived from the number of end items to be produced. For example, if 100 aircraft must be produced (assume one engine for each aircraft) and spare part support requires 150 engines, the production quantity of engines is 250.
- 15.5.5.2. In the event of a disagreement on the production quantity and sales projections, the Director, DSCA must make the final determination in coordination with OUSD(C) and OUSD(A&S/R&E) of the production estimates to be used for determining the NC recoupment charge.
- 15.5.6. <u>NC Charge Revisions</u>. A revision may be submitted at any time by a DoD Component. It is mandatory that a modification to the NC recoupment charge be submitted when a significant change occurs.
- 15.5.6.1. <u>Price Reduction</u>. When the price is reduced because of age, condition, or supply status (excess), the same percentage reduction must be made to the pro rata share of NC.
- 15.5.6.2. <u>Biennial Review</u>. DoDD 2140.02 requires a biennial review of approved MDE charges to determine if there has been a significant change in factors or assumptions used to compute the currently approved recoupment for a model. A significant change occurs when:
- 15.5.6.2.1. A new calculation shows a change of 30 percent of the current system NC charge for an MDE item;
  - 15.5.6.2.2. The NC unit charge increases or decreases by \$50,000 or more;
    - 15.5.6.2.3. The potential for a \$5 million change in recoupment exists.
- 15.5.6.3. <u>Model Change</u>. When a model change occurs, the NC recoupment charge must be recalculated. That portion of the NC that benefits only one model must be allocated only to that model. That portion of the NC that benefits old and new models must be prorated between cost pools related to the old and new model items. The commonality between old and new models may be determined either on the basis of the ratio of old model parts in the new item or on some other common acceptable basis for allocation of costs between the models (e.g., engineering analysis or technology analysis, as appropriate). Sample calculations are illustrated in Exhibits 7-6 through 7-8.

- 15.5.7. NC Charge Recoupment. The approved pro rata charge must be recouped unless a waiver is authorized. When NC recoupment is applicable, the price on an LOA must include the specific recoupment charge. In instances where the initial rate has not yet been approved, DoD Components must provide an estimated rate based on the most accurate information available to the DoD Component. The LOA must be modified to specify the subsequently approved rate and only that approved rate is to be billed. When a recoupment charge is revised, the previous value is retained in the SAMM Appendix 1. Subsequent revisions to the pro rata charge must be applied to new LOAs and must not be applied retroactively. An exception to this rule of application is not authorized.
- 15.5.8. <u>Reporting NC Recoupment Collections</u>. NC Recoupment Collections must be reported.
- 15.5.8.1. Funds collected for NC recoupment charges must be disposed of in accordance with Chapter 3, paragraph 9.2.
- 15.5.8.2. DoD Components must provide a quarterly report on the status of NC recoupment collections. The report must be forwarded to the Director, DSCA OBO within 45 days following the close of each fiscal quarter.
- 15.5.8.3. DoD components must maintain records of anticipated and actual NC recoupment collections.

# 15.5.9. Waivers

- 15.5.9.1. The Director, DSCA has been delegated the authority to waive NC recoupment charges on FMS sales in accordance with paragraph 13.1. DSCA must issue, in writing, any approvals granted for waivers of the NC recoupment charge that otherwise would be collected under FMS. DSCA must forward a notification of each approved waiver to the applicable DoD Component.
- 15.5.9.2. The decision on any waiver requires the concurrence of OUSD(C) and OUSD(A&S/R&E). If an issue concerning the waiver request cannot be resolved, the Director, DSCA must submit an official waiver request to the Deputy Secretary of Defense for final determination. That request to the Deputy Secretary of Defense must be coordinated with OUSD(C) and OUSD(A&S/R&E).
- 15.5.9.3. Articles delivered after November 30, 1989, under FMS cases fully financed with MAP Merger funds and/or non-repayable FMF funds, must be priced to exclude the NC recoupment charge, in accordance with 22 U.S.C. § 2761(e)(1)(B).

## 15.5.10. "Special" RDT&E and Nonrecurring Production Costs

15.5.10.1. DoDD 2140.02 requires the purchaser to pay for "special" RDT&E and nonrecurring production costs that are incurred for the benefit of a particular FMS purchaser. Documentation must be maintained to show that the FMS purchaser requested the feature for its

own benefit. For purposes of this paragraph, a "special" feature or unique requirement includes, but is not limited to, features that DoD initially may not have adopted or purchased due to the non-availability of funds, lack of authorization from the Congress, or lack of an approved DoD requirement, but subsequently adopts or purchases when otherwise authorized.

- 15.5.10.2. DoDD 2140.02 stipulates that the USG must not be charged a recoupment charge for "special" RDT&E and nonrecurring production costs even if the USG also adopts those features for its own use, or provides equipment with such features under a U.S. grant, aid, or similar program. This provision applies without regard to whether the adoption of such features by DoD occurs before, during, or after the full development of the feature.
- 15.5.10.3. DoDD 2140.02 permits the recoupment of "special" RDT&E and nonrecurring production costs incurred by FMS purchasers or participants of a coproduction, co-development, and cooperative development, or cooperative production program.
- 15.5.10.3.1. Recoupment is allowable only if such "special" costs exceed \$50 million for each FMS purchaser, or if the "special" costs of participants of a cooperative agreement exceed \$50 million in aggregate.
- 15.5.10.3.2. The "special" recoupment charge is determined by the DoD Component as a result of the distribution of the total costs divided by the total production, which is the same methodology used for determining the DoD NC recoupment charge.
- 15.5.10.3.3. The reimbursements may be collected by the Department from other purchasers or participants on behalf of the purchaser or cooperative participant incurring the "special" costs. Unless otherwise authorized by the USD, Policy, reimbursements must not be collected after 10 years have passed since the date the original FMS customer accepted the FMS LOA that included the special NC charges. IAs should coordinate with DSCA to obtain approval.
- 15.5.11. <u>Defense Contract Audit Agency (DCAA)</u>. The Director, DCAA must ensure that any evaluation of a contractor accounting system includes an analysis of the internal controls established to ensure compliance with the requirement to pay NC recoupment charges for sales made prior to October 7, 1992. If DCAA audit work (e.g., on a bid proposal or claim for incurred costs) discloses contractor noncompliance with the requirement to pay an NC recoupment charge, an audit report must be issued promptly to the cognizant DoD contracting officer, with a copy of the report submitted to OUSD(C), DFAS SCA, and DSCA OBO.

#### 15.6 Returns

In accordance with 22 U.S.C. § 2761(m), returns may be accepted if the defense article was previously supplied under the U.S.C., is not SME, and is in full functioning condition without need of repair or rehabilitation. DoD must have a funded requirement, including FMS requirements, for the defense article. The purchaser must not be reimbursed directly; the purchaser's FMS Trust Fund account must be credited to reflect the transaction, using DoD appropriations or other purchaser funds, dependent on the buyer.

# 16.0 CASH SALES OF DEFENSE ARTICLES AND SERVICES FROM NEW PROCUREMENT FOR DIRECT DELIVERY AND NEW PRODUCTION

Defense articles procured for cash sales to an eligible foreign government or international agency for direct delivery, pursuant to 22 U.S.C. § 2762, must be priced to recover the full contract cost to DoD, including DoD recurring contract support costs and applicable DoD surcharges. Costs may be revised for increases in labor and materials, or for other changes in production and procurement costs. The purchaser is obligated to pay any damages or costs that may accrue from the purchaser's cancellation of the contract (termination liability). Applicable surcharges must be added to the contract cost and included in billings for incurred costs. An illustration of the price computation is in Exhibit 7-9.

#### 16.1 Cost Principles

- 16.1.1. DoD articles must be priced based on the same cost principles used in pricing DoD contracts covering items for DoD use. Recognition must be given to other reasonable, allowable, and allocable contractor costs and risks as permitted in the <u>Federal Acquisition Regulation</u> and <u>Defense Federal Acquisition Regulation Supplement</u>, unless the purchase is wholly funded through non-repayable FMF funds.
- 16.1.2. When insufficient funds are available in the FMS Trust Fund account of a foreign government to meet current cash requirements, DSCA must initiate, through the responsible DoD Component contracting officer, appropriate contractual actions that will balance current cash requirements with available funds, unless the provisions of 22 U.S.C. § 2762(b) are involved. This condition should not occur without notification to the FMS purchaser. See Volume 16, Chapter 6 for information on debt owed to the DoD by foreign entities.
- 16.1.3. The \$250,000 expense/investment threshold stated in <u>10 U.S.C. 2245a</u> does not apply to investment items funded by expense appropriations in support of BPC programs.

#### 16.2 Nonrecurring RDT&E and Nonrecurring Production Costs

The price must include recovery of nonrecurring RDT&E costs and nonrecurring production costs as specified in DoDD 2140.02. Paragraph 15.5 contains further discussion of these costs.

# 16.3 CAS Costs Incurred in Support of New Procurements for FMS

16.3.1. <u>CAS Surcharge</u>. DFAS SCA recovers the cost of CAS by applying a percentage surcharge to the delivery transactions reflecting disbursements to contractors for FMS procurements on which applicable CAS have not been waived. The surcharge amounts collected are deposited to an account maintained by DFAS SCA and used to reimburse the DoD Components for CAS performed. The following surcharges are prescribed for DFAS SCA application to disbursement with reimbursable codes, specific delivery source codes, and price code "N":

| FMS CAS Component   | For LOAs<br>Implemented<br>Before<br>October 1,<br>2002 | For LOAs<br>Implemented<br>October 1,<br>2002 -<br>November 30,<br>2014 | For LOAs<br>Implemented<br>December 1,<br>2014 –<br>January 31,<br>2020 | For LOAs<br>Implemented<br>On or<br>After<br>February 1,<br>2020 |
|---|---|---|---|--|
| Contract Administration/Management                        | 0.50%   | 0.65%   | 0.50%   | 0.45%  |
| Quality Assurance and Inspection                          | 0.50%   | 0.65%   | 0.50%   | 0.45%  |
| Contract Audit  | 0.50%   | 0.20%   | 0.20%   | 0.10%  |
| Subtotal, Continental<br>United States (CONUS)<br>FMS CAS | 1.50%   | 1.50%   | 1.20%   | 1.00%  |
| Outside the CONUS (OCONUS)                                | Previously included above                               | 0.20%   | 0.20%   | 0.20%  |
| <i>Total</i> , CONUS + OCONUS FMS CAS                     | 1.50%   | 1.70%   | 1.40%   | 1.20%  |

16.3.2. <u>CAS Waivers</u>. CAS is subject to waiver in whole or in part under <u>22 U.S.C.</u> § 2761(h). See paragraph 13.3 for more information on CAS waivers. A listing of waived programs is included in the <u>SAMM C9</u>. CAS waivers apply only to those cost elements approved for the entire LOA, not only to a specific line/sub-line. CAS waivers are case-based and apply to new cases implemented on or after the approved waiver date. They are not retroactive nor applied to amendments on cases implemented prior to the waiver. The waived CAS element must be charged to DoD appropriations. DFAS and DSCA must reject billings to the FMS Trust Fund CAS Surcharge Account for charges that were waived.

## 16.4 CAS Costs Incurred in Support of Foreign Country Commercial Contracts

DoD support of commercial contracts awarded by foreign countries and international organizations represents an FMS sale of services. The Defense Contract Management Agency is responsible for performing this function. The hours expended in support of these commercial contracts must be accumulated and billed at an FMS contract administrative hourly labor rate published each FY by OUSD(C). For the current rate, see "Financial Management, Reports, Department of Defense Reimbursable Rates," Contract Administration (Tab E).

## 16.5 Costs for Government-Furnished Material (GFM)

16.5.1. <u>Supplied From Inventory</u>. All GFM supplied from inventory must be billed to the FMS case as "work in process" when the GFM is shipped from a depot to a contractor (Chapter 8). The billing price must be the same as a direct sale to an FMS purchaser, plus applicable accessorial costs.

16.5.2. <u>Supplied From a Contractor</u>. All GFM supplied from another contractor must be billed to the FMS case as "work-in-process" when payments are made to the contractor supplying the GFM. GFM should be shipped via a CCBL or prepaid by the supplying contractor. Contracts with contractors supplying GFM should directly cite the FMS Trust Fund as the financing source to the maximum extent possible.

16.5.3. <u>Precious Metal</u>. When precious metals recovered under the precious metals recovery program are provided as GFM to a contractor, the material must be valued at the market price on the date it is supplied to the contractor. Market price must be determined from any authoritative publication, such as *The Wall Street Journal*.

## 16.6 Other DoD-Funded Services in Support of FMS Procurements

- 16.6.1. The cost of DoD-provided or DoD-funded engineering services that are required to solve problems encountered during a production run must be allocated to FMS purchasers based on the number of items that are in the production run.
- 16.6.2. If components are procured for an FMS purchaser and assembled by DoD personnel, assembly labor costs must be assessed in accordance with section 20.0.
- 16.6.3. If a contractor is designated as the source of supply for nonstandard items to be procured for FMS purchasers, the contract price for the applicable items will normally include the additional cost(s) incurred to research and procure the nonstandard items. Any reasonable method of allocating these additional costs is acceptable. The test of the reasonableness of the contractor's costing allocation would be acceptance of the method by DCAA.

#### 16.7 Customization Costs

The cost of deviations from USG configuration and special technical data desired by a foreign government must be included as a charge to that foreign government.

## 16.8 Items to be Replaced by Later Production (Diversions)

When new production and procurement items are diverted from Military Department delivery schedules, and will be replaced by later production, these items must be priced at the current production cost or the replacement production cost, whichever is higher.

# 16.9 Production by a Foreign Government

When a portion of the production quantity is to be produced by the purchasing foreign government, costs must be computed separately in accordance with cost methods established by the foreign government and accepted by the USG.

# 16.10 Recoupment of Interest Penalties Due to Prompt Payment Act

The FMS Trust Fund must pay or reimburse any prompt payment interest penalty payments that are incurred (*Title 5, Code of Federal Regulation, Part 1315*, Prompt Payment). Vouchers for interest penalties incurred on FMS procurements must cite the same line of accounting supplied by DFAS SCA prior to the beginning of each FY. If, at the time of occurrence, the appropriate fund cite is unknown, contact DFAS SCA. DFAS SCA has assigned a unique accountable station number for each Service or Component for the purposes of accounting for prompt payment interest penalty reporting.

16.10.1. Within 30 days after the end of each quarter, each assigned DFAS SCA accountable station must submit the FMS Prompt Payment Act Report to DSCA. This report contains three sections reflecting the interest penalties paid by the number of transactions, the dollar amount, and a reason code.

16.10.2. Each assigned DFAS SCA accountable station must submit an FY end-of-year report annually. Since the fourth quarter report is an aggregate of the entire FY, the quarterly report also serves as the annual requirement. This report is due to DSCA 45 days after the end of the FY.

#### 16.11 Price Codes

The DoD Components will make every effort to obtain the final price for contract-supplied items within 180 days of reported delivery. However, the use of estimated price codes is approved for reporting the deliveries of major end items if an actual price code is not available within 30 days after the date of shipment. Moreover, the use of estimated price codes is mandatory for reporting the deliveries of major end items if an actual price code is not available within 90 days after the date of shipment.

#### 17.0 LEASING OF DEFENSE ARTICLES

Defense articles are leased to a foreign country or international organization under the authority of <u>22 U.S.C.</u> § <u>2796</u>. Inspection, restoration, maintenance, accessorial costs, or other support costs incurred in connection with the lease must be priced in accordance with this chapter and included on a separate LOA. Lease charges must apply except for cooperative R&D projects, military exercises, communications, and/or electronics interface projects. Reimbursement of the lease charge for any defense article that has passed 75 percent of its normal service life may be waived if it is determined that doing so is important to the national security interest of the United States. This waiver authority has been delegated to the Director, DSCA or in the absence of the Director, the Deputy Director.

# 17.1 Pricing of Leased Defense Articles

The amount to be charged for the lease of defense articles is the depreciation incurred during the period of the lease. The depreciation charge is dependent upon the following (see Exhibit 7-10):

- 17.1.1. Date the item is to be leased,
- 17.1.2. Date the item was first fielded or actual acquisition date,
- 17.1.3. The total estimated service life of the item.
- 17.1.4. Duration of the lease,
- 17.1.5. The original acquisition cost of the item,
- 17.1.6. A pro rata share of nonrecurring RDT&E and production costs, and
- 17.1.7. Capital improvements made to the item.

# 17.2 Replacement Costs

Replacement costs must be estimated when the item is placed on lease and reflected in the lease agreement. In the event a leased defense article is damaged beyond repair, or is not returned, the replacement cost must be collected from the leasing foreign country or international organization. The FMS administrative surcharge does not apply to lease rental payments. The replacement cost must be calculated in accordance with subparagraphs 15.2.2 and 15.2.3. Refer to <u>SAMM C11</u> for procedures on leasing arrangements.

#### 18.0 TECHNOLOGY TRANSFER

#### 18.1 Technical Data Package (TDP)

A TDP encompasses production designs, drawings, specifications, models, manufacturing techniques and details, and similar information necessary to enable a foreign government to manufacture, or have manufactured, items of military equipment and repair parts, excluding information associated with the RDT&E stage. It also does not include technical assistance or knowledge by USG personnel; however, such assistance may be provided at additional cost. Refer to *SAMM C3* for additional information on TDP.

#### 18.2 Pricing of TDPs

DSCA may authorize release of a TDP to a foreign government for in-country manufacture of military equipment and repair parts. Costs incurred in the preparation, reproduction, and handling of the TDP must be priced in accordance with section 19.0. When the pricing of the TDP is subject to an international agreement of which DoD is a party or is otherwise bound, the sale will be determined consistent with the terms of the agreement.

#### 19.0 PUBLICATIONS

Generally, the cost for a DoD standard publication is the incremental cost to produce another copy. Effective October 1, 2004, acquisition and development costs are excluded in determining the costs of a DoD standard publication.

#### 19.1 Terms

- 19.1.1. <u>Publications</u>. The term publications include technical orders, technical manuals, supply catalogs, training publications, courseware, computer-based tutorials, administrative publications, engineering drawings, and associated documents, Integrated Logistics Support publications and associated documents, equipment component lists, special file extracts, decals, forms, and audio-visual products.
- 19.1.2. <u>Medium of Publications</u>. The medium of publication refers to the format of the publication; it may be in bound or loose-leaf format, imprinted form, Automated Data Processing listing, operator's card, microfilm, slide, motion picture film, computer disc, or internet accessible.
- 19.1.3. <u>FMS Purchaser-Unique Publication</u>. Unique publications are DoD standard publications sanitized for the elimination of non-releasable information or publications developed for a country's unique specification. Engineering drawings and associated documents will be reviewed to determine if a technology charge is appropriate. Refer to subparagraph 15.2.2 when pricing DWCF publications.

## 19.2 Publication/Software Pricing Factors

Publications or software developed solely for the use of an FMS purchaser(s), such as a country-unique technical order/software, instructions, or other publications and programs, must be priced to recover the total costs (including both in-house and contractual efforts) of development and delivery of the end product. These costs must include but are not limited to, the amounts paid for technical or administrative writing, editing, illustrating, animation, copy preparation, documentation, royalty fees for intellectual property, and distribution services. The costs of additional copies or masters must be limited to the actual costs of reproduction to include media (e.g., disk, tape, compact disk, and hardcopy) and distribution/delivery. The development of FMS prices for current, standard publications, or software programs/products of the DoD includes copy production cost (CPC) and SC.

- 19.2.1. <u>CPC</u>. CPC are the costs incurred in the printing or reproduction of copies from the reproducible master.
- 19.2.2. <u>SC</u>. SC are the costs incurred in the elimination of non-releasable information from a DoD publication/software program prior to release to a foreign government. SC includes the costs of classified handling, development, and maintenance of country-peculiar publications or programs, including costs associated with updating manuals/programs for nonstandard items (such as items out of inventory or out of production).

# 19.3 Development of a Per Copy Selling Price

- 19.3.1. <u>Calculation</u>. The total cost of a publication or software program is the sum of the incremental costs identified in paragraph 19.2. The total cost must be reduced to a per copy expression by dividing the total incremental cost by the quantity produced.
- 19.3.2. <u>Use of Actual Cost</u>. Recorded actual costs will be used when available. When actual costs for individual publications or programs cannot be readily determined, a factored expression of historical costs will be developed from the most current cost records available. Uniform pricing tables can be developed from the cost per "unit" ("unit" being either a page, a roll of microfilm/microfiche page, or a running foot of tape or motion picture film). Paragraph 19.2 includes guidance for developing publication pricing tables.

## 19.4 Other Applicable Costs

- 19.4.1. Recoupment of NC does not normally apply to the sale of publications or software. However, if the item is MDE, then NC recoupment charges would apply. Applicable NC recoupment charges are a part of the cost included in the pricing formula set forth in paragraph 19.3.
- 19.4.2. The standard administrative and accessorial charges prescribed in this chapter must be recouped as a percentage of publication/software prices. These charges are not included in the per copy selling price.
- 19.4.3. The FMS price for a joint Military Service publication or software program must be established by the Military Department responsible for its acquisition and management. That Military Department must notify the other participating DoD Components of the established FMS price.

# 20.0 PRICING OF PERSONNEL SERVICES

The pricing of DoD personnel services in support of the FMS program, including personnel costs recouped indirectly through the FMS administrative surcharge and those recouped as direct charges, such as special management services, Mobile Training Teams, Mobile Education Teams, Technical Assistance Teams, or Technical Assistance Field Teams, must be calculated in accordance with this section. See section 21.0 for the pricing of personnel assigned to DoD training installations and for those costs that may be waived or excluded from charges in certain cases discussed throughout this chapter. When determining the pricing for personnel services, every attempt should be made to use actual costs. If actual cost data is not available, estimated pricing is acceptable. The costs must be substantiated by a reliable audit trail.

#### 20.1 Civilian Personnel

Services performed by DoD civilian personnel must be priced at rates in effect at the time the services are performed. Salary tables are available at the Office of Personnel Management (*OPM*) website.

Base salary rates must be accelerated as discussed in this paragraph. An illustration of civilian personnel pricing computation is shown in Exhibit 7-11.

## 20.1.1. Accelerated Rates and Factors

- 20.1.1.1. Fringe Benefits Rate is used to recover the USG's contribution of civilian employee benefits such as retirement, insurance and health plans, and cash awards, and is published annually at OUSD(C) DoD Reimbursable Rates, "Civilian Personnel Fringe Benefit (Tab D)".
- 20.1.1.2. Leave and Holiday (L&H) Factor is used to compensate for wages paid during leave or holiday period, and is currently set at 18 percent. L&H is not applied to civilian personnel assigned full time to a given requirement.
- 20.1.1.3. Unfunded Civilian Retirement (UCR) Factor is applied to recover retirement, post-retirement health benefits, and post-retirement life insurance costs incurred by USG, and is published annually at OUSD(C) DoD Reimbursable Rates. UCR does not apply to BPC Case- or FMS Admin-funded personnel.
- 20.1.2. The cost of civilian personnel assigned full time to FMS Case-funded requirements should reflect the annual salary for the applicable pay grades plus the Fringe Benefit Rate plus the UCR Factor. Otherwise, an hourly rate of 1/2087 of the annual rate plus the L&H Factor will be used, and the Fringe Benefits Rate and UCR Factor are then applied to the calculated hourly rate.
- 20.1.3. The cost of civilian personnel assigned full time to BPC Case-funded requirements, or funded 100 percent from the FMS Administrative Surcharge Budget, should reflect the annual salary for the applicable pay grades plus the Fringe Benefit Rate. Otherwise, an hourly rate of 1/2087 of the annual rate plus the L&H Factor will be used, and the Fringe Benefits Rate is then applied to the calculated hourly rate.
- 20.1.4. See paragraph 13.8 for the impact of "Fair Pricing" legislation on civilian personnel services in calculating charges for administrative services under 22 U.S.C. § 2796(e)(1)(A).

#### 20.2 Military Personnel (MP)

- 20.2.1. MP services must be priced using the composite standard pay and reimbursable rates current at the time services are performed. MP service costs are not included in cases solely citing MAP Merger, FMF, or BPC funding.
- 20.2.1.1. DoD Reimbursable Rates, "Military Personnel Composite Standard Pay and Reimbursement Rates (Tab K)," are published, and periodically revised, by the OUSD(C). FMS costs are calculated using the "Rate Billable to FMS Entities." Monthly, daily, or hourly rates can be determined from these tables by using factors listed in the notes at the bottom of each page.

- 20.2.1.2. Historical rates are available by applicable FY, as noted in the DoD Reimbursable Rates. Prior to November 30, 1989, an Asset Use acceleration factor would have applied to the total costs of temporary duty (TDY) and military composite pay costs if the service was performed at a military installation.
- 20.2.2. Since FY 1985, the annual composite standard military rates include the cost of retirement. These composite rates, however, must also recover the cost of other benefits. L&H costs are added when reimbursements are based on time actually worked, such as when the foreign country does not otherwise pay for the personnel costs incurred by DoD during L&H periods. The additive amounts for retirement, L&H, and other benefits are expressed as percentages of the composite standard pay rate. Pricing computations are illustrated in Exhibit 7-12.
- 20.2.3. Permanent change of station (PCS) costs are included in the composite standard pay rates and are subject to reimbursement factors. For cases prior to FY 2005, if MP were required to make a PCS move to support an FMS case, the PCS rate must be deleted from the composite rate and the actual PCS cost charged to the case is not subject to any additional reimbursement factor. Effective FY 2005, MP services for FMS must be priced using the composite rates that already include the PCS expense and must no longer use the actual PCS expense for PCS moves to support an FMS case.

# 20.3 Foreign National Personnel

Foreign national personnel services must be priced at actual costs or at standard pay rates. Standard pay rates must not be used when known to be less than actual costs. Both the actual cost and the standard pay rate must 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 these employees or are specifically required by the laws of the foreign government.

## 20.4 Travel and Living Allowances

- 20.4.1. The calculation of personnel costs must include travel time, for both TDY travel and PCS, when the travel directly results from the performance of an FMS or BPC case (PCS does not apply to BPC).
- 20.4.2. Travel, per diem, living allowance payments, and other entitlements to DoD personnel working on FMS cases must be identical to the payments and entitlements of DoD personnel working on direct DoD mission assignments at similar locations. Refer to Volume 9 for additional information.
- 20.4.3. Waivers from the normal travel procedures must be granted to SA travelers on the same basis, and in the same manner, as provided for DoD personnel traveling on regular defense business.
- 20.4.4. An FMS case must be priced to include the amount paid to employees or centrally funded through authorized DoD entitlement programs.

# 20.5 Special Instructions Applicable to DWCF

- 20.5.1. <u>Rates</u>. DWCF facilities must charge approved DoD stabilized rates and prices for services in support of FMS cases, except where special rates have been approved by OUSD(C) or where actual cost reimbursement is appropriate. The stabilized rate to be charged is the rate in effect when the order is received and accepted (as opposed to when work is performed by DWCF supply management). See Volume 2B, Chapter 9 and Volume 11B for additional information on DWCFs.
- 20.5.2. <u>UCR and Post-Retirement Health Benefits</u>. The price or rate charged to FMS purchasers of DWCF activities for defense articles and services must be adjusted to include an amount for UCR and post-retirement health benefits costs. UCR would not be applied to any personnel funded by the FMS administrative account (see paragraph 13.8). To determine the price or rate adjustment, the civilian salary costs (not including benefits or overtime costs) included in the price or rate, must be multiplied by the UCR and post-retirement health benefits costs rate. Amounts collected for UCR and post-retirement health benefits costs must not be retained by DWCF activities; rather, such amounts must be deposited into the Miscellaneous Receipts Account 3041. The DoD Reimbursable Rates can be found at the OUSD(C) DoD Reimbursable Rates website.

## 21.0 TRAINING OF INTERNATIONAL STUDENTS

#### 21.1 General

Any special requirement for the exclusive use of an international student or international program must be reimbursed in full. Less than the full cost of training may be charged under training price exceptions, 22 U.S.C. § 2761.

## 21.2 International Student Training Price Exceptions

- 21.2.1. Title 22, U.S.C. § 2761(a)(1)(C) allows for countries concurrently (same FY) in receipt of International Military Education and Training (IMET) or designated as a high-income foreign country to be charged only those additional costs that are incurred by the USG in furnishing the training.
- 21.2.2. Title 22, U.S.C. § 2761(g) authorizes the President to enter into NATO Standardization Agreements (STANAG). The President also is authorized to enter into similar agreements with countries that are major non-NATO allies for the cooperative furnishing of training on a bilateral or multilateral basis, if the financial principles of such agreements are based on reciprocity.
- 21.2.2.1. Such agreements must include reimbursement for all direct costs but may exclude reimbursement for indirect costs, administrative surcharges, and costs of billeting of trainees (except to the extent that members of the U.S. Armed Forces, occupying comparable accommodations, are charged for such accommodations by the United States).

21.2.2.2. Each such agreement must be transmitted promptly to the Speaker of the House of Representatives and the Committees on Appropriations, Armed Services, and Foreign Relations of the Senate. See <u>SAMM C10.T13</u> and <u>SAMM C10.T14</u> for more information on Reciprocal Agreements.

## 22.0 STANDARD GUIDELINES FOR TUITION-BASED TRAINING

Training provided to international students must be based on the costs of providing the training. Several factors affect the tuition rate for which an international student is eligible. The source of financing is one determinant (e.g., whether a country uses its national funds to purchase training or whether U.S. appropriated funds are used to purchase the training). Other factors include whether a country is a high-income country, whether it has signed a reciprocal training agreement with the United States, and/or whether the country is concurrently in receipt of IMET funding. A general tuition rate pricing structure for pricing training is in Exhibit 7-13.

# 22.1 Types of Training

- 22.1.1. <u>Standard Formal Training</u>. Formal training provided to international students may consist of flying training courses, technical training courses, language training, and other training not specifically addressed in subparagraph 22.1.2. Tuition rates are generally shown as a cost per student or cost per student week. Refer to section 23.0 for pricing of tuition-based training.
- 22.1.2. <u>Nonstandard Formal Training</u>. Nonstandard formal training courses follow the same pricing concepts as formal training with the following noted exceptions:
- 22.1.2.1. <u>Observer Training</u>. Observer training where International students, who audit a course, must be charged the same price as enrolled students; and
- 22.1.2.2. <u>Distance Learning</u>. Distance learning or other technology-based training as follows:
- 22.1.2.2.1. A material-only training course that is provided solely by computer media (e.g., computer disc), satellite video teleconference (VTC), or closed circuit VTC, is non-resident, and is being developed solely for the training of international students (one country or a group of cooperating countries), must be priced to fully recoup all costs to the USG including the costs (in-house and contractual) to develop and produce the training, and the costs of the materials (such as a computer disc) (see paragraph 19.2 for publication/software pricing);
- 22.1.2.2.2. A material and proctor/online service, non-resident training course developed solely for the training of international students (one or more countries) that is provided by computer media (e.g., computer disc), plus online services (proctor), to include testing, must be priced to recoup all costs (in-house and contractual) to develop and produce the training; the costs of the materials (such as a computer disc); and the actual, or estimated, costs of the services (see paragraph 23.1 for training cost categories and paragraph 19.2 for publication/software pricing); and

- 22.1.2.2.3. Resident courses developed solely for the training of international students that is on computer media (e.g., computer disc), plus on-line services (proctor), must be priced to recoup all costs (in-house and contractual) to develop and produce the training; the costs of materials (such as computer disc); the actual, or estimated, costs of the services; and the costs for resident training (see paragraph 23.1 for training cost categories and paragraph 19.2 for publication/software pricing).
- 22.1.2.3. <u>Dedicated Training Courses</u>. For purposes of this section, a dedicated training course is a training course developed or provided solely for the training of international students (one or more countries). Pricing of dedicated training courses must be in accordance with section 24.0.
- 22.1.2.4. <u>Contractor-Provided Courses</u>. Contractor-provided courses must include the applicable contract costs. If taught at a government-owned/government-operated facility, the pricing of indirect costs must be in accordance with section 23.0.
- 22.1.2.5. <u>Inter-American Air Forces Academy and Western Hemisphere Institute</u> <u>for Security Cooperation Courses</u>. Training costs associated with courses offered at the Inter-American Air Forces Academy and Western Hemisphere Institutes for Security Cooperation Courses must exclude the fixed costs of operating and maintaining the schools (e.g., costs that do not vary with student load).
- 22.1.2.6. <u>Specialized/Dedicated Training Programs</u>. Refer to section 24.0 for specialized/dedicated training program guidance.
- 22.1.2.7. <u>Training Teams</u>. Refer to section 25.0 for pricing guidance for the training team.

#### 22.2 Courseware Development

# 22.2.1. Recoupment of Nonrecurring Development Costs

International student participation in any of the aforementioned types of courses that have been developed for use by U.S. DoD personnel must not include the recoupment of nonrecurring development costs. Since these courses/courseware are not items of SME or MDE, the nonrecurring development costs of the original U.S. courses/courseware must not be included in the price. The costs of providing unique training material based on U.S. developed course/courseware (e.g., sanitizing, customizing, and country standardization) must be recouped.

# 22.2.2. Pricing of Non-Inventory Courseware

22.2.2.1. When an international partner has requested that specific courseware be developed to meet its training requirements, either for training in the U.S. or for its own in-country training purposes, and the United States does not currently offer or have such courseware developed, the full costs of developing that courseware must be charged to the international partner. Assumptions used in pricing include: courseware does not currently exist,

country-specific requirements being addressed/developed, work hours required to prepare/develop the courseware, courseware may require materials, and courseware may be used in the future for another country if deemed appropriate.

- 22.2.2.2. The cost must include but is not limited to, the personnel or contractor costs incurred in the development of the courseware material, and/or supply costs incurred for the cost of publishing the courseware, and any shipping costs that may be incurred if delivering the courseware in-country. The guidance for applying costs to publications, if applicable, may be found in section 19.0.
- 22.2.2.3. When determining the pricing for personnel services, every attempt should be made to use actual costs. If actual cost data is not available, estimated pricing is acceptable. The costs must be substantiated by a reliable audit trail. Pricing of civilian/MP will be in accordance with section 20.0.

# 22.3 Liability for Damages

- 22.3.1. Training cases that involve the use of U.S. equipment (e.g., aircraft, trucks, or simulators), but do not include charges for attrition, must include the statement regarding liability for damages, "The Purchaser is liable for any and all damages to U.S. Government equipment caused by negligence on the part of the student." For students attending training under the IMET program, the student's Invitational Travel Order (ITO) must include the liability statement. The cost of replacing equipment that is destroyed as a result of student negligence must be reimbursed in full. See section 15.0 for instructions on pricing replacement equipment. Refer to Chapter 3 for guidance on attrition charges.
- 22.3.2. Claims arising out of combined exercise activities with USG under an LOA with NATO countries must be dealt with under the Agreement between the Parties to the North Atlantic Treaty, regarding the Status of their Forces, Article VIII. This also applies to the Agreement among the States Parties to the North Atlantic Treaty and the other States participating in the Partnership for Peace regarding the Status of their Forces.

#### 22.4 Training Obligation

- 22.4.1. <u>General</u>. In general, a training course is an entire effort. This is particularly evident with USG contracted training. However, USG-provided training funded by DoD or DoS appropriations must end by the funds expiration date, as this training is severable and must not cross an FY, unless crossing an FY is authorized for a specific authority or program (i.e., FSF: authority to build capacity under 10 U.S.C. § 333, IMET, Combating Terrorism Fellowship Program and the Regional Centers).
- 22.4.2. <u>Obligations</u>. Funds for training are obligated on the date the student enters the course. In some cases, due to the long-range nature of planning required to support students' participation in a training course, funds can be obligated prior to the start date of the course, so long as the obligation meets a bona fide need of the current FY and are obligated during the appropriated period of availability.

#### 22.5 Annual Publication of Tuition Rates

Tuition rates must be computed annually by the Military Departments and published in the Training Military Articles and Services List (<u>SAMM C10.4.3</u>). Every effort should be made to publish these rates by October 1st of each year. Tuition rates must be those in effect for the year in which the student enters the course or phase of a course. Approved rates must remain constant for the year.

## 22.6 Adjustments to Tuition Rates and Training Obligations

- 22.6.1. <u>Current Year</u>. Adjustments must be made only to correct significant errors in computation, change in syllabus, or major unanticipated increases or decreases in the cost of such items as POL and salaries. The foreign country must be billed for the actual time the student is in training when it varies from the scheduled length of the course. Any adjustments must be made as soon as possible, but not later than 90 days after completion of the course.
- 22.6.2. <u>Future Year</u>. Tuition rate estimates for future years must be adjusted for inflation. OUSD(C) published rates will be used. See <u>OUSD(C) DoD Budget Request</u>, "National Defense Budget Estimates (Green Book)," for treatment of inflation.

# 22.7 Training Cancellations

- 22.7.1. <u>Dedicated Courses/Contract Provided Training</u>. Once a contract is awarded or a quota is confirmed, a 100 percent charge (cancellation charge) will apply to any country that fails to send a student to the identified training, unless another international student is identified and the quota is filled. Dedicated/contract training will only apply to certain courses. This training will include courses that rely on contract support and courses that are designated for international students only. A list of these courses will be identified by the IAs.
- 22.7.2. <u>All Other Confirmed Training</u>. A 50 percent cancellation charge will apply for all confirmed training canceled or rescheduled with less than 60 days notification unless training is reallocated and filled by another international student. The cancellation policy will be applied to all confirmed training within the 60-day window. Additionally, the cancellation charge will be applied to all training that falls within and outside the 60-day window if the training is part of a sequential pipeline that a student would attend as part of a complete curriculum.
- 22.7.3. Other Cancellation Charges. The IA will determine all other cancellation charges. To the extent that there are costs that would not exist but for the international student, such costs must be considered by the IA in determining the appropriate cancellation charge (e.g., cost of the International Military Student Office (IMSO)). Request for waivers to these cancellation charges should be addressed to the IA. The funding status of a training line has no bearing on whether the cancellation charge applies. The cancellation charge will not be applied when the cancellation is due to:
  - 22.7.3.1. USG decisions, such as deletion or rescheduling of classes;

- 22.7.3.2. Unavoidable circumstances within a country, such as national disaster; or
- 22.7.3.3. The quota being used by another country.

## 22.8 Student Costs

Certain costs associated with the support of international students and/or their dependents are considered to be a responsibility of the foreign government and are not included in the tuition rate for a training course(s). The student's ITO will contain details about the level of support provided in accordance with the FMS LOA; see <u>SAMM C10.11</u> for more information. Compute and bill these costs as follows.

- 22.8.1. <u>Meals</u>. Meal rates are set annually by OUSD(C) and published on the OUSD(C), DoD Reimbursable Rates, "Food Service Charges at Appropriated Fund Dining Facilities (Tab G)."
- 22.8.2. <u>Medical</u>. Medical care (including outpatient) for students and dependents must be charged in accordance with the procedures identified in <u>SAMM C10.9</u>. If included on the LOA, these costs must be shown as a separate line and billed to the foreign country.
- 22.8.3. <u>Travel</u>. Student travel, living allowances, and related costs must be paid to the commercial carrier, or other service provider, by the foreign country or student. For any U.S. services supplied (e.g., Air Mobility Command transportation), the non-government rate must be applied and billed to the foreign country or student, as appropriate. The government rate applies for IMET or non-repayable FMF.

## 22.8.4. <u>Lodging</u>

- 22.8.4.1. <u>Family Housing</u>. International students may occupy DoD student family housing only after a determination has been made that U.S. student requirements are satisfied and must be satisfied for the projected duration of the international student's occupancy. Under these circumstances, the amount to be charged must be, at a minimum, the cost incurred by DoD for the operation and maintenance of family housing units. When international students occupy family housing that is not in excess of U.S. Military Service needs, the amount to be charged must be equal to the cost of housing U.S. military service personnel on the economy.
- 22.8.4.2. <u>Government Quarters</u>. When international students occupy government quarters, they must be required to pay, at a minimum, the local custodial and non-appropriated fund fees.
- 22.8.4.3. <u>NATO STANAG/Reciprocal Pricing Agreement Countries</u>. Lodging costs may be excluded from reimbursement for the billeting of trainees except to the extent that members of the Armed Forces occupying comparable accommodations are charged for such accommodations by the United States.

## 22.9 Field Studies Program (FSP)

In accordance with <u>DoDI 5410.17</u>, "United States Field Studies Program (FSP) for International Military and Civilian Students and Military-Sponsored Visitors," tuition rates must include the costs associated with the implementation of FSP.

- 22.9.1. <u>Included Costs</u>. Costs that may be included in the computation of the FSP include the following:
- 22.9.1.1. Transportation car, bus, rail, air (if applicable to the Washington D.C. trip), and baggage (non-excess);
- 22.9.1.2. Meals costs should be limited to those rates as specified in the Joint Travel Regulations, (JTR);
- 22.9.1.3. Lodging if applicable, the costs of lodging will be based on double occupancy for those International Military Students (IMS) in the rank/equivalent grade of O-6 and below. Single-room accommodations are allowed for escorts and those IMS in the rank/equivalent grade of O-7 or higher;
  - 22.9.1.4. Admission (except as noted in subparagraph 22.9.2.4);
  - 22.9.1.5. Tours and associated fees (e.g., brochures, pamphlets, maps);
  - 22.9.1.6. Appropriate gratuities, where applicable;
  - 22.9.1.7. Service charges (e.g., tolls and parking fees);
- 22.9.1.8. Costs associated with authorized guests at FSP functions such as luncheons, dinners, and receptions planned to facilitate IMS and U.S. personnel meetings and engaging in conversation. The ratio of IMS to guests will not be less than 20 percent in gatherings of fewer than 30 persons. When 30 or more persons are present, the ratio of IMS to guests will not be less than 50 percent;
- 22.9.1.9. Mementos (e.g., coins and plaques) for sponsors, guest speakers, and other individuals/institutions that support the FSP at a cost not to exceed \$25 (rate to be adjusted annually by OUSD(C) in each year's Program and Budget Review Inflation Guidance); and
- 22.9.1.10. Distinctive medallions, plaques, or ornaments, one per IMS, which serve to commemorate the IMS's experience for participating in a particular FSP activity.
  - 22.9.2. Excluded Costs. Funds may not be obligated or expended to pay for the following:
    - 22.9.2.1. Alcoholic beverages;
    - 22.9.2.2. Excess baggage;

- 22.9.2.3. Support for purely academic objectives (i.e., costs for trips that are an integral part of the training curriculum must be included in the course tuition rate);
- 22.9.2.4. Entertainment expenses for activities that are substantially of a recreational character, including but not limited to entrance fees at sporting events, theatrical and musical productions, and amusement/theme parks;
- 22.9.2.5. Personal costs of the IMS for laundry, cleaning, telephone service, room service, and all other costs not directly associated with the programmed tour; and
- 22.9.2.6. Dependents authorized to accompany an IMS in the United States participating in selected FSP activities; such participation is subject to space availability and at no cost to the FSP. Costs related to such participation must be paid by the IMS in advance of the event.

## 22.9.3. IMSO Costs

- 22.9.3.1. Local area travel costs are reimbursable in accordance with the JTR.
- 22.9.3.2. Washington, D.C. trip costs will include all appropriate costs for the IMS as well as the escort officer(s) (e.g., transportation, meals, lodging, and admissions). For more information on visits to Washington, D.C., see <u>SAMM C10.18.5</u>.

#### 22.10 Retainable Instructional Materials (RIM)

Much of the RIM issued to an IMS is provided via compact disk; however, if there is a need to ship RIM, include the cost of the shipment in the tuition cost. RIM must be packed and labeled at the training installation and shipped to the Security Cooperation Office of the country for delivery to the IMS. A copy of the student's ITO must be placed inside the package. The training installation must ensure that no personal baggage or other unauthorized matter is shipped with RIM. See *SAMM C10.20.6* for additional information.

#### 23.0 PRICING OF TUITION-BASED TRAINING

# 23.1 Cost Categories

The pricing of training tuition rates falls under one of two costing schemes – full cost or incremental cost. Within each cost scheme, costs are segregated into three categories: direct costs, indirect costs, and other billable costs.

23.1.1. <u>Direct Cost</u>. A direct cost is any cost that is identified specifically with the training of a student. Direct costs also include directly associated costs that would not have been incurred had the other direct costs not been incurred (e.g., costs that are allocated on a specific measurable basis - cost per student week, cost per flying hour/sortie, costs per steaming hour, costs per range hour).

- 23.1.2. <u>Indirect Cost</u>. Indirect costs are costs of resources that are jointly or commonly used by all activities at an installation, but are not specifically identifiable with any of the users. These costs are not directly related to training but instead are associated with a variety of activities and services.
- 23.1.3. Other Billable Cost. Other billable costs are those required by legislation or policy that are additive to the cost of training an international student (e.g., FMS administrative surcharge, FSP, attrition, and RIM.

## 23.2 Pricing of Personnel

## 23.2.1. MP

- 23.2.1.1. <u>Full Costs.</u> Price military pay using the FMS composite standard rates, which include the per capita normal cost of Medical Eligible Retiree Health Care (MERHC) and the acceleration factor for the Defense Health Program (DHP) published at OUSD(C) DoD Reimbursable Rates website, under "Military Personnel Composite Standard Pay and Reimbursement Rates," (Tab K). In addition, see paragraph 20.2 and Exhibit 7-12 for pricing applicability.
- 23.2.1.2. <u>Additional Cost</u>. Base pay and allowances of U.S. active duty personnel, including MERHC and DHP costs, are considered sunk costs and are normally not considered an additional cost, except as noted in paragraph 23.4. Additional costs related to military deployment as part of a training team could include such costs as hazardous duty pay, family separation pay, travel, and per diem. Exceptions are:
- 23.2.1.2.1. Military positions coded as reimbursable billets applicable to FMS must be considered additional costs. Budget materials must clearly reflect the reimbursable nature of the billet;
- 23.2.1.2.2. MP assigned to DWCF activities must be considered additional costs; and
- 23.2.1.2.3. Pay and allowances of National Guard/Reserve members called to active duty in support of FMS must be considered additional costs.

#### 23.2.2. Civilian Pay

- 23.2.2.1. Full Cost. Price civilian pay in one of two ways:
- 23.2.2.1.1. Using actual costs plus inflation and applicable acceleration factors (recommended for tuition pricing); or
  - 23.2.2.1.2. In accordance with paragraph 20.1 and Exhibit 7-11.

23.2.2.2. <u>Additional Cost</u>. Base pay and allowances of U.S. civilians are not necessarily considered sunk costs and may/may not be considered an additional cost. Additional costs related to civilians deploying as part of a training team could include such costs as hazardous duty pay, travel, and per diem. See Exhibit 7-13 for tuition training pricing applicability. Additional costs would include:

23.2.2.2.1. Civilian positions coded as reimbursable billets applicable to FMS. Budget materials must clearly reflect the reimbursable nature of the billet; and

23.2.2.2. Civilian personnel assigned to DWCF activities.

## 23.3 Pricing of Full Cost of Training (Tuition Rates A and B)

Full cost includes all direct costs and a proportional share of indirect costs to the USG for providing the training, regardless of funding sources. When developing the full cost of training, take into account the cost of training both U.S. and international students. For international students, the full cost will also include the other billable costs. Rates priced using full cost principles include Rates A and B in Table 7-2. Training price exceptions are found in subparagraph 21.2.

#### 23.3.1. Direct Costs

Certain costs can be directly identified in training courses. Once identified, the direct cost is divided by the total number of students that can be enrolled in a course to determine the cost per student. Add together all direct costs per student to be included in the tuition rate.

## 23.3.1.1. Instructors and School Support Staff

## 23.3.1.1.1. <u>Instructors</u>

23.3.1.1.1. <u>Average Instructor Costs</u>. The cost of instructor salaries, allowances, and other entitlements is computed by dividing the annual instructor cost by 52 weeks and multiplying the result by the number of weeks in the applicable course (see section 20.0). Divide this cost by the maximum class size to develop the instructor cost per student.

23.3.1.1.1.2. <u>Instructor Contact Hours</u>. Instructor costs may be allocated on an instructor contact-hours basis (e.g., total platform work hours allocated as instructor contact hours per student); this is one method to allow for equitable distribution.

23.3.1.1.1.3. <u>Total Training Man Weeks (TTMW)</u>. Instructor costs are calculated by multiplying the number of weeks for given courses times the total number of students enrolled to derive the total "Training Man Weeks" for a given course. The "Training Man-Weeks" for all courses at a training activity are summed together to calculate the TTMW for a training activity. The total salaries for a training activity are then divided by the TTMW to develop a weekly rate. The weekly rate is then multiplied by the number of weeks for a given course to calculate the instructor cost per course.

## 23.3.1.1.2. School Support Staff

23.3.1.1.2.1. <u>Average School Support Staff Costs</u>. Compute the cost of salaries, allowances, and other entitlements of administrative and other personnel supporting training by dividing the total annual cost by the total course weeks of training and multiplying the result by the number of weeks in the applicable course. Divide this cost by the maximum number of students in the class to develop the school support staff cost per student.

23.3.1.1.2.2. <u>Total Training Man Weeks (TTMW)</u>. School support staff costs are calculated by multiplying the number of weeks for given courses times the total number of students enrolled to derive the total "Training Man Weeks" for a given course. The "Training Man Weeks" for all courses at a training activity are summed together to calculate the TTMW for a training activity. The total salaries for a training activity are then divided by the TTMW to develop a weekly rate. The weekly rate is then multiplied by the number of weeks for a given course to calculate the school support staff cost per course.

23.3.1.1.3. <u>IMSO and Staff</u>. Allocate the cost of the IMSO and staff to courses based on actual or programmed international student weeks.

23.3.1.2. <u>TDY</u> and <u>Per Diem</u>. The cost of TDY must be allocated to courses based on a causal or beneficial relationship. Accordingly, TDY must be segregated into two categories: direct TDY that is caused by or benefits a specific course or courses and indirect TDY that benefits the training operation as a whole. TDY that is directly related to (or benefits) one or more courses must be directly allocated to those courses. To preclude "double charging" TDY to a course, care must be taken to ensure that all directly allocable travel is eliminated from the TDY included in the indirect cost pool.

#### 23.3.1.3. Equipment Overhaul and Maintenance

23.3.1.3.1. <u>Depot Level Maintenance</u>. The depot-level maintenance cost of aircraft, engines, motorized vehicles, and equipment must be charged to the applicable course at the budgeted average hourly item repair cost that includes civilian pay, contractual effort, and supplies. These costs must be adjusted to include military pay and centrally procured equipment and parts. Multiply this average hourly cost by the hours programmed for use in the specific course.

23.3.1.3.2. <u>Base Level Maintenance</u>. Base-level aircraft and equipment maintenance costs (including munitions maintenance) must be allocated to courses on the basis of total maintenance costs divided by the total training hours supported, if not identifiable and chargeable on a job order basis. Costs must include military and civilian pay, supplies and equipment (including replenishment spares), and contractual support. If there are a significant number of transit or non-training aircraft at the base, aircraft operating costs must be initially distributed between training and non-training on the basis of percentage of number of takeoffs, number of sorties per year, or maintenance direct labor hours, whichever results in the best allocation of costs in relation to the benefits received. For this purpose, aircraft used by personnel supporting training for proficiency flying must be classified as training aircraft.

23.3.1.3.3. Range Maintenance. Range maintenance and operating costs must be computed and allocated to courses based on the percentage of sorties or rounds fired in the course compared to the total sorties or rounds fired or any other basis that results in an equitable allocation of these costs.

23.3.1.4. Simulators. Simulator costs must include pay of the operators, supplies, and equipment maintenance. Simulator costs must be allocated to the course in the same ratio as hours used to the total hours available.

## 23.3.1.5. Supplies, Material, Training Aids, and Ammunition

23.3.1.5.1. The cost of POL for aircraft (rotary/fixed wing), motorized equipment, ships, landing craft, and other equipment must be computed by multiplying the equipment hourly cost of POL times the number of operating hours for the course.

23.3.1.5.2. The costs for training materials, equipment, supplies, aids, munitions, flight clothing, and personal equipment must be charged to the applicable course. Training material and aids prepared above base level that are readily identifiable to a course, must be included as a direct cost of the course. If not readily identifiable to a specific course, these costs must be distributed to courses in the same manner as indirect TDY costs. Care must be taken to ensure against "double charging" a course.

## 23.3.1.6. Directly Associated Costs

23.3.1.6.1. Other directly associated costs allocable to training operations must be distributed to courses based on total training hour support or any other logical method of measurement (e.g., square footage of buildings, flying hours/sorties, or any other usage factor). Costs in this category include costs generated as a result of the incurrence of another cost and would not have been incurred had the other cost not been incurred (e.g., flight line operations costs in direct support of flying training and port operations in direct support of shipboard training. without which there would be no flying training operations or shipboard training operations).

23.3.1.6.2. The cost for training U.S. instructor pilots, including proficiency and continuation training, must be limited to special aircraft not in the active U.S. aircraft inventory. These costs must be divided by the normal tour of duty for an instructor pilot to arrive at an annual cost that must be distributed to courses in the same manner as instructor salaries and allowances.

#### 23.3.2. Indirect Costs

## 23.3.2.1. <u>Indirect Base Operating Support Costs</u>

23.3.2.1.1. Allocation. Indirect base operating costs must be initially allocated to major claimants (e.g., training activities and tenants) at the installation level using engineering estimates or some other basis to ensure that allocations are commensurate with the benefits received. The amount allocated to training must then be distributed to areas of training

that are significantly different (e.g., flying operations, classroom training, and equipment maintenance). The amount allocated to each area of training must then be distributed to the tuition rate by dividing the amount allocated by the annual estimated student weeks of training.

- 23.3.2.1.2. <u>Exclusions</u>. No costs to support or operate quarters, a family housing complex, and food service activities that are applicable to instructors and training support personnel may be allocated to tuition rates if these costs are recouped in base personnel salaries.
- 23.3.2.2. Maintenance and Repair of Facilities. Maintenance and repair of facilities must be considered part of the normal base operating support costs, unless these costs can be directly identified to a specific user (e.g., dedicated facility, specific to a course or courses). When non-dedicated facilities are used for training, the costs are included as indirect costs in the tuition rates. These costs may be combined with other indirect costs and allocated at the installation level or allocated based on a separate cost pool. IAs may not unilaterally dedicate facilities for international student use and then recoup the full cost of the maintenance and repair of the facilities through tuition rates. Such maintenance and repair costs will be combined with other indirect costs and allocated at the installation level. See sections 10.0 and 11.0 for more information on facility usage.
- 23.3.2.3. <u>Indirect TDY</u>. TDY that is caused by or benefits the training operation as a whole must be allocated to courses by dividing these total indirect TDY costs by the total number of students to determine the course cost per student.
- 23.3.2.4. <u>Training Material and Aids</u>. Training material and aids not readily identifiable to a specific course must be distributed to courses in the same manner as indirect TDY costs.

## 23.3.2.5. Exclusions. Exclude the following from indirect allocations:

- 23.3.2.5.1. Costs associated with combat development, training development (less course development), non-resident instruction, or other activity that offers no support to the training mission, and a pro rata share of school overhead costs to support these elements;
- 23.3.2.5.2. Costs associated with units attached to the training installation with duty stations at another location that are not involved in the training of international students; and
- 23.3.2.5.3. Costs related to underutilized capacity and mobilization requirements, when specifically identified and documented.

## 23.3.3. Other Billable Costs

23.3.3.1. <u>Attrition Rate/Liability Statement</u>. For FY 1996 through FY 2016, Tuition Rate A will include the attrition factor (SAMM C9.T4) whenever the training or education course includes the use of training equipment or operational equipment used as training aids.

For all FYs, Tuition Rate B will include the liability statement in subparagraph 22.3.1. Title 22, U.S.C. § 2761(a)(1)(C) states the full cost of the service must be paid by the purchaser.

- 23.3.3.2. <u>FSP</u>. Tuition rates must include the costs of the FSP if a program exists at the training location. Do not include if there is no FSP at the training location. See paragraph 22.9 and SAMM Chapter 10 for more information on FSP.
- 23.3.3.3. <u>RIM</u>. Tuition rates must include the costs of RIM, if applicable. See paragraph 22.10 for more information on RIM.
- 23.3.3.4. <u>FMS Administrative Surcharge</u>. The current FMS administrative surcharge must be applied to Tuition Rate A. Exceptions are contained in the SAMM Table C10.T13 and *SAMM Table C10.T14*.

## 23.4 Pricing of Additional Cost Training (Rates C, D, and E)

Additional costs represent the increase incurred in the full cost of training due to the addition of international students. Title 22, U.S.C. § 2761(a)(1)(C) provides the authority to apply additional cost pricing to training sold to a purchaser concurrently in receipt of IMET or a purchaser designated as a high-income country. *Title 22 U.S.C. § 2347(b)*, provides the authority for FMF recipients (Rate D) to be charged at a rate comparable to IMET (Rate E). Title 22, U.S.C. § 2770(a)(3) provides the authority to exclude military salaries from additional cost pricing when the training is funded with U.S. appropriated funds; see Exhibit 7-14.

## 23.4.1. Direct Costs

## 23.4.1.1. <u>Instructors and School Support Staff</u>

- 23.4.1.1.1. Courses must be reviewed to determine if the additional cost should be developed for a specific course (e.g., pilot training) or a group of courses. For classroom or technical courses that are similar or that utilize instructors who teach more than one course, such courses may be grouped for computation purposes.
- 23.4.1.1.2. For courses that contain both U.S. and international students, determine instructor and staff requirements for the programmed (maximum) U.S. student load. Estimate the total number of students, both U.S. and international, and the number of instructors and staff required. Where total estimated student requirements exceed maximum programmed student requirements, the difference in instructor and staff between the two projections represents the additional costs. This value, divided by the total number of students, represents the additional cost per student for the course(s).
- 23.4.1.1.3. When there is a one-for-one or one-for-two relationship of instructor to student, the instructor in all cases must be considered an additional cost. If the entire class is composed of international students, the instructor and staff must always be considered additional.

- 23.4.1.1.4. It is anticipated that the additional cost charged for instructors must be minimal for courses or groupings of courses when the ratio is high of either students to instructors or U.S. students to international students.
- 23.4.1.2. <u>TDY and Per Diem.</u> The costs for all student travel and per diem associated with the training must be considered an additional cost. Refer to subparagraph 23.3.1.2 for additional TDY and per diem information.
- 23.4.1.3. <u>Equipment Overhaul and Maintenance</u>. The cost for overhaul and maintenance of major items of equipment, when computed on an hourly use basis, must be an additional cost to a course based on estimated utilization hours. Refer to subparagraph 23.3.1.3 for additional information.
- 23.4.1.4. <u>Simulators</u>. The cost for simulator hours must be an additional cost. Refer to subparagraph 23.3.1.4 for additional information.
- 23.4.1.5. <u>Supplies, Material, Training Aids, and Ammunition</u>. The associated additional cost must be the replacement price of items that are not returned or reusable (including POL) used in conducting the training.

## 23.4.1.6. Directly Associated Costs

23.4.1.6.1. <u>Instructor Training</u>. The training of U.S. instructors or other personnel for special courses normally not conducted for U.S. personnel must be considered an additional cost. When the required training is conducted at a U.S. training facility, the benefiting country must be charged the course cost established in accordance with instructions for computing training costs in paragraph 23.3.

23.4.1.6.2. <u>Facilities and Equipment</u>. The costs for any facilities or equipment acquired primarily for the support of international students, and the support costs thereof, must be considered incremental.

#### 23.4.2. Indirect Costs

Standard weekly rates for base operating support must be charged to additional cost training rates, as developed by the IAs, and adjusted annually. Include only those additional base operating support costs that are incurred because of international student attendance. See subparagraph 23.3.2 for additional information on indirect costs.

## 23.4.3. Other Billable Costs

23.4.3.1. <u>Attrition Rate/Liability Statement</u>. For FMS training sold using additional cost pricing (Tuition Rates C-D in Table 7-2), include the liability statement in subparagraph 22.3.1.

- 23.4.3.2. <u>FSP</u>. The full cost to the USG of FSP must be considered an additional cost. See paragraph 22.9 for more information on FSP.
- 23.4.3.3. <u>RIM Shipment</u>. If RIM is applicable for a course, then the costs must be considered an additional cost. See paragraph 22.10 for more information on RIM.
- 23.4.3.4. <u>FMS Administrative Surcharge</u>. The current FMS administrative surcharge must be charged on FMS training cases/lines receiving incremental pricing (Tuition Rates C-D in Table 7-2). Tuition Rate E (IMET) is exempt from paying the FMS administrative surcharge.

## 23.4.4. Exclusions

The unfunded civilian retirement charge that is deposited to the Miscellaneous Receipts Account of the U.S. Treasury must be considered a fixed cost and not included in incremental priced training rates (Tuition Rates C-E in Table 7-2).

#### 24.0 PRICING OF SPECIALIZED/DEDICATED TRAINING PROGRAMS

When pricing specialized dedicated training programs, full cost-pricing principles (refer to paragraph 23.3) must be applied. Appropriate legislative authority and terms of the formal agreement must be taken into consideration. The information in paragraphs 24.1, 24.2, and 24.3 is provided for current specialized/dedicated training programs. General guidelines for other types of training events are found in the SAMM Chapter 10.

## 24.1 Army Specialized/Dedicated Training Programs

- 24.1.1. The RSAF Peace Prairie CH-47 Chinook Helicopter Training Program. The Peace Prairie Program is conducted under the authority of 22 U.S.C. § 2761(a)(1)(C). As a high-income country, Singapore is eligible to receive training priced using the additional cost concept. Absent a formal agreement, costing procedures should follow the guidelines in paragraph 23.4. Costs associated with the salaries of activated troops of the reserve component/National Guard would be considered an additional cost.
- 24.1.2. The RSAF Peace Vanguard AH-64 Apache Helicopter Training Program. The Peace Vanguard Program is conducted under the authority of 22 U.S.C. § 2761(a)(1)(C). As a high-income country, Singapore is eligible to receive training priced using the additional cost concept. Absent a formal agreement, costing procedures should follow the guidelines in paragraph 23.4. Costs associated with the salaries of activated troops of the reserve component/National Guard would be considered an additional cost.

## \*24.2 Navy Specialized/Dedicated Training Programs

The Naval Small Craft Instruction and Technical Training School (NAVSCIATTS) provides specialized instruction and technical training through formal courses of instruction or mobile training teams to friendly foreign military and other security forces related to naval small

craft instruction and training and to increase professionalism, readiness, and respect for human rights. Section 1202 of the National Defense Authorization Act for FY 2025 amended 10 U.S.C. § 352(e) to authorize the use of various appropriations to the Department of the Navy for NAVSCIATTS operation and maintenance and School requirements for equipment, military construction, food, and food services. To avoid Antideficiency Act violations, the Navy must reference 10 U.S.C. § 352(e), for which appropriations the Navy must use for each area listed in the paragraph.

## 24.3 Air Force Specialized/Dedicated Training Programs

## 24.3.1. Euro-NATO Joint Jet Pilot Training (ENJJPT) Program

- 24.3.1.1. The ENJJPT multinational cooperative training program at Sheppard Air Force Base, Texas is an activity authorized by 22 U.S.C. § 2761(g). The LOAs clearly indicate that the AECA is the authority of the program but remain silent as to which exact section authorizes the activity. Associated program documents (Memorandum of Understanding and Plan of Operations) clearly state that the activity is undertaken "in furtherance of NATO rationalization and standardization" and "in the cooperative spirit of the NATO alliance," while also citing the NATO Status of Forces Agreement.
- 24.3.1.2. While a NATO or Major Non-NATO Ally may also be in receipt of IMET funds, once a cooperative training agreement of the type envisioned by 22 U.S.C. § 2761(g) is signed, it becomes the section of the U.S.C. that determines the terms under which the training activities are conducted if the financial principles are based on reciprocity. These reciprocal agreements include reimbursement for all direct costs and may exclude reimbursements for indirect costs, the FMS Administrative Surcharge, and the cost of trainee billeting (unless U.S. forces are charged to occupy like accommodations). The application of the FMS Administrative Surcharge and Contract Administration Surcharge to the ENJJPT Program is waived.

## 24.3.2. Dutch F-16 Training Program

- 24.3.2.1. The Dutch F-16 training program is conducted under the authority found in 22 U.S.C. § 2761(g). Based on that authority, the program must recoup reimbursement for all direct costs but may exclude reimbursement for indirect costs, the FMS administrative surcharge, and the cost of trainee billeting (unless U.S. forces are charged to occupy like accommodations).
- 24.3.2.2. The U.S.C. allows for some flexibility when it comes to the billing of indirect costs under 22 U.S.C. § 2761(g) so those preparing the costs can properly account for sharing of the total cost of the program. Unique program agreements may provide specific reimbursement details to which the parties have agreed. The FMS administrative surcharge has not been excluded for this program. Costs associated with the salaries of activated troops of the reserve component/National Guard would be a cost to the program.
- 24.3.3. The German Air Force (GAF) Tornado Program. The GAF Tornado Program is a dedicated training program, authorized by 22 U.S.C. § 2761(g). Based on that authority, the program must recoup reimbursement for all direct costs but may exclude reimbursement for

indirect costs, the FMS Administrative Surcharge, and the cost of trainee billeting (unless U.S. forces are charged to occupy like accommodations). Again, the U.S.C. allows for some flexibility when it comes to the billing of indirect costs under 22 U.S.C. § 2761(g), so those preparing the costs can properly account for the sharing of the total cost of the program. Unique program agreements may provide specific reimbursement details to which the parties have agreed. The FMS Administrative Surcharge has not been excluded for this program.

- 24.3.4. The Republic of Singapore Air Force (RSAF) PEACE CARVIN V (PC V) F-15 Training Program. The RSAF PC V program is authorized by 22 U.S.C. § 2761(a)(1)(C). Singapore is identified as a high-income country under the FAA § 546(b) and is eligible to receive training priced using the additional cost concept. Absent a formal agreement, costing procedures should follow the guidelines in paragraph 23.4.
- 24.3.5. The RSAF PEACE CARVIN II (PC II) F-16 Training Program. The RSAF PC II program is authorized by 22 U.S.C. § 2761(a)(1)(C). As a high-income country, Singapore is eligible to receive training priced using the additional cost concept. Absent a formal agreement, costing procedures should follow the guidelines in paragraph 23.4.
- 24.3.6. <u>Taiwan Air Force PEACE FENG HUANG F-16 Training Program</u>. Taiwan's PEACE FENG HUANG program is conducted under the authority of 22 U.S.C. § 2761(a)(1)(C). Taiwan is not under special pricing authority and therefore pays the full cost of training. Refer to paragraph 23.3.

## 24.4 Personnel

Specialized/dedicated training programs may be supported by U.S. personnel, international personnel, or a combination of the two. When establishing a specialized/dedicated training program, an assessment must be performed to determine whether additional U.S. personnel are required to support the training. Care should be taken to ensure these individuals are properly coded as reimbursable billets and whether they are considered a direct cost or an indirect cost. Other personnel billets may provide support to the training.

- 24.4.1. <u>MP</u>. Pricing for U.S. MP must be in accordance with subparagraph 23.2.1. Where international military members are filling training instructor billets, apply the comparable U.S. rate if computing costs to charge or compensate.
- 24.4.2. <u>Civilian Personnel</u>. Pricing for U.S. civilian personnel must be in accordance with subparagraph 23.2.2. Apply the unfunded civilian retirement factor where applicable.

#### 24.5 Inflation Factors

Estimates for future years must be adjusted for inflation. OUSD(C) published rates will be used. See subparagraph 3.2.1.2.

## 24.6 Start-up Costs

The FMS purchaser is responsible for all costs, including expenses incurred by IA activities assisting in the establishment of the training. Costs to consider in the start-up of a specialized/dedicated training program may include, but are not limited to, the following: environmental analysis/assessment/impact; construction of, alteration of, or expansion of existing facilities (refer to section 10.0); a pro rata share of the costs for joint use of USG facilities (refer to section 11.0); acquisition of equipment required to execute the program; commercially-leased space (i.e., off-base offices, on-base modular buildings); and one-time site activation costs, if applicable.

## 24.7 Direct Costs

Refer to subparagraph 23.3.1 (full cost) or subparagraph 23.4.1 (additional cost) for the types of costs appropriate to charge as direct costs.

#### 24.8 Indirect Costs

Refer to subparagraph 23.3.2 (full cost) or subparagraph 23.4.2 (additional cost) for the types of costs appropriate to charge as indirect costs.

#### 24.9 Other Billable Costs

- 24.9.1. <u>Attrition Surcharge/Liability Statement</u>. If specific program agreements do not address the application of the attrition surcharge, the liability statement in subparagraph 22.3.1 must be included on the LOA.
- 24.9.2. <u>FSP</u>. Specialized training programs may include the costs of the FSP if the purchaser(s) desires to participate in such. Refer to paragraph 22.9.
- 24.9.3. <u>RIM</u>. If there is a need to ship RIM, include the cost of the shipment in the pricing of the specialized training program. Refer to paragraph 22.10.
- 24.9.4. <u>FMS Administrative Surcharge</u>. The current FMS administrative surcharge must be applied to the specialized training program, where applicable. Refer to subparagraphs 23.3.3.4 and 23.4.3.4.

#### 25.0 PRICING OF TRAINING TEAMS

When training is conducted by a Security Cooperation Team/SA Team (e.g., Management Service Team, TAFT, Extended Training Service Specialist, or MTT) away from the normal training institution, the services of the team must be treated as a service and priced in accordance with paragraph 23.2. Training aids must be included in the pricing. All pay and allowances, travel, and per diem paid to members of the team established to conduct in-country training must be considered costs of the training team except as noted in paragraphs 25.1-25.4.

- 25.1 Teams Fully Financed by FSF Funding
  - 25.1.1. Military Pay and Allowances. Exclude the cost of military pay and allowances.
  - 25.1.2. <u>Civilian Pay and Allowances</u>. Exclude the cost of civilian pay and allowances.
- 25.1.3. <u>Attrition/Liability Statement</u>. Include the liability statement, "The Purchaser is liable for any and all damages to U.S. Government equipment caused by negligence on the part of the student."
- 25.2 Teams Fully Financed by MAP Merger, FMF, IMET, or BPC Funding
- 25.2.1. <u>Military Pay and Allowances</u>. Exclude military pay and allowances from the costs established for teams conducting in-country training fully financed by MAP Merger or FMF, financed under the IMET program, or DoD-funded BPC teams. Should a MAP/MAP Merger case be less than 100 percent financed by such funds, it must be re-priced to include the full cost of MP.
- 25.2.2. <u>Civilian Pay and Allowances</u>. Exclude civilian unfunded retirement from the costs established for teams conducting in-country training fully financed by MAP Merger or FMF, financed under the IMET program, or DoD-funded BPC teams. Refer to paragraph 23.2 for an explanation and pricing.
- 25.3 Teams Financed by an IMET-Recipient Country/High-Income Country

For teams conducting in-country training financed by a high-income country or an IMET-recipient country using its own national funds, determine whether personnel costs are considered an additional cost to the USG. Refer to paragraph 23.2 for an explanation and pricing.

## 25.4 Teams Using National Guard/Reserve Personnel

If National Guard or Reserve personnel are activated solely to conduct FMS training, those costs must be considered additional costs to the USG and must be properly charged to the country or countries receiving the training. Refer to paragraph 23.2 for an explanation and pricing.

Table 7-1. Federal Condition Code

|                    | Supply Condition Code |                     |                  |                                      |                                      |                   |                       |
|--------------------|-----------------------|---------------------|------------------|--------------------------------------|--------------------------------------|-------------------|-----------------------|
|                    |                       |                     |                  | A                                    | В                                    | С                 | D                     |
|                    |                       |                     |                  |                                      | SERVICI                              |                   | •                     |
|                    |                       |                     |                  | Issuable<br>without<br>qualification | Issuable<br>without<br>qualification | Priority<br>Issue | Test/<br>Modification |
|                    | 1                     | UNUSED              | G<br>O<br>O<br>D | 50%                                  | 30%                                  | 30%               | 30%                   |
|                    | 2                     | UNUSED              | F<br>A<br>I<br>R | 30%                                  | 20%                                  | 20%               | 20%                   |
|                    | 3                     | UNUSED              | P<br>O<br>O<br>R | 10%                                  | 10%                                  | 10%               | 10%                   |
|                    | 4                     | USED                | G<br>O<br>O<br>D | 40%                                  | 30%                                  | 30%               | 30%                   |
| DISPOSAL           | 5                     | USED                | F<br>A<br>I<br>R | 30%                                  | 20%                                  | 20%               | 20%                   |
| CONDITION<br>CODES | 6                     | USED                | P<br>O<br>O<br>R | 10%                                  | 10%                                  | 10%               |                       |
|                    | 7                     | REPAIRS<br>REQUIRED | G<br>O<br>O<br>D |                                      |                                      |                   | 20%                   |
|                    | 8                     | REPAIRS<br>REQUIRED | F<br>A<br>I<br>R |                                      |                                      |                   | 5%                    |
|                    | 9                     | REPAIRS<br>REQUIRED | P<br>O<br>O<br>R |                                      |                                      |                   | 5%                    |
|                    | X                     | SALVAGE             | Į.               |                                      |                                      |                   |                       |
|                    | S                     | SCRAP               |                  |                                      |                                      |                   |                       |

Table 7-1. Federal Condition Code (Continued)

|           |        | Supply Condition Code |        |                        |           |             |           |       |
|-----------|--------|-----------------------|--------|------------------------|-----------|-------------|-----------|-------|
|           |        |                       |        | Е                      | F         | G           | Н         | S     |
|           |        |                       |        |                        | U         | NSERVICEABI | LE        | ı     |
|           |        |                       |        | Limited<br>Restoration | Reparable | Incomplete  | Condemned | Scrap |
|           |        |                       | G      | Restoration            |           |             |           |       |
|           | ١.     | I D H I GED           | O      |                        |           |             |           |       |
|           | 1      | UNUSED                | О      |                        |           |             |           |       |
|           |        |                       | D      |                        |           |             |           |       |
|           |        |                       | F      |                        |           |             |           |       |
|           | 2      | UNUSED                | A      |                        |           |             |           |       |
|           |        |                       | I<br>R |                        |           |             |           |       |
|           |        |                       |        |                        |           |             |           |       |
|           |        |                       | P<br>O |                        |           |             |           |       |
|           | 3      | UNUSED                | o      |                        |           |             |           |       |
|           |        |                       | R      |                        |           |             |           |       |
|           |        |                       | G      |                        |           |             |           |       |
|           | 4      | USED                  | О      |                        |           |             |           |       |
|           | '      | CSED                  | 0      |                        |           |             |           |       |
|           |        |                       | D<br>F |                        |           |             |           |       |
|           |        |                       | Р      |                        |           |             |           |       |
|           | 5      | USED                  | I      |                        |           |             |           |       |
|           |        |                       | R      |                        |           |             |           |       |
| DISPOSAL  |        |                       | P      |                        |           |             |           |       |
| CONDITION | 0 USED | O<br>O                |        |                        |           |             |           |       |
| CODES     |        | R                     |        |                        |           |             |           |       |
|           |        |                       |        |                        |           |             |           |       |
|           |        | REPAIRS               | G<br>O |                        |           |             |           |       |
|           | 7      | 7 REQUIRED            | o      |                        | 20%       | 20% 10%     |           |       |
|           |        |                       | D      |                        |           |             |           |       |
|           |        |                       |        |                        |           |             |           |       |
|           |        |                       | F      |                        |           |             |           |       |
|           | 8      | REPAIRS               | A      |                        | 10%       |             | 5%        |       |
|           | 0      | REQUIRED              | Ι      |                        | 10%       |             | 3%        |       |
|           |        |                       | R      |                        |           |             |           |       |
|           |        |                       |        |                        |           |             |           |       |
|           |        |                       | P      |                        |           |             |           |       |
|           | 9      | REPAIRS               | О      |                        | 5%        |             | 5%        |       |
|           |        | REQUIRED              | O      |                        | 370       |             | 270       |       |
|           |        |                       | R      |                        |           |             |           |       |
|           |        |                       |        |                        |           |             |           |       |
|           |        |                       |        |                        |           |             |           |       |
|           | X      | X SALVAGE             |        |                        | 5%        | 5%          | 5%        |       |
|           |        |                       |        |                        |           |             |           |       |
|           |        |                       |        |                        |           |             |           |       |
|           | _ c    | CCD A D               |        |                        |           |             |           |       |
|           | S      | SCRAP                 |        |                        |           |             |           |       |
|           |        |                       |        |                        |           |             |           |       |

Table 7-2. Tuition Rate Pricing Structure

|                          |               | National Funds   |                    |  |  |  |
|--------------------------|---------------|------------------|--------------------|--|--|--|
| Cont Elements            | FULL COST     | FULL COST        | ADDITIONAL COST    |  |  |  |
| Cost Elements            | RATE A        | RATE B           | RATE C             |  |  |  |
|                          | Full FMS      | Reciprocal       | FMS <sup>1</sup>   |  |  |  |
| Direct Costs             |               |                  |                    |  |  |  |
| Military Pay             | Full          | Full             | Additional         |  |  |  |
| MERHC                    | Apply         | Apply            | N/A                |  |  |  |
| DHP                      | Apply         | Apply            | N/A                |  |  |  |
| Civilian Pay             | Full          | Full             | Additional         |  |  |  |
| Civilian Fringe Benefits | Apply         | Apply            | Apply <sup>2</sup> |  |  |  |
| UCR                      | Apply         | Apply            | N/A                |  |  |  |
| Non-Personnel/Material   | Full          | Full             | Additional         |  |  |  |
| <b>Indirect Costs</b>    |               |                  |                    |  |  |  |
| Military Pay             | Full          | N/A <sup>3</sup> | Additional         |  |  |  |
| MERHC                    | Apply         | N/A <sup>3</sup> | N/A                |  |  |  |
| DHP                      | Apply         | N/A <sup>3</sup> | N/A                |  |  |  |
| Civilian Pay             | Full          | N/A <sup>3</sup> | Additional         |  |  |  |
| Civilian Fringe Benefits | Apply         | N/A <sup>3</sup> | Apply <sup>2</sup> |  |  |  |
| UCR                      | Apply         | N/A <sup>3</sup> | N/A                |  |  |  |
| Non-Personnel/Material   | Full          | N/A <sup>3</sup> | Additional         |  |  |  |
| Other Billable Costs     |               |                  |                    |  |  |  |
| Attrition Surcharge      | Apply         | N/A              | N/A                |  |  |  |
| Liability Statement      | N/A           | Apply            | Apply              |  |  |  |
| FSP                      | Full          | Full             | Full               |  |  |  |
| RIM                      | If applicable | If applicable    | If applicable      |  |  |  |
| FMS Admin                | Apply         | N/A <sup>3</sup> | Apply              |  |  |  |

 $<sup>^{1}</sup>$  **RATE** C – <u>FMS</u>: Countries concurrently in receipt of IMET that elect to purchase training using national funds receive this rate. Countries designated as high-income countries also receive this rate.

<sup>&</sup>lt;sup>2</sup> Apply: Charge the entire factor against the additional cost. There is no reduction to the factor because additional cost pricing is used.

<sup>&</sup>lt;sup>3</sup> Refer to 22 U.S.C. § 2761(g). The President is authorized to enter into NATO STANAG and similar agreements with Major Non-NATO Allies if the pricing principles of such agreements are based on reciprocity. Such agreements may exclude reimbursement of indirect costs and the FMS Administrative Surcharge.

Table 7-2. Tuition Rate Pricing Structure (Continued)

|                              | U.S. Appropriated Funds ADDITIONAL COST |               |  |  |
|------------------------------|---|---------------|--|--|
|                              |   |               |  |  |
| Cost Elements                | FMS                                     | IMET          |  |  |
|                              | RATE D                                  | RATE E        |  |  |
|                              | $^4$ FMF $^{[1]}$                       | IMET          |  |  |
| Direct Costs                 |   |               |  |  |
| Military Pay                 | N/A                                     | N/A           |  |  |
| MERHC                        | N/A                                     | N/A           |  |  |
| DHP                          | N/A                                     | N/A           |  |  |
| Civilian Pay                 | Additional                              | Additional    |  |  |
| Civilian Fringe Benefits     | $Apply^2$                               | $Apply^2$     |  |  |
| UCR                          | N/A                                     | N/A           |  |  |
| Non-Personnel/Material       | Additional                              | Additional    |  |  |
| Indirect Costs               |   |               |  |  |
| Military Pay                 | N/A                                     | N/A           |  |  |
| MERHC                        | N/A                                     | N/A           |  |  |
| DHP                          | N/A                                     | N/A           |  |  |
| Civilian Pay                 | Additional                              | Additional    |  |  |
| Civilian Fringe Benefits     | $Apply^2$                               | $Apply^2$     |  |  |
| Civilian Unfunded Retirement | N/A                                     | N/A           |  |  |
| Non-Personnel/Material       | Additional                              | Additional    |  |  |
| Additive Costs               |   |               |  |  |
| Attrition                    | N/A                                     | N/A           |  |  |
| Liability Statement          | Apply                                   | N/A           |  |  |
| FSP                          | Full                                    | Full          |  |  |
| RIM                          | If applicable                           | If applicable |  |  |
| FMS Admin                    | Apply                                   | N/A           |  |  |

<sup>&</sup>lt;sup>2</sup>Apply: Charge the entire factor against the additional cost. There is no reduction to the factor because additional cost pricing is used.

<sup>4</sup>**RATE D** − <u>FMF</u>: This rate applies to courses provided to countries that use U.S. appropriated dollars as their source of funding (except IMET). If the training case is not wholly funded with U.S. appropriated funds (e.g., 100 percent MAP Merger, 100 percent non-repayable FMF), then re-price training to include military salaries and benefits. This rate also applies to general BPC appropriations and authorities (i.e., FSF: authority to build capacity under 10 U.S.C. § 333).

Exhibit 7-1. Price Computation Example: Overhaul of Purchaser-Owned Material<sup>1</sup>

| Assumptions:   |             |
|--|-------------|
| Civilian Direct Labor Hours  | 500         |
| Direct labor hourly rate (employee salary and pro rata overhead)                     | \$36.72     |
| UCR Rate FY 2018   | 6.8%        |
| Army Military Labor Hours (E-7)  | 100         |
| Foreign Purchaser paid for inbound and outbound transportation                       |             |
| Computation:   |             |
| Direct material consumed or incorporated (does not include purchaser-owned material) | \$ 1,000.00 |
| Direct civilian labor cost recouped (including unpacking and PC&H) (500 × \$36.72)   | \$18,360.00 |
| Unfunded Civilian Rate costs ( $$18,360 \times 6.8\%$ )                              | \$ 1,248.48 |
| Military Composite Standard Pay Reimbursement (104,429 × .00056) × 100               | \$ 5,848.02 |
| Transportation <sup>1</sup>  | +           |
| FMS Selling Price <sup>2</sup>   | \$26,456.50 |

<sup>&</sup>lt;sup>1</sup> This figure is general in nature and does not show all costs that may be included. For example, direct material consumed or incorporated should include transportation, replacement prices, and charges as appropriate (see subparagraph 4.2.2 for treatment of DWCF material). This example assumes that inbound and outbound transportation is paid by the FMS purchaser. See subparagraph 9.2.6 for information on incoming and outgoing transportation costs. If the purchaser does not pay via the freight forwarder, the cost is included in the FMS selling price.

<sup>&</sup>lt;sup>2</sup> The administrative surcharge is an additive to the FMS selling price.

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Exhibit 7-2. Price Computation Example: Non-Excess Procurement Funded Item from Stock

| Assumptions:   |                |
|--|----------------|
| Market Value   | None Available |
| Most Recent Acquisition Price                              | \$50,000.00    |
| New Contract Price   | \$100,000.00   |
| Modification Costs   | \$5,000.00     |
| NC Recoupment Charge, SAMM, Appendix 1                     | \$2,000.00     |
| Prorated overhaul costs before sale date (see Exhibit 7-3) | \$5,203.20     |
| Service Life   | 10 Years       |
| Age at transfer  | 6 Years        |
| Remaining Service Life                                     | 4 Years        |

#### Calculation

## Not to Be Replaced

| Adjusted Price: $(\$50,000+\$5,000) \times (4/10)^31/422,000.00$        |             |
|---|-------------|
| Adjusted NC recoupment: $\$2,000 \times (4/10)^{2,3}$                   | 800.00      |
| Prorated overhaul costs before sale date (see Exhibit 7-3) <sup>4</sup> | + 5,203.20  |
| FMS Selling Price <sup>5,6,7</sup>                                      | \$28,003.20 |

# To Be Replaced

| Adjusted Price: $$100,000 \times (4/10)^{\circ}$     | \$40,000.00 |
|--|-------------|
| Adjusted NC recoupment: $$2,000 \times (4/10)^{2,3}$ | + 800.00    |
| FMS Selling Price <sup>5,6,7</sup>                   | \$40,800.00 |

<sup>&</sup>lt;sup>1</sup> (Most Recent Acquisition Price + Modification Costs) × Remaining Service Life

 $<sup>^2</sup>$  NC Recoupment Charge × Remaining Service Life

<sup>&</sup>lt;sup>3</sup> Credit to Special Defense Acquisition Fund (SDAF) Account 4116.

<sup>&</sup>lt;sup>4</sup> Credit previously incurred overhaul costs to the financing account.

<sup>&</sup>lt;sup>5</sup> Any administrative, PC&H, and transportation surcharges are additive to the selling price.

<sup>&</sup>lt;sup>6</sup> FMS selling price cannot be less than the Market Value if one exists.

<sup>&</sup>lt;sup>7</sup> If this is a sale of a ship, the FMS selling price cannot be lower than the scrap value or fair value plus the cost of the last major overhaul or outfitting accomplished before the sale.

 $<sup>^8</sup>$  New Contract Price × Remaining Service Life

Exhibit 7-3. Price Computation Example: Overhaul Costs Previously Incurred for a Procurement Funded Item Sold to FMS Purchasers

Assume the following:

- 1. Item is to be sold in May 2018. The last overhaul for that aircraft was accomplished in June 2016 at a cost of \$8,672.
- 2. The normal interval between overhauls for the item is 60 months.

The price is computed using the following steps:

A. Determine the actual interval since the last overhaul in terms of months.

June 2016 to May 2018 equals 24 months.

B. Determine the percentage of overhaul costs applicable to the DoD by comparing the actual interval since the last overhaul with the normal interval between overhauls.

Actual Interval = 24 months = 40% Normal Interval = 60 months

3. Determine the amount of the costs to be charged to the purchaser by subtracting the resulting percentages in step 2 from 100 percent and applying the result to the overhaul costs. If actual overhaul costs are not known, a reasonable estimate should be obtained from the facility normally performing overhauls for the type of item that is to be sold.

$$100\% - 40\% = 60\% \times \$8,672 = \$5,203.20$$

Exhibit 7-4. Price Computation Example: Sale of Ship (Greater than 3,000 Tons or More Than 20 Years Old) Not to be Replaced

# **Assumptions:**

| Acquisition Value   | \$22,500,000.00 |
|---|-----------------|
| Condition Code (A-3, see Table 7-1)   | 10%             |
| Nonrecurring Charge   | \$500,000.00    |
| Prorated overhaul costs before sale date (see Exhibit 7-3 for how to compute) | \$1,500,000.00  |
| Scrap Value   | \$1,000,000.00  |
| Fair Value (Acquisition Value × Federal Condition Code Rate)                  |                 |
| $($22,500,000 \times 10\%)$   | \$2,250,000.00  |

# **Computation:**

| Greater of Scrap or Fair Value <sup>1</sup>        | \$2,250,000.00  |
|--|-----------------|
| Adjusted NC Recoupment $(10\% \times \$500,000)^1$ | \$50,000.00     |
| Prorated overhaul costs <sup>2</sup>               | +\$1,500,000.00 |
| FMS Selling Price <sup>3</sup>                     | \$3,800,000.00  |

<sup>&</sup>lt;sup>1</sup> Credit to SDAF Account 4116.

<sup>&</sup>lt;sup>2</sup> Credit previously incurred overhaul costs to the financing account.

<sup>&</sup>lt;sup>3</sup> The administrative surcharge is additive to the selling price.

Exhibit 7-5. Price Computation Example: Excess Procurement (Non-DWCF) Funded Item from Stock/Inventory

# **Assumptions:**

| Acquisition Value <sup>1</sup>                               | \$50,000.00 |
|--|-------------|
| Federal Condition Code (B-1, see Table 7-1)                  | 30%         |
| NC Recoupment Charge   | \$2,000.00  |
| Prorated overhaul costs before sale date (see Exhibit 7-3)   | \$5,203.20  |
| Market Value   | \$10,000.00 |
| Scrap Value  | \$5,000.00  |
| Fair Value (Acquisition Value * Federal Condition Code Rate) | \$15,000.00 |
| $(\$50,000 \times 30\%)$                                     |             |

# **Computation:**

| Greater of Market, Scrap, or Fair Value                                 | \$15,000.00  |
|---|--------------|
| Adjusted NC Recoupment $(30\% \times \$2,000)^2$                        | \$600.00     |
| Prorated overhaul costs before sale date (see Exhibit 7-3) <sup>3</sup> | + \$5,203.20 |
| FMS Selling Price <sup>4,</sup>   | \$20,803.20  |

<sup>&</sup>lt;sup>1</sup> If the method used to determine an estimated actual PCH&T cost is based on the cost or price of the excess item, acquisition cost must be used.

<sup>&</sup>lt;sup>2</sup> Credit to SDAF Account 4116.

<sup>&</sup>lt;sup>3</sup> Credit previously incurred overhaul costs to the financing account.

<sup>&</sup>lt;sup>4</sup> The FMS selling price must be increased if the market value or the scrap value plus the NC recoupment charge and the prorated value of the last major overhaul costs incurred are higher than the fair value FMS selling price. The market value is the price at which bona fide sales have been consummated for products of like-kind, quality, and quantity. The scrap value is the amount that would be expected to be obtained from selling the asset at the end of its useful life. The fair value price is determined by the Federal Condition Code.

<sup>&</sup>lt;sup>5</sup> Any administrative, PC&H, and transportation surcharges are additive to the selling price.

Exhibit 7-6. Recoupment of NC on MDE Example: Base Level

|   |                       |                        |                       |  |                                      |              |                     |          |              | DATE PREPARED:     |                     | DOD COMPONENT:     |                                   |
|---|-----------------------|------------------------|-----------------------|--|--------------------------------------|--------------|---------------------|----------|--------------|--------------------|---------------------|--------------------|-----------------------------------|
| RECOUPMENT OF NONRECURRING COST ON SALES OF MAJOR DEFENSE EQUIPMENT |                       |                        |                       | As of Date:                                |                                      | Prepared By: |                     |          |              |                    |                     |                    |                                   |
|   |                       |                        |                       |  |                                      | SECTION      | N A                 |          |              |                    |                     | •                  |                                   |
| (a)   |                       | (b)                    |                       |  |                                      | (c)          |                     |          |              |                    | (d)                 |                    | (e)                               |
| Weapon System<br>or Component                                       |                       |                        |                       | y Each)                                    | ch) Recommended Pro Rata Unit Charge |              |                     |          |              |                    |                     |                    |                                   |
| ABC Block 0   | RDT&E<br>\$51,000,000 | Production<br>\$75,000 | Total<br>\$51,075,000 | Army 25                                    |                                      | Air Force    |                     | DCS<br>0 | Total<br>317 | RDT&E<br>\$160,883 | Production<br>\$237 | Total<br>\$161,120 | Previous<br>Unit<br>Charge<br>N/A |
|   |                       |                        |                       |  |                                      | SECTION      | N B                 |          |              |                    |                     |                    |                                   |
|   |                       |                        |                       |  | PRODU                                | CTION Q      | UANTIT              | IES      |              |                    |                     |                    |                                   |
|   |                       |                        |                       | USG<br>MAP<br>Direct Sales<br>FMS<br>Total | 25<br>0                              | 0<br>0<br>87 | 225<br>0<br>0<br>92 |          |              |                    |                     |                    |                                   |

Exhibit 7-6. Recoupment of NC on MDE Example: Base Level (Continued)

| SECTION C                       |                              |                              |  |  |  |  |  |  |
|---------------------------------|------------------------------|------------------------------|--|--|--|--|--|--|
|                                 |                              |                              |  |  |  |  |  |  |
|                                 | QUANTITY PROJECTION BREAKOUT |                              |  |  |  |  |  |  |
|                                 | MAP                          |                              |  |  |  |  |  |  |
| Country / Int'l<br>Organization | Projected Quantity           | Explaination for Projections |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
| Total MAP                       | 0                            |                              |  |  |  |  |  |  |
|                                 |                              | Direct Sales                 |  |  |  |  |  |  |
| Country / Int'l<br>Organization | Projected Quantity           | Explanation for Projections  |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
| Total Direct Sales              | 0                            |                              |  |  |  |  |  |  |
|                                 |                              | FMS                          |  |  |  |  |  |  |
| Country / Int'l<br>Organization | Projected Quantity           | Explanation for Projections  |  |  |  |  |  |  |
| Country A Country B             | 15<br>5                      |                              |  |  |  |  |  |  |
| Country C<br>Country D          | 6                            |                              |  |  |  |  |  |  |
| Country E<br>Country F          | 25<br>14                     |                              |  |  |  |  |  |  |
| Country G                       | 10                           |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
|                                 |                              |                              |  |  |  |  |  |  |
| Total FMS                       | 87                           |                              |  |  |  |  |  |  |
| TOTAL                           | 87                           |                              |  |  |  |  |  |  |

Exhibit 7-7. Recoupment of NC on MDE Example: Two-Level

| RECOUPMENT OF NONRECURRING COST ON SALES OF MAJOR DEFENSE EQUIPMENT |             |                            |                    |               |                 | DATE PREPARED:   |              | DOD COMPONENT: |              |         |                        |          |               |
|---|-------------|----------------------------|--------------------|---------------|-----------------|------------------|--------------|----------------|--------------|---------|------------------------|----------|---------------|
| ADOUGH.   |             |                            |                    |               |                 |                  | As of Date:  |                | Prepared By: |         |                        |          |               |
|   | SECTION A   |                            |                    |               |                 |                  |              |                |              |         |                        |          |               |
| (a)   |             | <b>(b)</b>                 |                    |               |                 | (c)              |              |                |              |         | ( <b>d</b> )           |          | (e)           |
| Weapon System or<br>Component                                       |             | nrecurring (<br>Whole Doll |                    |               |                 | duction Qu       | antity (Qty  | Each)          |              | Recom   | nended Pro R<br>Charge | ata Unit | Previous Unit |
|   | RDT&E       | Production                 | Total              | Army          | Marine/<br>Navy | Air Force        | FMS          | DCS            | Total        | RDT&E   | Production             | Total    | Charge        |
| B/B Model   |             |                            |                    |               |                 |                  |              |                |              | 1       |                        |          |               |
| Common Cost Pool<br>(with A/B Model)                                | \$2,956,674 | \$0                        | \$2,956,674        |               |                 |                  |              |                | 67,158       | \$44.03 | \$0.00                 | \$44.03  |               |
| Unique  | \$76,294    | \$0                        | \$76,294           | 0             | 0               | 600              | 250          | 0              | 850          | \$89.76 | \$0.00                 |          | NC New Item   |
|   |             |                            |                    |               |                 |                  |              |                |              |         |                        |          |               |
| Backup Data   |             |                            |                    |               |                 |                  |              |                |              |         |                        |          |               |
| A/B Model<br>Commonality  | \$4,223,820 | \$0                        | \$4,223,820<br>70% | 0             | 64,627          | 0                | 1,681        | 0              | 66,308       | \$63.70 | \$0.00                 | \$63.70  |               |
|   |             |                            |                    |               |                 |                  |              |                |              |         |                        |          |               |
|   |             |                            |                    |               |                 | SECTION          | В            |                |              |         |                        |          |               |
|   |             |                            |                    |               | PRODUC          | CTION QU         |              | 3              |              |         |                        |          |               |
|   |             |                            |                    | USG           | Actual<br>400   | Projected<br>200 | Total<br>600 |                |              |         |                        |          |               |
|   |             |                            |                    | MAP           | 0               |                  |              |                |              |         |                        |          |               |
|   |             |                            |                    | Direct Sales  | 0               |                  | 0            |                |              |         |                        |          |               |
|   |             |                            |                    | FMS 0 250 250 |                 |                  |              |                |              |         |                        |          |               |
|   |             |                            |                    | Total         | 400             | 450              | 850          |                |              |         |                        |          |               |
| NOTES:  |             |                            |                    |               |                 |                  |              |                |              |         |                        |          |               |
|   |             |                            |                    |               |                 |                  |              |                |              |         |                        |          |               |
|   |             |                            |                    |               |                 |                  |              |                |              |         |                        |          |               |

<sup>&</sup>lt;sup>1</sup> A/B Model Common (66,308) + B/B Model Unique (850) = 67,158

Exhibit 7-7. Recoupment of NC on MDE Example: Two-Level (Continued)

| SECTION C                    |                     |                              |  |  |  |  |
|------------------------------|---------------------|------------------------------|--|--|--|--|
| QUANTITY PROJECTION BREAKOUT |                     |                              |  |  |  |  |
| B/B Model                    |                     |                              |  |  |  |  |
|                              |                     | MASL                         |  |  |  |  |
| Country / Int'l              |                     | MAP                          |  |  |  |  |
| Organization                 | Projected Quantity  | Explaination for Projections |  |  |  |  |
| 019                          |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
| Total MAP                    | 0                   |                              |  |  |  |  |
|                              |                     | Direct Sales                 |  |  |  |  |
| Country / Int'l              | Projected Quantity  | Explaination for Projections |  |  |  |  |
| Organization                 | 1 Tojecteu Quantity | Explanation for Projections  |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
| Total Direct Sales           | 0                   |                              |  |  |  |  |
|                              |                     | FMS                          |  |  |  |  |
| Country / Int'l              | Projected Quantity  | Explaination for Projections |  |  |  |  |
| Organization                 |                     | <u> </u>                     |  |  |  |  |
| Country B                    | 75                  |                              |  |  |  |  |
| Country E                    | 20<br>75            |                              |  |  |  |  |
| Country H                    | 80                  |                              |  |  |  |  |
| Country J                    | 80                  |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
|                              |                     |                              |  |  |  |  |
| Total FMS                    | 250                 |                              |  |  |  |  |
|                              | _                   |                              |  |  |  |  |
| TOTAL                        | 250                 |                              |  |  |  |  |

Exhibit 7-8. Recoupment of NC on MDE Example: Multi-Level

| RECOUPMENT OF NONRECURRING COST ON SALES OF MAJOR DEFENSE EQUIPME |                 |                  |                 | ENT                 | DATE PREPARED:    |                  | DOD COMPONENT: |                                       |                |               |  |
|---|-----------------|------------------|-----------------|---------------------|-------------------|------------------|----------------|---------------------------------------|----------------|---------------|--|
| ABC Blk II NC Charge - Summary Calculation  MASL                  |                 |                  |                 |                     | As of Date:       |                  | Prepared By:   |                                       |                |               |  |
|   |                 |                  |                 | S                   | ECTION A          |                  |                |                                       |                |               |  |
| (a)   |                 | (b)              |                 |                     | (c)               |                  |                | (d)                                   |                | (e)           |  |
| Weapon System or<br>Component                                     |                 | ng Cost (in Whol | e Dollars)      |                     | efitting Units (Q | ty Each)         |                | Recommended Pro Rata Unit Charge Prev |                | Previous Unit |  |
|   | RDT&E           | Production       | Total           | New                 | Remanufactured    | Total            | RDT&E          | Production                            | Total          | Charge        |  |
| ABC Block II  |                 |                  |                 |                     |                   |                  |                |                                       |                |               |  |
| Common Cost Pool<br>(with ABC Blk I)                              | \$324,126,237   | \$116,970,421    | \$441,096,658   | 821                 | 463               | 1,284            | \$252,434.76   | \$91,098.46                           | \$343,533.22   |               |  |
| Common Cost Pool<br>(with ABC Block 0)                            | \$235,896,300   | \$48,990,000     | \$284,886,300   | 463                 | 927               | 1,390            | \$169,709.57   | \$35,244.60                           | \$204,954.17   |               |  |
| Unique  | \$1,516,253,000 | \$287,960,000    | \$1,804,213,000 | 221                 | 751               | 972              | \$1,559,931.07 | \$296,255.14                          | \$1,856,186.21 |               |  |
|   |                 |                  |                 |                     |                   |                  |                |                                       | \$2,404,673.60 | NC New Item   |  |
| Backup Data   |                 |                  |                 |                     |                   |                  |                |                                       |                |               |  |
| ABC Block I   | \$589,320,430   | \$212,673,493    | \$801,993,923   |                     |                   |                  |                |                                       |                |               |  |
| Commonality   | \$367,320,430   | \$212,073,473    | 55%             |                     |                   |                  |                |                                       |                |               |  |
|   |                 |                  |                 |                     |                   |                  |                |                                       |                |               |  |
| Backup Data   |                 |                  |                 |                     |                   |                  |                |                                       |                |               |  |
| ABC Block 0   | \$786,321,000   | \$163,300,000    | \$949,621,000   |                     |                   |                  |                |                                       |                |               |  |
| Commonality   |                 |                  | 30%             |                     |                   |                  |                |                                       |                |               |  |
|   |                 |                  |                 |                     |                   |                  |                |                                       |                |               |  |
|   |                 |                  |                 | S                   | ECTION B          |                  |                |                                       |                |               |  |
|   |                 |                  |                 | PRODUC'             | IION QUANTI       | TIES             |                |                                       |                |               |  |
| Remarks:  |                 |                  |                 | USG                 | Actual 200        | Projected<br>752 | Total<br>952   |                                       |                |               |  |
|   |                 |                  |                 | MAP                 | 0                 | 732              | 0              | :                                     |                |               |  |
|   |                 |                  |                 | Direct Sales<br>FMS | 0                 | 332              | 332            |                                       |                |               |  |
|   |                 |                  |                 | Total               | 200               | 1,084            | 1,284          |                                       |                |               |  |

Exhibit 7-8. Recoupment of NC on MDE Example: Multi-Level (Continued)

|                                 |                    | SECTION C                                    |
|---------------------------------|--------------------|--|
|                                 |                    | ANTITY PROJECTION BREAKOUT                   |
|                                 | ABC                | Blk II NC Charge - Summary Calculation  MASL |
|                                 |                    | МАР  |
| Country / Int'l                 | Projected Quantity | Explanation for Projections                  |
| Organization                    |                    | g. a.    |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
| Total MAP                       | 0                  |  |
|                                 |                    | Direct Sales                                 |
| Country / Int'l<br>Organization | Projected Quantity | Explanation for Projections                  |
| Organization                    |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
| Total Direct Sales              | 0                  |  |
| Total Direct Sales              | <u> </u>           | FMS  |
| Country / Int'l                 | <u> </u>           |  |
| Organization                    | Projected Quantity | Explanation for Projections                  |
| Country A Country C             | 25<br>12           |  |
| Country F                       | 100                |  |
| Country H                       | 60                 |  |
| Country I Country J             | 25                 |  |
| Country K                       | 72                 |  |
| Country L                       | 34                 |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
|                                 |                    |  |
| Total FMS                       | 332                |  |
| TOTAL                           | 332                |  |

Exhibit 7-9. Price Computation Example: New Procurement

| Contract Price (20 items)   | \$1,000,000.00 |
|---|----------------|
| NC ( $$2,500$ each $\times$ 20 items)                             | 50,000.00      |
| CAS $(\$1,000,000 \times 0.015)$                                  | 15,000.00      |
| GFM   | 25,000.00      |
| PC&H GFM (3.5%) <sup>1</sup>                                      | 875.00         |
| Transportation of GFM from Depot to Contractor Plant <sup>1</sup> | + 938.00       |
| FMS Selling Price (20 items) <sup>2</sup>                         | \$1,091,813.00 |
| FMS Unit Selling Price <sup>2</sup> (\$1,091,813/20)              | \$54,590.65    |

<sup>&</sup>lt;sup>1</sup> PC&H and CONUS transportation are applicable, if the GFM is purchased from procurement citing the case funds. Actual costs should be used whenever known. However, in the absence of actual costs, a percentage-based computation must be used. For the purpose of this example, the GFM (\$25,000) is considered to be all procurement-funded items with unit costs of less than \$10,000. PC&H and Inland CONUS Transportation are not applicable, if the GFM is shipped from inventory by the DoD Working Capital Funds, as the cost is included in the standard (stabilized) price of the item.

<sup>&</sup>lt;sup>2</sup> Transportation of end item, if applicable, and administrative surcharges are additive to the selling price

STEP 3: Calculate monthly charge.

\$1,820,000/240 = \$7,583.33

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Exhibit 7-10. Calculation of Charges for Leased Defense Articles with Illustrative Entries

| STEP 1: | Determine Service Life.   |             |
|---------|---|-------------|
| a.      | Date to be leased   | June 2018   |
| b.      | Date item first fielded or actual acquisition date of specific item (if | June 2008   |
|         | known)  |             |
| c.      | The total estimated service life of the item                            | 240 months  |
| d.      | Item age in months as of the lease date                                 | 120         |
| e.      | Number of months to be leased   | 12          |
| f.      | Estimated months of service life remaining at conclusion of lease       | + 108       |
| g.      | Total months of service life $(d. + e. + f.)^1$                         | 240         |
|         |   |             |
| STEP 2: | Determine cost of defense articles leased to be depreciated.            |             |
| a.      | Original acquisition cost   | \$1,000,000 |
| b.      | Pro rata share nonrecurring R&D and production costs <sup>2</sup>       | 20,000      |
| c.      | Capital improvements  |             |
|         | 1) Major overhauls in past 24 months (see subparagraph 15.5.9)          | 500,000     |
|         | 2) Modifications net of retirements <sup>3</sup>                        | + 300,000   |
|         | Total Cost  | \$1,820,000 |
|         | Less residual value amount subject to depreciation                      |             |
|         | (see <i>Volume 4, Chapter 26</i> )                                      |             |
|         | Less residual value amount subject to depreciation                      | Ψ1,020,000  |
|         | (See Tourise is Circipion 20)   |             |

Divide results of Step 2 by results of Step 1.

<sup>&</sup>lt;sup>1</sup> In the event the service life is zero, the life would be extended to include the lease period.

<sup>&</sup>lt;sup>2</sup> The pro rata share of nonrecurring R&D and production costs is additive when determining the full cost of the equipment to be depreciated. This cost is not authorized to be waived under subparagraph 15.5.9.

<sup>&</sup>lt;sup>3</sup> Retirements represent serviceable components and weapons that are replaced by a modified version and that are returned to inventory upon removal. Normally, retired items are valued at standard (stabilized) inventory price, if repair is not necessary. If repair is required before the item may be reissued, the retirement item is valued at standard inventory price less estimated repair cost.

Exhibit 7-11. Civilian Personnel Services Price Computation Example

## **Assumptions:**

- A. General Schedule (GS)-12 within Atlanta, Georgia locality pay area. When the GS step is not known, use step 5 pay rates. \$38.23 per hour is used for this computation example.
- B. 100 hours of service performed
- C. Unfunded Civilian Retirement (UCR) Factor. 6.8% is used for this computation example.
- D. Civilian Personnel Fringe Benefits Factor. 35.2% is used for this computation example.
- E. L&H Acceleration Factor = 18%

|                   | FMS                    | Case        | BPC Case and FMS Admin |             |  |  |
|-------------------|------------------------|-------------|------------------------|-------------|--|--|
|                   | Less than<br>Full Time | Full Time   | Less than<br>Full Time | Full Time   |  |  |
| $[A \times B]$    | \$3,823.00             | \$ 3,823.00 | \$ 3,823.00            | \$ 3,823.00 |  |  |
| $[(1) \times E]$  | \$ 688.14              |             | \$ 688.14              |             |  |  |
| [(1) + (2)]       | \$4,511.14             | \$ 3,823.00 | \$ 4,511.14            | \$ 3,823.00 |  |  |
| [(3) × C]         | \$ 306.76              | \$ 259.96   |                        |             |  |  |
| $[(3) \times D]$  | \$1,587.92             | \$ 1,345.70 | \$ 1,587.92            | \$ 1,345.70 |  |  |
| [(3) + (4) + (5)] | \$6,405.82             | \$ 5,428.66 | \$ 6,099.06            | \$ 5,168.70 |  |  |

<sup>&</sup>lt;sup>1</sup> Pay rates in effect at the time services are performed. Hourly and annual locality salary tables are available at the OPM website. Tables through 2008 are available in the Appendix C Archive of this Volume.

<sup>&</sup>lt;sup>2</sup> The L&H acceleration factor is applied as a percentage of direct labor cost when the individual is not assigned full time to support Case-funded or FMS Admin-funded requirements. See *Volume 11A, Chapter 6*.

<sup>&</sup>lt;sup>3</sup> The UCR acceleration factor is applied as a percentage of total civilian labor costs for FMS Casefunded individuals. Credit unfunded civilian retirement to the Miscellaneous Receipts Account 3041. Current rates are available at the OUSD(C) DoD Reimbursable Rates website, select the applicable FY, Civilian Personnel Fringe Benefit (Tab D). Historical rates are available in the Appendix C Archive.

<sup>&</sup>lt;sup>4</sup> The fringe benefits factor is applied as a percentage of the total civilian labor costs and includes the employer's share of retirement, health benefits, life insurance, and other benefits. Rates vary by DoD Component and fiscal year, and are available at the OUSD(C) DoD Reimbursable Rates website, Civilian Personnel Fringe Benefit (Tab D), for FY 1997 and forward. Historical rates are available in the Appendix C Archive.

<sup>&</sup>lt;sup>5</sup> For employees funded by FMS Case and BPC Case, the FMS Administrative Surcharge is added separately.

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## Exhibit 7-12. MP Services Price Computation Example

## **Assumptions:**

- A. Scenario 1: Navy O-4 and E-7 Full time FMS effort in FY2022
- B. Scenario 2: Navy O-4 and E-7 Part-time FMS effort; each performing 480 hours service in FY 2022. TDY cost is \$5,600.
- C. Scenario 3: Navy O-4 and E-7 Part-time FMS effort; each performing 60 days service in FY 2022. Total TDY cost is \$5,600.
- D. Navy O-4 FMS Rate =  $$223,770^{1}$
- E. Navy E-7 FMS Rate =  $$144,411^{1}$
- F. Navy O-4 Hourly FMS Rate  $(\$223,770 \times 0.00057 = \$126.52 \times 480 = \$60,729.91)^2$
- G. Navy E-7 Hourly FMS Rate  $(\$144,411 \times 0.00057 = \$81.65 \times 480 = \$39,192.33)^2$
- H. Navy O-4 Daily FMS Rate  $(\$223,770 \times 0.00452 = \$1,012.17 \times 60 = \$60,729.91)^3$
- I. Navy E-7 Daily FMS Rate  $(\$144,411 \times 0.00452 = \$653.21 \times 60 = \$39,192.33)^3$

## FMS CASE - FULL TIME FMS EMPLOYEE

## **Computation Scenario 1:**

| FMS Composite Pay Cost <sup>1</sup> | O-4<br>\$223,770 | E-7<br>\$144,411 | Total     |
|-------------------------------------|------------------|------------------|-----------|
| FMS Selling Price <sup>3</sup>      |                  |                  | \$368,181 |

## FMS CASE - LESS THAN FULL TIME FMS EMPLOYEE

## **Computation Scenario 2:**

| _  | O-4         | E-7         | Total        |
|--|-------------|-------------|--------------|
| FMS Rate x Hourly/Daily Factor                     | \$60,729.91 | \$39,192.33 | \$99,922.24  |
| $\times$ hours of service performed <sup>2/3</sup> |             |             |              |
| TDY Cost   |             |             | \$5,600      |
| FMS Selling Price <sup>3</sup>                     |             |             | \$105,522.24 |

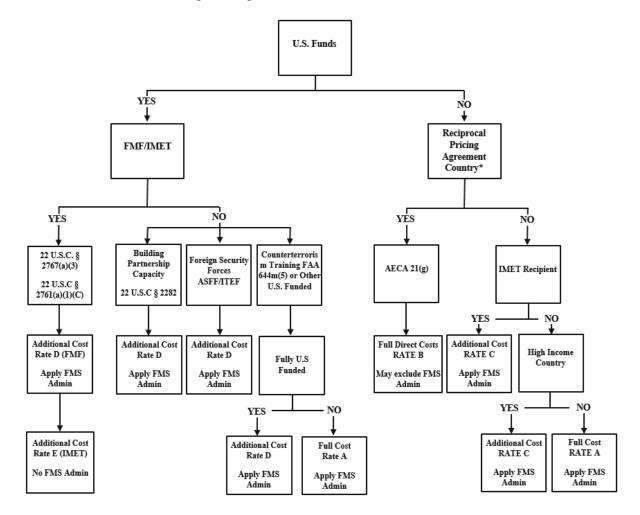
<sup>&</sup>lt;sup>1</sup> Refer to OUSD(C) DoD Reimbursable Rates website, MP Composite Standard Pay and Reimbursement Rates (Tab K) to obtain the current "Rate Billable to FMS Entities." The FMS Rate includes an acceleration factor to cover medical health care costs of active duty personnel and their dependents and a per capita normal cost for Medicare-Eligible Retiree Health Care accruals.

<sup>&</sup>lt;sup>2</sup> To compute the hourly rate, multiply the FMS Composite Rate by 0.00057. This computation includes an 18% L&H factor. See Volume 11A, Chapter 6 and the OUSD(C) DoD Reimbursable Rates website for current factors.

<sup>&</sup>lt;sup>3</sup> To compute a Daily Rate, apply a factor of .00452 (1.18/260.875). This computation includes an 18% L&H factor. See Volume 11A, Chapter 6 and the OUSD(C) DoD Reimbursable Rates website for current factors.

<sup>&</sup>lt;sup>4</sup> The FMS administrative surcharge is additive to the FMS selling price.

Exhibit 7-13. Tuition Training Pricing Guide

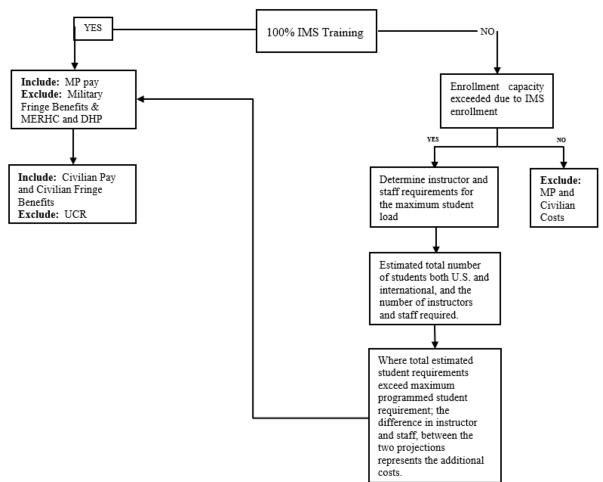


## **Notes:**

Not all NATO countries are a signatory to <u>STANAG 6025</u>, "Financial Principles and Procedures for the Provision of Support and the Establishment of Multinational Arrangements"

Refer to SAMM C10.T13, and C10.T14.

Exhibit 7-14. Incremental Tuition Based Pricing (Rate C)



### VOLUME 15, CHAPTER 8: "BILLING AND REIMBURSEMENT" SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by bold, italic, blue, and underlined font.

The previous version dated October 2021 is archived.

| PARAGRAPH                  | EXPLANATION OF CHANGE/REVISION  | <b>PURPOSE</b> |
|----------------------------|---|----------------|
| All                        | Updated hyperlinks and formatting to comply with current administrative instructions.   | Revision       |
| 3.5                        | Deleted paragraph containing content that Defense Finance and Accounting Service (DFAS) Security Cooperation Accounting Directorate provide a Compact Disk Read-Only Memory, otherwise referred to as CD-ROM, for Foreign Military Sales (FMS) purchasers to support the FMS Delivery Listing as obsolete.        | Deletion       |
| 7.2.3.4.3.3                | Deleted subparagraph requiring the Defense Contract<br>Management Agency to submit a certified Contract<br>Administrative Services monthly earnings computation<br>analysis to the DFAS for billing preparation as obsolete.  | Deletion       |
| Table 8-1 and<br>Table 8-2 | Revised to update rates established in accordance with Defense Security Cooperation Agency (DSCA) Policy Memorandum 18-37, "Decrease to Delivery Term Codes Percentage Rates for "Below-the-Line" Transportation on Foreign Military Sales and Building Partnership Capacity Cases," dated July 30, 2018 (18-37). | Revision       |
| Table 8-3                  | Added "Surcharge Matrix" as outlined in Table 8-18 of DSCA Memorandum 18-37.  | Addition       |
| Table 8-4                  | Renamed Table 1-3 of prior version to Table 1-4.  | Revision       |

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#### **CHAPTER 8**

#### **BILLING AND REIMBURSEMENT**

#### 1.0 GENERAL

#### 1.1 Purpose

This chapter establishes the standard policies for use when:

- 1.1.1. The Defense Finance and Accounting Service (DFAS), Security Cooperation Accounting (SCA) Directorate bills foreign governments and international organizations (hereafter referred to as Foreign Military Sales (FMS) purchasers) for costs related to defense articles and services sold pursuant to the Arms Export Control Act (<u>AECA</u>) (note: AECA starts on page 427 of Legislation on Foreign Relations, Volume 1-A):
- 1.1.2. The DoD Components report FMS deliveries of materiel and services, contractor progress payments, and other related costs to DFAS SCA to obtain reimbursement or to report performance under an allotment of FMS Trust Fund budget authority; and
- 1.1.3. The DoD Components request reimbursement from the other DoD Components for costs associated with inter-service support of FMS cases.

#### 1.2 Authoritative Guidance

The AECA (Public Law 90-629), codified as Title 22, United States Code, Chapter 39 (22 U.S.C. Chapter 39), and the Foreign Assistance Act (Public Law 87-195), as amended, codified as 22 U.S.C. Chapter 32 provide the authority for FMS sales of defense articles, services, and training.

#### 2.0 RESPONSIBILITIES

#### 2.1 Defense Security Cooperation Agency (DSCA)

DSCA approves the establishment and revision of the Implementing Agency (IA), Delivery Source Code (DSC), Monitor, and Type of Assistance codes. DSCA forwards the recommended new or revised codes to DFAS Accounting and Finance Policy for approval and inclusion in Volume 15. DSCA and DFAS must use the Standard Financial Information Structure as prescribed in Volume 1, Chapter 4.

#### 2.2 DFAS SCA

DFAS SCA must issue quarterly billing statements to FMS purchasers based on payment schedules attached to the Letter of Offer and Acceptance (LOA) by the applicable IA. Exceptions to this policy may be made when an IA submits a Quarterly Forecast of Financial Requirements for Requisition Cases, and the committed values for requisition cases indicate the performance on

a particular requisition case is behind or ahead of schedule. In such cases, DFAS SCA must bill based on the quarterly forecast or the committed value of requisitions. See Chapter 4, paragraph 5.4 for more information.

#### 2.3 IAs

- 2.3.1. An IA is the DoD Component assigned responsibility by DSCA to prepare an LOA and implement the case. The IA is responsible for overall management of the actions that will result in delivery of the materiel or service set forth in an implemented LOA.
- 2.3.2. IAs must report accrued expenditures (work in process (WIP)) and physical deliveries in the applicable IA financial or logistical system within 30 days of the occurrence (e.g., date of shipment or performance). This information is provided to DFAS SCA through the billing and reporting policies prescribed in this chapter.

#### 2.4 Supporting DoD Components

The supporting DoD Components must request reimbursement from other DoD Components through the billing and reporting policies prescribed in this chapter.

- 2.4.1. <u>Requesting Activities</u>. When placing an order to satisfy an FMS demand, requesting activities are responsible for notifying the performing activities. The notification must include the country, case designator, and line item.
- 2.4.2. <u>Performing Activities</u>. Upon notification that a customer order is for an FMS purchaser, performing activities must notify the requesting activity whether the order has been accepted on a reimbursable or direct cite basis and identify the total cost to process the order. This total billing must include both funded and unfunded costs. The performing activity must deposit amounts collected to the appropriate accounts, including the Miscellaneous Receipt Account.

#### 3.0 FMS BILLING STATEMENT

#### 3.1 General

- 3.1.1. DoD (DD) Form 645, FMS Billing Statement (or automated equivalent), and special billing arrangement statements issued by DSCA represent an official claim for payment by the U.S. Government. The DD645 is prepared on a quarterly basis as of December, March, June, and September. As an example, the December bill reflects physical deliveries, performance of services, and WIP from October 1 through December 31, and cash collections recorded for the FMS case through the preparation date of the billing statement. It also has a forecast of estimated advance cash requirements through the month of June. A December bill is mailed on or around January 15, with payment due March 15. The March, June, and September statements follow the same basic timeframes.
- 3.1.2. The FMS billing statement furnishes an accounting to the FMS purchaser for all costs incurred under each FMS Trust Fund case. Detail on the face of the billing statement must display the cost elements similar to the line item detail on the LOA. Physical performance of

services and delivery of materiel are shown against the line item detail of the LOA. FMS administrative surcharge, accessorial costs, and WIP are separately listed.

#### 3.2 Billings for Cases With Payment Upon Delivery

For cases authorized under the AECA, sections 21(d) or 22(b), the IAs must ensure that each case has a delivery schedule, and ensure its accuracy. DFAS SCA is responsible for billing the FMS purchaser the appropriate charges. Interest must be charged in accordance with the policy found in Volume 16, Chapter 6, section 4.0.

#### 3.3 Final Statement

DFAS SCA must give the FMS purchaser a case final statement at the end of the calendar quarter in which the case is closed and re-categorized from an active status to inactive status. DFAS SCA must annotate the final statement to notify the FMS purchaser of this reclassification.

#### 3.4 FMS Delivery Listing

An FMS Delivery Listing is prepared in support of entries to Current Period Delivery Costs, on the DD645, using the IA FMS Integrated Control System (FICS). The FMS Delivery Listing is an itemized listing of all items physically delivered and services performed during the reporting period. It is cross-referenced to specific document numbers and allows FMS purchasers to validate receipt of the materiel or services. The FMS Delivery Listing also includes DFAS SCA's computation of charges applied by the organization fulfilling the order in accordance with Chapters 3 and 7.

#### 4.0 FMS PURCHASER REQUESTS FOR BILLING AND SUPPLY ADJUSTMENTS

#### 4.1 General

- 4.1.1. If, after review of the DD645 and/or the supporting FMS Delivery Lists, the FMS purchaser identifies that an adjustment is needed, the FMS purchaser must submit a formal request for adjustment. Billing and supply adjustment requests for materiel or service performance and accessorial charges should be submitted to the IA. Adjustment requests dealing only with FMS administrative surcharges should be submitted to DFAS SCA.
- 4.1.2. FMS purchasers must submit all requests for billing and supply adjustments on a Standard Form (SF) 364, Report of Discrepancy (ROD), also referred to as a Supply Discrepancy Report, clearly indicating the specific adjustment or billing action requested. The DoD Components process eligible in accordance must **RODs** with the **Defense Logistics Manual 4000.25**, "Defense Logistics Management Standards (DLMS)." form. instructions for completion, and definitions are prescribed **DLMS Manual Volume 2, Chapter 17.** After RODs applicable to materiel and services are resolved, the DoD Components must report the action being taken to DFAS SCA using appropriate Adjustment Reply Codes in the delivery transaction (for additional information concerning delivery transactions, see section 5.0).

#### 4.2 Adjustment Reply Codes

Adjustment Reply Codes cover most replies to FMS purchaser requests for billing or adjustments. When a situation arises not covered by these codes, a reply by letter is appropriate. Submit requests for codes to cover additional transactions to: DFAS SCA at DFAS-JAX/IN, 8899 E. 56<sup>th</sup> St., Indianapolis, IN 46249.

#### 4.3 Reply Listing

DFAS SCA provides a consolidated listing of the actions taken in response to RODs. This listing must be mailed with the DD645 to the FMS purchaser involved. All responses to RODs must be listed separately for each country and case and have the same data elements as shown on the FMS Delivery Listing. The Reply Listing is prepared in the same basic sequence as the billing statement and FMS Delivery Listing.

#### 5.0 IA PERFORMANCE REPORTS OR REQUESTS FOR REIMBURSEMENT

#### 5.1 Reporting Deliveries

- 5.1.1. IAs must report the cost of DoD services, inventory items, and new procurement to DFAS SCA, using delivery reports, or the automated equivalents, through the FICS delivery transaction unless the provisions of paragraph 5.3 are applicable. It is the IA's responsibility to ensure that receipt documentation demonstrating proof of shipment, with the appropriate FMS purchaser's (or the FMS purchaser's representative, e.g., a freight forwarder) signature, is retained permanently for the record.
- 5.1.2. DFAS SCA must pay earned reimbursements included in such reports within 20 working days from the date of receipt. If a cash flow problem precludes payment, DFAS SCA must issue immediate notification to the Director, DSCA. DSCA will then notify the appropriate country if FMS funding is short, and the Office of the Undersecretary of Defense Comptroller (OUSD(C)) if appropriated funding is short. The Director, DSCA, must notify IAs to suspend further deliveries of DoD stock or performance of DoD services unless a determination has been made that it is in the national interest for billings to be dated and issued upon delivery or performance, with payment due in 60 days.

#### 5.2 Interfund Transactions

Defense Working Capital Fund (DWCF) items are normally billed under interfund policies and use the Detailed Billing Codes prescribed in DLMS Manual, Volume 4, "Military Standard Billing System – Finance" (*MILSBILLS*). To minimize the impact on normal MILSBILLS billing (and still provide IAs or DFAS SCA with the data necessary to assure proper FMS billing), a modified MILSBILLS detailed billing transaction may be used to report FMS shipments. This modified MILSBILLS detailed billing transaction is in place of the FICS delivery transaction. The required modification is to substitute information that normally appears in the unit price field of the MILSBILLS detailed billing transaction. The information required on the modified billings

transactions applicable to the FMS program includes the item number, Transportation Bill Code, DSC, and when applicable, the DWCF Code.

#### 5.3 DFAS SCA Computations

Based on data in delivery transactions, DFAS SCA computes and bills FMS purchasers for the following:

- 5.3.1. Contract Administration Service (CAS) Charge. CAS percentages prescribed in Chapter 7, subparagraph 16.3.1 are applied as a percentage of reported payments to contractors, except for cases when CAS has been waived as authorized in Chapter 7, subparagraph 16.3.2 or determined to be not applicable and approved by DSCA. DFAS SCA performance and performance reporting feedback reports identify the amount of CAS computed based on delivery or WIP transactions (see section 9.0).
- 5.3.2. <u>Packing, Crating, and Handling (PC&H) Charge</u>. The PC&H surcharge applies to shipments of DoD non-Working Capital Fund materiel. For Excess Defense Articles, the IA is responsible for calculating the PC&H based on the acquisition price of the materiel (see Chapter 7, paragraph 4.1 or subparagraph 15.3.1).
- 5.3.3. Transportation Charges. When actual cost is unknown, an estimated transportation charge should be included on the LOA as a "below-the-line" (indirect/accessorial) charge. Once bills are received, estimated costs are collected into the FMS Transportation Account to pay actual transportation See "Security Assistance costs. Management (SAMM), Chapter 9, Table C9.T4a, "Table of Delivery Term Codes and Percentage," and the SAMM Appendix 2, "Transportation Cost Look-Up Tables" for the applicable rates. When shipments require containerization, storage in-transit, escorts, or have any other special transportation accessorial requirements; these special transportation accessorials are not included in the standard transportation percentages, nor in the cost provided in the transportation cost look-up table. These charges are to be placed "above-the-line" and adjusted as needed to capture actual cost. See SAMM Chapter 7 for more information on transportation costs, and Volume 11A, Chapter 1, subparagraph 2.4.10 for more information on accessorial expenses.
- 5.3.4. <u>FMS Administrative Surcharge</u>. The FMS administrative surcharge is assessed on performance reporting, except for the amount collected upon case implementation as prescribed in Chapters 3 and 4. Use the requirements in effect at the time the applicable LOA, basic documents, or amendments are accepted by the FMS purchaser, or are added via LOA modification. See Chapter 7, paragraph 5.1 for the prescribed standard FMS administrative surcharge. The FMS administrative surcharge does not apply to WIP.
- 5.3.5. <u>FMS Logistics Support Charge (LSC)</u>. The LSC was applied against items delivered after March 31, 1987, with delivery reported prior to October 1, 2007, on case lines that included specific Military Articles and Service Listings for spares, equipment modifications, maintenance, secondary support equipment, and supplies.

#### 6.0 TRANSPORTATION COST LOOK-UP TABLE

The purpose of the Transportation Cost Look-Up table is to provide DoD Components with estimated transportation costs for items normally shipped in the Defense Transportation System (DTS) (e.g., sensitive/hazardous end items) when costs using standard transportation percentages are significantly different from actual charges. This table is located in the SAMM, Appendix 2 and is used to compute an estimate of the actual transportation costs for the items listed.

#### 7.0 BILLING FOR SPECIFIC COSTS

Compute billings for specific costs associated with support to FMS as indicated in paragraphs 7.1 through 7.4.

#### 7.1 Actual Administrative Costs

Actual administrative costs are funded by an allotment that is provided based on an approved FMS administrative budget. Documentation that shows the propriety of the obligation must support the obligations and outlays against the allotment. The allotment holder must retain these basic source documents for audit and report the use of allotment through the required Status-of-Allotment reports.

#### 7.2 Actual FMS CAS Costs

- 7.2.1. The DoD Components performing contract administration or audit services must submit a monthly certified <u>SF 1080</u>, Voucher for Transfers Between Appropriations and/or Funds, billing to their servicing DFAS accounting office for reimbursement of contract administration (quality assurance and contract management) and audit services being performed on FMS cases. Billings must reflect the actual or proportionate share of FMS CAS.
- 7.2.2. The organization performing these services must validate all bills before submitting the SF 1080 and attesting to the validity of the required computation process. The approved DoD reimbursable rate and approved OUSD(C) unfunded civilian retirement rate are available at **DoD Reimbursable Rates**, "Civilian Personnel Fringe Benefit (TAB D)," by applicable fiscal year (FY). If an adjustment or correction is needed, it must be corrected within 30 days from the date of discovery.
- 7.2.3. DoD Components authorized to bill for CAS are listed in subparagraphs 7.2.3.1 through 7.2.3.7.
- 7.2.3.1. <u>Department of the Army Ammunition Plants</u>. Allocate contract management and quality assurance efforts based on the ratio of the FMS disbursements to total net disbursements (the term "disbursements" is defined in the Glossary). Compute the unfunded civilian retirement rate and show it on the monthly billings.

- 7.2.3.2. <u>Department of the Navy</u>. The Naval Sea Systems Command will submit monthly bills for the Navy Supervisors of Shipbuilding, Conversion, and Repair Activities, and allocate contract management and quality assurance efforts based on actual hours expended. Compute the unfunded civilian retirement rate and show on the monthly billings.
- 7.2.3.3. <u>Department of the Air Force</u>. The Air Force Security Assistance Training and Air Force Installation Contracting Agency will submit monthly bills and allocate contract management and quality assurance efforts based on actual hours expended. Compute the unfunded civilian retirement rate and show on the monthly billings.

#### 7.2.3.4. <u>Defense Contract Management Agency (DCMA) Continental United</u> States (CONUS) FMS CAS

7.2.3.4.1. DCMA establishes an annual command rate by August 1 of each year for the following FY. The rate must be determined based on the ratio of FMS net contract disbursements to total DoD net contract disbursements. The ratio will reflect actual net FMS (Trust Fund appropriation, 11X8242) disbursement data for the prior 12 months (using January of the prior FY to December of the current FY, e.g., January 2010 to December 2010). The annual command rate must apply to the next FY budgetary estimates and billing period. For example, the January 2010 to December 2010 data will be used for the budgetary estimate and billing period for FY 2012 and the rate due by August 1, 2011. The annual command rates methodology is further defined by the following factors.

7.2.3.4.1.1. <u>Numerator</u>. Twelve months of monthly Defense Integrated Financial System FMS (11X8242) net contract disbursement amounts reported for the Mechanization of Contract Administration Services disbursing stations will be used as the numerator for calculating the annual command rate for DCMA. These amounts will exclude FMS (11X8242) disbursements and apply to contract administration reciprocal agreements, all other types of FMS CAS waivers reflected in the <u>SAMM subsection 9.6.2</u>, and other FMS disbursements that are not FMS contract costs, e.g., in-house services performed by civil servants and financed by the FMS Administrative Surcharge account.

7.2.3.4.1.2. <u>Denominator</u>. Twelve months of total DoD net contract disbursements as reported on the SF 1219, Statement of Accountability, Part A, Line 4.1 will be used as the denominator for calculating the annual command rate for DCMA.

7.2.3.4.2. Quarterly, DCMA will update the Functional Work Force (FWF) to include full-time equivalents that perform CONUS FMS CAS efforts (quality assurance or contract management) in the work sections. Use the updated FWF number derived in the third month of that quarter for the FWF number in the next quarter's billings (SF 1080). In the computation process, round all hours and FWF amounts to whole numbers. Round all dollars and percentages to the second decimal point.

7.2.3.4.3. Monthly, DCMA will prepare the DCMA CONUS FMS CAS monthly earnings computation sheet and certification memorandum.

7.2.3.4.3.1. CONUS FMS CAS earnings and unfunded civilian retirement for the month are computed using the DCMA annual command rate and the data sources listed in this chapter. The unfunded civilian retirement factor is listed with the Annual DoD Reimbursement Rates issued by OUSD(C). The approved FY reimbursable rates are available at the OUSD(C) reimbursable rate website.

7.2.3.4.3.2. Overtime is listed as a separate charge on the DCMA CONUS FMS CAS monthly earnings computation sheet or, if the overtime factor was not included, in the Annual DoD Reimbursable Rate in accordance with Volume 11A, Chapter 6. The unfunded civilian retirement factor is not computed on overtime hours since unfunded civilian retirement applies to salaries (basic pay) only (see <u>5 U.S.C. § 8331(3)</u> for an explanation of what is not included in basic pay).

#### 7.2.3.5. DCMA International

7.2.3.5.1. DCMA International FMS CAS must be reimbursed on actual costs incurred based on net disbursements processed by DFAS. The unfunded civilian retirement rate will be computed on salaries (basic pay) only. Military pay will also be computed and reimbursed.

7.2.3.5.2. Since the FMS CAS Surcharge Account pays for all costs associated with FMS full-time employees, including equipment, vehicles, and housing, these reimbursements (monthly billings) must be based on total actual costs. Employees working part-time FMS CAS are reimbursed using the DoD FMS CAS hourly rate and the unfunded civilian retirement rate listed at DoD Reimbursable Rates, noted in subparagraph 7.2.2. No additional support costs are reimbursed for part-time employees except for overseas Temporary Duty costs.

7.2.3.5.3. Billings must exclude all costs associated with countries that have FMS CAS waivers and/or reciprocal agreements.

7.2.3.6. <u>Defense Contract Audit Agency (DCAA)</u>, All Offices Except DCAA <u>Headquarters Offices</u>. Allocate the FMS contract audit based on actual hours expended on FMS requirements. Compute the unfunded civilian retirement rate and show the results on the monthly billings.

7.2.3.7. <u>Any Other Activity Performing Contract Management Services as Approved by OUSD(C)</u>. When OUSD(C) grants this exception, the exception will identify the cost recoupment method.

7.2.4. The SF 1080 bills for actual costs must be supported with a schedule containing the following data:

7.2.4.1. Organization;

7.2.4.2. Type of CAS effort incurred:

- 7.2.4.2.1. Contract audit,
- 7.2.4.2.2. Quality assurance and inspection, or
- 7.2.4.2.3. Other CAS efforts:

#### 7.2.4.3. Cost recoupment basis;

- 7.2.4.4. Annual hourly rates prescribed by OUSD(C) for CAS, plus unfunded civilian retirement costs (including costs for post-retirement health benefits). See the OUSD(C) reimbursable rate website for approved unfunded civilian retirement rate and hourly rates; and
- 7.2.4.5. The authority or directive requesting work to be performed and justification for why the normal FMS CAS procedures and billing arrangements for the current authorized DoD Components performing CAS cannot be used.
- 7.2.5. Billings for non-FMS CAS must be charged in accordance with Volume 11A, Chapter 6, Appendix D, Contract Administration Services.

#### 7.3 Actual Transportation Cost

Bill actual transportation costs of delivering defense articles on SF 1080s or Government bills of lading (GBLs); pay from the transportation surcharge account. Transportation costs to FMS purchaser freight forwarders from DWCFs are included in the cost of the article reported to DFAS SCA. Bill inventory shipments from the DWCF beyond the freight forwarders as a "below-the-line" charge in accordance with Table 8-1 and Chapter 3, Table 3-1, Cost Elements. Bill all other shipments according to Table 8-2 and Chapter 3, Table 3-1. Reimburse costs for transportation billed as a "below-the-line" cost to transportation activities based on the SF 1080 bills. The bills must be supported by a valid case identifier comprised of Country Code, IA Code, case designator, date of shipment, and certification that the billed amount was not included in the article's cost.

#### 7.3.1. Carrier Costs

- 7.3.1.1. <u>Commercial and Industrially Funded or DWCF Organizations</u>. Support billings for other-than-inland CONUS DWCF materiel by electronic media, listing, or computer tapes detailing the transaction control numbers and case designators or articles transported for FMS purchasers. "Carrier" means commercial carriers and/or the industrially- funded or DWCF part of Air Mobility Command (AMC) and Military Sealift Command (MSC). The following exceptions apply:
- 7.3.1.1.1. Include the cost of transporting Government furnished materiel (GFM) to a contractor's plant in the price of the GFM, reported in the delivery transactions, and not in the SF 1080 billings.

- 7.3.1.1.2. Include the cost of transportation for repair and return cases in the cost of the repair service, reported via the delivery transaction, and not in the SF 1080 billings.
- 7.3.1.1.3. Report "above-the-line" discrete transportation costs, such as high flight or special airlift, as a case charge via the delivery transaction, and not in the SF 1080 billings.
- 7.3.1.1.4. Do not include in the SF 1080 billings the inland CONUS transportation cost for DWCF materiel from point of origin to point of FMS purchaser pickup (freight forwarder, FMS purchaser, or FMS purchaser-designated CONUS delivery point); it is borne by the DWCF.
- 7.3.1.2. <u>DWCF and GBLs</u>. Do not cite the FMS Trust Fund on GBLs for transportation of DWCF materiel. The cost of such transportation is included in the standard price of DWCF materiel. GBL processing activities must not accept GBLs citing the FMS Trust Fund for transporting DWCF materiel.
- 7.3.1.3. <u>U.S. Postal Service</u>. Directly reimburse all postal service costs collected by DFAS SCA as surcharge costs on FMS purchaser billings to the applicable IA's designated administrative headquarters organization.
- 7.3.1.4. <u>Defense Courier Service</u>. Base the SF 1080 billings to recoup the cost of support provided by the Defense Courier Service on a prorated share of FMS shipments to total shipments. Apply the resulting percentage to payments to the Defense Courier Service to determine FMS billings.
- 7.3.1.5. <u>Air/Army Postal Office (APO)</u>, <u>Fleet Postal Office (FPO)</u>. Base the SF 1080 billings to recoup the cost of support provided by APOs and FPOs on a prorated share of FMS shipments to total shipments. Apply the resulting percentage to payments to the armed services operating these offices.
- 7.3.1.6. <u>Commercial Package Carriers</u>. All costs collected by the DFAS SCA as surcharges on FMS purchaser billings for commercial package carriers are directly reimbursed back to the reporting DoD Components and not reimbursed from the FMS Transportation Account as a direct cite disbursement.

#### 7.3.2. Recoupment of the Cost of DoD Organizations Which Support Carrier Movement

- 7.3.2.1. <u>AMC Headquarters</u>. Allocate non-industrially funded/DWCF headquarters cost based on the ratio of FMS billings to the total dollar value of industrial fund/DWCF billings. The billing for headquarters cost must include a proportionate share of all costs funded by the Operations & Maintenance (O&M) appropriation, Military Pay appropriation, and those unfunded costs identified in subparagraph 7.2.4.
- 7.3.2.2. MSC Headquarters. Allocate non-industrially funded headquarters cost based on the ratio of FMS billings to the total dollar value of industrial fund/DWCF billings. The

billing for headquarters cost must include a proportionate share of all costs funded by the O&M appropriation, Military Pay appropriation, and those unfunded costs identified in subparagraph 7.2.4.

- 7.3.2.3. Organizations Responsible for Routing of Materiel, Preparation of GBLs, and Carrier Selection. Organizations responsible for the routing of materiel, preparation of GBLs, and carrier selection include the Surface Deployment and Distribution Command and subsidiary organizations, the Navy Materiel Transportation Office (NAVMTO), and installation transportation offices. Base billings on level of effort estimates of FMS tonnage as a percentage of total tonnage moved. For this calculation, costs of FMS tonnage must include movement of materiel processed through both DTS and commercial bills paid directly by foreign countries. Apply the resulting percentage of tonnage moved to the total actual obligations incurred by routing organizations to determine the base charge. The billing must include the base charge, military labor, and unfunded costs determined in accordance with subparagraph 7.2.4.
- 7.3.2.4. Organizations Responsible for Accounting, Audit, and Payment of Transportation Bills. Organizations responsible for accounting, audit, and payment of transportation bills are DFAS Indianapolis Center, for Army, Air Force, and Defense Agency shipments; NAVMTO, Norfolk, Virginia, for Navy shipments; and the Marine Corps Logistics Base, Albany, Georgia, for Marine Corps shipments. Base billings on the use of level of effort estimates, on the number of FMS GBLs processed as a percentage of the total number of GBLs processed. Then apply the percentage to obligations incurred by cost centers responsible for processing GBLs, and those unfunded costs identified in subparagraph 7.2.4.
- 7.3.2.5. <u>Organizations Providing Physical Security</u>. Shipments that involve sensitive conventional arms, ammunition, and explosives in-transit are to be processed in accordance with <u>DoD Manual 5100.76</u>, "Physical Security of Sensitive Conventional Arms, Ammunition, and Explosives (AA&E)." DoD civilian and military personnel involved in providing personnel services in connection with these types of shipments are to be priced in accordance with the provisions of Chapter 7, paragraphs 20.1 and 20.2.

#### 7.3.3. Billings for Organic Transportation and Troop Labor

- 7.3.3.1. <u>Troop Labor</u>. Activities utilizing troop labor for the loading or unloading of vessels, trains, vans, or other conveyances are responsible for billing applicable costs. FMS cost may be based on a prorated share of the total cargo manifest, or a similar document.
- 7.3.3.2. <u>Use of Organic Vehicles</u>. Base billings for the use of organic vehicles on motor pool records that disclose DoD vehicles were used to move FMS materiel. Determine the number of miles and bill at the rate of \$4.00 per mile. This rate includes the labor cost of drivers assigned by the motor pool. Consolidate motor pool billings by major commands.

#### 7.4 Actual PC&H

SF 1080 billings for actual PC&H costs are normally not submitted. Instead, earned reimbursements are transferred to the shipping depot when DFAS SCA applies the applicable

surcharge. DWCF items are not reimbursed for PC&H because that charge is included in the standard price.

### 8.0 SUPPORTING DOD COMPONENT PERFORMANCE REPORTS/REQUESTS FOR REIMBURSEMENTS

#### 8.1 General

DoD Components must support FMS cases at the request of the applicable IA. Such requests must be in the form of requisitions or formal orders that place a dollar value on the support to be provided, the appropriation/fund that will pay the resulting billings, the appropriation/fund that will bill and record earned reimbursements, and the address (symbol) of the IA or equivalent. Pursuant to a formal order, billings by the supporting DoD Component to the IA must be submitted on an SF 1080 supported by delivery transactions to the paying office identified in the order. The disbursing officer must include the delivery transactions in a consolidated submission to DFAS SCA and reimburse any amounts due for inventory items or services when reimbursement is received from DFAS SCA. Only make payments to contractors subject to expenditure authority (EA) issued by DFAS SCA. A non-reimbursable delivery transaction applicable to such costs should be included in the submission.

#### 8.2 Processing Requisitions

- 8.2.1. If requisitions are received from the IA with a fund and signal code signifying direct citation of the FMS Trust Fund (not an allotment of direct cite authority), the delivery transaction must be submitted to the requisitioning activity. Process requisitions containing such fund and signal codes on a prompt delivery basis (within 30 days). Obligations must be recorded after the funding authorization has been received and upon release of the requisition to the supply source. Record disbursements against the applicable case once the interfund bill transactions have been validated and accepted in the IA database. The IA reports the initial obligation transaction, obligation adjustment transaction, and related disbursement transaction to DFAS SCA. EA must be approved for all requisitions submitted to non-DoD supplying activities.
- 8.2.2. Within the DoD, the interfund billing activity must get necessary self-reimbursement authority for interfund requisitions. If stocked items are not available for prompt delivery and new procurement is necessary, follow Military Interdepartmental Purchase Request procedures, direct cite procurement procedures, or commercial buying services procedures. If the requisition is submitted to a non-DoD organization, the summary billing transaction and the supporting unmodified MILSBILLS detailed billed transactions must be submitted to the IA. The IA must convert MILSBILLS detailed delivery transactions to FMS detail delivery transactions and forward the billing information to DFAS SCA within five working days. DFAS SCA must use the FMS detail delivery transactions to prepare delivery reports to the FMS purchasers and provide a copy of the report, or automated system equivalent, to the implementing DoD Components for use in posting to supply performance files.

#### 9.0 PERFORMANCE AND DELIVERY REPORTING

#### 9.1 Reports

- 9.1.1. FMS Command Pay List. DFAS provides reporting activities with a monthly FMS Command Pay List that identifies the total amount of WIP or deliveries charged to FMS cases in the current reporting period, excluding accounts payable (see subparagraph 9.1.4). The amount includes the delivery transactions submitted by the reporting activity, less accounts payable and rejected items (see subparagraph 9.1.3), and additional charges mechanically computed by DFAS. The last line of the Command Pay List, "Total Reimbursable to This Payee," should equal the amount received by the payee. DFAS computed charges may or may not be reimbursable to the reporting activity. The following are DFAS computed charges:
  - 9.1.1.1. FMS Administrative Surcharge are non-reimbursable costs;
  - 9.1.1.2. PC&H are reimbursable charges not applicable to DWCF items;
  - 9.1.1.3. "Below-the-line" Transportation Charges;
- 9.1.1.3.1. Reimbursable and non-reimbursable costs (reimbursable costs are not applicable to DWCF items if the ship date is October 1, 1991 or later). The Inland CONUS rate of 2.75 percent is not applicable to stock fund items effective October 1, 1990,
- 9.1.1.3.2. Transportation Bill Codes (TBCs) are used to bill FMS purchasers for "below-the-line" transportation costs if the actual method of transportation is different from that identified by the Delivery Term Code. Report the return of repaired materiel using TBC "L." TBCs are in Table 8-3; and
  - 9.1.1.4. CAS charges are non-reimbursable.
- 9.1.2. FMS Detail Delivery Feedback List. The FMS Detail Delivery Feedback List is attached to the Command Pay List and identifies the delivery transactions submitted by reporting activities and processed by DFAS for reimbursement or reporting to the FMS purchaser. It also identifies add-on amounts mechanically computed by DFAS for each processed delivery transaction. This listing does not provide summary totals of deliveries reported. It is used to compare deliveries reported with deliveries processed when reconciling amounts reimbursed to the reporting activity. When reconciling reimbursements received from DFAS to reporting activity records, the following columns of the FMS Detailed Delivery Feedback list should be used:
- 9.1.2.1. The Voucher Amount Paid (VOU AMT PD) column, which identifies the amount of reimbursement to the reporting activity;
- 9.1.2.2. The Extended Value (EXT VAL) column, which identifies the total amount reported to DFAS;

- 9.1.2.3. The Stock Fund Add-On (STK FUND ADD-ON) column, which identifies the amount of LSC or stock fund add-on charges computed by DFAS. After accounting date March 1987, this field identifies the LSC;
- 9.1.2.4. The Contract Administration Surcharge Add-On (CAS ADD-ON) column, which identifies CAS computed by DFAS. The CAS applied to procurement DSCs (non-reimbursable to the reporting activity). Items procured and associated costs charged may include DWCF listed items, GFM, and nonrecurring charges;
- 9.1.2.5. The Date of Transaction (DT TRAN) column, which identifies the date of transaction; and
- 9.1.2.6. The Accessorial Administrative Costs (ACSRL ADM COST) column, which identifies administrative charges applied against the FMS case. These charges are applied against total deliveries reported for each case during the month and not identified to the individual deliveries.
- 9.1.3. FMS IA Performance Report Transaction Register (PRTR). The FMS IA PRTR has five parts. These parts are detailed in the following subparagraphs.
- 9.1.3.1. The IA-Initiated Performance Reports Rejected Not Processed section includes all delivery transactions that could not be processed by DFAS. The reasons for not processing are listed immediately under each transaction. A corrected transaction should be resubmitted to DFAS. This part must be used in reconciling reported deliveries, to deliveries processed by DFAS. Rejected transactions should be corrected and resubmitted within 30 days.
- 9.1.3.2. The IA-Initiated Performance Reports Processed with Management Alerts section includes all delivery transactions processed with the possible problem areas identified by DFAS processing. Review these transactions to determine if each transaction was properly prepared. If the transaction was properly prepared, no further action is required.
- 9.1.3.3. The DFAS-Initiated Performance Reports Processed section includes those transactions computed and applied by DFAS for the IA. DFAS reports these transactions for posting to the IA's records.
- 9.1.3.4. The DFAS-Initiated Corrections to Initial IA Performance Reports section provides information on delivery transactions subsequently modified by DFAS. Data appears with the IA delivery transaction first, followed by the corrective action taken by DFAS.
- 9.1.3.5. The DFAS Deletions from the IA-Initiated Performance Reports section provides the delivery transactions that have been subsequently deleted by DFAS.

#### 9.1.4. FMS Accounts Payable List

9.1.4.1. The FMS Accounts Payable List indicates reimbursable delivery transactions for which payment is not being made. Reasons for non-payment include:

- 9.1.4.1.1. The country's funds are frozen (not available to disburse),
- 9.1.4.1.2. The country does not have enough cash available, or
- 9.1.4.1.3. The case provides for payment 60 days after delivery.
- 9.1.4.2. The list has a total of all transactions that are reimbursable and have not been paid to the reporting activity.
- 9.1.5. FMS Voucher Backup for Payment of Accounts Payable. The FMS Voucher Backup for Payment of Accounts Payable listing represents the amount paid to the reporting activity per the Command Pay List (see subparagraph 9.1.1) by country, IA, and reporting activity.
- 9.1.6. FMS Accounts Payable. Detailed payable records are only maintained in installation-level systems and, therefore, can only be aged at the installation level. Monitoring payables and assuring specific vendors are paid promptly is a function of the installation-level accounting activity. IAs should validate general ledger account balances to payables reported to the Defense Integrated Financial System on a monthly basis.

#### 9.2 Reject Codes

The FMS IA PRTR contains Reject Codes for the delivery transactions that did not process to the FMS Command Pay List. Research reports with Reject Codes and process delivery transactions within 30 days. DFAS will maintain a control file of outstanding rejected transactions and will update the file once corrected transactions are resubmitted and reprocessed. DFAS will send copies of the control file to the respective IAs.

#### 9.3 Reconciling Reports

Reconcile reimbursable delivery transactions to the amounts reimbursed. Verify that the voucher backup equals the amount on the check and the FMS Command Pay List. If amounts are not equal, contact DFAS to reconcile differences.

\*Table 8-1. Transportation Charges Based on TBC for Inventory Items Shipped by DWCF

| ТВС | Generic Code          | Percentage of Item<br>Priced by Generic Code | Total Percentage                  |
|-----|-----------------------|--|-----------------------------------|
| Α   | L1D                   | $0.0^{-1,2}$                                 | 0.0                               |
| В   | L1E                   | 0.0 1,2                                      | 0.0                               |
| С   | L1A                   | 0.0 <sup>2</sup>                             | 7.25,9.0/7.5,9.5                  |
| С   | L2B                   | 2.5  | 7.25,9.0/7.5,9.5                  |
| С   | L1B /L1C <sup>3</sup> | 3.75, 5.5 4/4.0,6.0 5                        | 7.25,9.0/7.5,9.5                  |
| С   | L2C                   | 1.0  | 7.25,9.0/7.5,9.5                  |
| D   | N/A                   | 0.0  | 0.0                               |
| E   | L1A                   | 0.0 2  | 0.0                               |
| F   | L1A                   | 0.0 <sup>2</sup>                             | 6.25,8.0/6.5,8.5                  |
| F   | L2B                   | 2.5  | 6.25,8.0/6.5,8.5                  |
| F   | L1B/L1C <sup>3</sup>  | 3.75,5.5 <sup>4</sup> /4.0,6.0 <sup>5</sup>  | 6.25,8.0/6.5,8.5                  |
| G   | L1A                   | 0.0 <sup>2</sup>                             | 10.25,12.0/10.5,12.5              |
| G   | L2B                   | 2.5  | 10.25,12.0/10.5,12.5              |
| G   | L1B/L1C <sup>3</sup>  | 3.75,5.5 4/4.0,6.0 5                         | 10.25,12.0/10.5,12.5              |
| G   | L2C                   | 1.0  | 10.25,12.0/10.5,12.5              |
| G   | L1F                   | 3.0  | 10.25,12.0/10.5,12.5              |
| Н   | L1A                   | 0.0 <sup>2</sup>                             | 2.5                               |
| Н   | L2B                   | 2.5  | 2.5                               |
| J   | L2B                   | 2.5  | 7.5/9.5                           |
| J   | L1C                   | 4.0/6.0 5                                    | 7.5/9.5                           |
| J   | L2C                   | 1.0  | 7.5/9.5                           |
| K   | L1C                   | N/A  | Actual amount billed by AMC       |
| L   | As applicable         | N/A  | Actual amount computed by shipper |
| M   | L4O                   | 3.0 1  | 3.0                               |
| N   | L1A                   | 0.0 <sup>2</sup>                             | 3.0                               |
| N   | L4O                   | 3.0 1  | 3.0                               |
| P   | L1A                   | 0.0 2  | 5.75                              |
| P   | L4O                   | 3.0 1  | 5.75                              |
| P   | L1A                   | 2.75 <sup>2</sup>                            | 5.75                              |
| Q   | L1A                   | 0.0 <sup>2</sup>                             | 12.0,13.75/12.25,14.25            |
| Q   | L4O                   | 3.0 1  | 12.0,13.75/12.25,14.25            |
| Q   | L1A                   | 2.75 <sup>2</sup>                            | 12.0,13.75/12.25,14.25            |
| Q   | L2B                   | 2.5  | 12.0,13.75/12.25,14.25            |
| Q   | L1B/L1C <sup>3</sup>  | 3.75,5.5 4/4.0,6.0 5                         | 12.0,13.75/12.25,14.25            |

\*Table 8-1. Transportation Charges Based on TBC for Inventory Items Shipped by DWCF (Continued)

| ТВС | Generic Code         | Percentage of Item Priced by Generic Code | Total Percentage                     |
|-----|----------------------|---|--------------------------------------|
| R   | L1A                  | 0.0 2                                     | 16.0,17.75/16.25,18.25               |
| R   | L4O                  | 3.0 1                                     | 16.0,17.75/16.25,18.25               |
| R   | L1A                  | 2.75 2                                    | 16.0,17.75/16.25,18.25               |
| R   | L2B                  | 2.5                                       | 16.0,17.75/16.25,18.25               |
| R   | L1B/L1C              | 3.75,5.5 4/4.0,6.0 5                      | 16.0,17.75/16.25,18.25               |
| R   | L2C                  | 1.0                                       | 16.0,17.75/16.25,18.25               |
| R   | L1F                  | 3.0                                       | 16.0,17.75/16.25,18.25               |
| S   | L1A                  | 0.0 2                                     | 8.25                                 |
| S   | L4O                  | 3.0 1                                     | 8.25                                 |
| S   | L1A                  | 2.75 <sup>2</sup>                         | 8.25                                 |
| S   | L2B                  | 2.5                                       | 8.25                                 |
| U   | L1D                  | 0.0 1,2                                   | 2.5                                  |
| U   | L2B                  | 2.5                                       | 2.5                                  |
| V   | L1D                  | 0.0 1,2                                   | 7.25,9.0/7.5,9.5                     |
| V   | L2B                  | 2.5                                       | 7.25,9.0/7.5,9.5                     |
| V   | L1B/L1C <sup>3</sup> | 3.75,5.5 4/4.0,6.0 5                      | 7.25,9.0/7.5,9.5                     |
| V   | L2C                  | 1.0                                       | 7.25,9.0/7.5,9.5                     |
| W   | L10                  | N/A                                       | Transportation Cost<br>Look-Up Table |
| X   | L1D                  | 0.0 1,2                                   | 6.25,8.0/6.5,8.5                     |
| X   | L2B                  | 2.5                                       | 6.25,8.0/6.5,8.5                     |
| X   | L1B/L1C <sup>3</sup> | 3.75,5.5 4/4.0,6.0 5                      | 6.25,8.0/6.5,8.5                     |
| Y   | L1D                  | 0.0 1,2                                   | 10.25,12.0/10.5,12.5                 |
| Y   | L2B                  | 2.5                                       | 10.25,12.0/10.5,12.5                 |
| Y   | L1B/L1C <sup>3</sup> | 3.75,5.5 4/4.0,6.0 5                      | 10.25,12.0/10.5,12.5                 |
| Y   | L2C                  | 1.0                                       | 10.25,12.0/10.5,12.5                 |
| Y   | L1F                  | 3.0                                       | 10.25,12.0/10.5,12.5                 |

- 1. The costs of L1D, L1E, and L4O are included in the DWCF item price when being directly shipped to the customer. If the item is shipped to a staging location, the rate listed must be charged.
- 2. L1A does not apply to DWCF shipments with shipping dates after September 30, 1990. Computation for L1D and L1E for DWCF items was discontinued on items with shipping dates after September 30, 1991. L1A is computed once on DWCF items shipped to a CONUS staging or aggregation area and then on to the CONUS water or aerial port. The first CONUS movement is included in the DWCF item price. The second movement TBCs (P, Q, R, or S) are charged at the normal rate.

\*Table 8-1. Transportation Charges Based on TBC for Inventory Items Shipped by DWCF (Continued)

- 3. Wherever "L1B/L1C" appears, if the Port of Embarkation (POE) code is "A," L1C is computed; otherwise, L1B is computed.
- 4. L1B is computed at 3.75 percent for rate area one or 5.5 percent for rate area two. See Chapter 7, subparagraph 4.2.3.2 "Below-the-Line Transportation Services" for more information.
- 5. L1C is computed at 4.0 percent for rate area one or 6.0 percent for rate area two. See Chapter 7, subparagraph 4.2.3.2 "Below-the-Line Transportation Services" for more information.
- 6. L1A is computed once on DWCF items shipped to a CONUS staging or aggregation area and then on to the CONUS water or aerial port. The first CONUS movement is included in the DWCF item price.

\*Table 8-2. Transportation Charges Based on TBC for Inventory Items Not Shipped by DWCF

| TBC | Generic Code         | Percentage of Item Priced by<br>Generic Code | Total Percentage                  |
|-----|----------------------|--|-----------------------------------|
| A   | L1D                  | 3.75 <sup>1</sup>                            | 3.75                              |
| В   | L1E                  | 3.75 1                                       | 3.75                              |
| C   | L1A                  | 2.75   | 10.0,11.75/10.25,12.25            |
| C   | L2B                  | 2.5  | 10.0,11.75/10.25,12.25            |
| C   | L1B/L1C <sup>2</sup> | 3.75,5.5 <sup>3</sup> /4.0,6.0 <sup>4</sup>  | 10.0,11.75/10.25,12.25            |
| C   | L2C                  | 1.0  | 10.0,11.75/10.25,12.25            |
| D   | N/A                  | 0.0  | 0.0                               |
| Е   | L1A                  | 2.75   | 2.75                              |
| F   | L1A                  | 2.75   | 9.0,10.75/9.25,11.25              |
| F   | L2B                  | 2.5  | 9.0,10.75/9.25,11.25              |
| F   | L1B/L1C <sup>2</sup> | 3.75,5.5 <sup>3</sup> /4.0,6.0 <sup>4</sup>  | 9.0,10.75/9.25,11.25              |
| G   | L1A                  | 2.75   | 13.0,14.75/13.25,15.25            |
| G   | L2B                  | 2.5  | 13.0,14.75/13.25,15.25            |
| G   | L1B/L1C <sup>2</sup> | 3.75,5.5 <sup>3</sup> /4.0,6.0 <sup>4</sup>  | 13.0,14.75/13.25,15.25            |
| G   | L2C                  | 1.0  | 13.0,14.75/13.25,15.25            |
| G   | L1F                  | 3.0  | 13.0,14.75/13.25,15.25            |
| Н   | L1A                  | 2.75   | 5.25                              |
| Н   | L2B                  | 2.5  | 5.25                              |
| J   | L2B                  | 2.5  | 7.5/9.5                           |
| J   | L1C                  | 4.0/6.0 <sup>2</sup>                         | 7.5/9.5                           |
| J   | L2C                  | 1.0  | 7.5/9.5                           |
| K   | L1C                  | N/A  | Actual amount billed by AMC       |
| L   | As applicable        | N/A  | Actual amount computed by shipper |
| M   | L4O                  | 3.0 1  | 3.0                               |
| N   | L1A                  | 2.75   | 5.75                              |
| N   | L4O                  | 3.0 1  | 5.75                              |
| P   | L1A                  | 2.75 5                                       | 8.50                              |
| P   | L4O                  | 3.0 1  | 8.50                              |
| P   | L1A                  | 2.75 5                                       | 8.50                              |
| Q   | L1A                  | 2.75 <sup>5</sup>                            | 14.75,16.5/15.0,17.0              |
| Q   | L4O                  | 3.0 1  | 14.75,16.5/15.0,17.0              |
| Q   | L1A                  | 2.75 <sup>5</sup>                            | 14.75,16.5/15.0,17.0              |
| Q   | L2B                  | 2.5  | 14.75,16.5/15.0,17.0              |
| Q   | L1B/L1C <sup>2</sup> | 3.75,5.5 <sup>3</sup> /4.0,6.0 <sup>4</sup>  | 14.75,16.5/15.0,17.0              |

\*Table 8-2. Transportation Charges Based on TBC for Inventory Items Not Shipped by DWCF (Continued)

| ТВС | Generic Code         | Percentage of Item Priced by<br>Generic Code | Total Percentage                      |
|-----|----------------------|--|---------------------------------------|
| R   | L1A                  | 2.75 5                                       | 18.75,20.5/19.0,21.0                  |
| R   | L4O                  | 3.0 1  | 18.75,20.5/19.0,21.0                  |
| R   | L1A                  | 2.75 5                                       | 18.75,20.5/19.0,21.0                  |
| R   | L2B                  | 2.5  | 18.75,20.5/19.0,21.0                  |
| R   | L1B/L1C <sup>2</sup> | 3.75,5.5 <sup>3</sup> /4.0,6.0 <sup>4</sup>  | 18.75,20.5/19.0,21.0                  |
| R   | L2C                  | 1.0  | 18.75,20.5/19.0,21.0                  |
| R   | L1F                  | 3.0  | 18.75,20.5/19.0,21.0                  |
| S   | L1A                  | 2.75 5                                       | 11.0                                  |
| S   | L4O                  | 3.0 1  | 11.0                                  |
| S   | L1A                  | 2.75 5                                       | 11.0                                  |
| S   | L2B                  | 2.5  | 11.0                                  |
| U   | L1D                  | 3.75 1                                       | 6.25                                  |
| U   | L2B                  | 2.5  | 6.25                                  |
| V   | L1D                  | 3.75 1                                       | 11.0,12.75/11.25,13.25                |
| V   | L2B                  | 2.5  | 11.0,12.75/11.25,13.25                |
| V   | L1B/L1C <sup>2</sup> | 3.75,5.5 <sup>3</sup> /4.0,6.0 <sup>4</sup>  | 11.0,12.75/11.25,13.25                |
| V   | L2C                  | 1.0  | 11.0,12.75/11.25,13.25                |
| W   | L1O                  | N/A  | Transportation Cost Look-<br>Up Table |
| X   | L1D                  | 3.75 1                                       | 10.0,11.75/10.25,12.25                |
| X   | L2B                  | 2.5  | 10.0,11.75/10.25,12.25                |
| X   | L1B/L1C <sup>2</sup> | 3.75,5.5 <sup>3</sup> /4.0,6.0 <sup>4</sup>  | 10.0,11.75/10.25,12.25                |
| Y   | L1D                  | 3.75 1                                       | 14.0,15.75/14.25,16.25                |
| Y   | L2B                  | 2.5  | 14.0,15.75/14.25,16.25                |
| Y   | L1B/L1C <sup>2</sup> | 3.75,5.5 <sup>3</sup> /4.0,6.0 <sup>4</sup>  | 14.0,15.75/14.25,16.25                |
| Y   | L2C                  | 1.0  | 14.0,15.75/14.25,16.25                |
| Y   | L1F                  | 3.0  | 14.0,15.75/14.25,16.25                |
| Z   | L1A                  | 2.75   | (Charge may not exceed \$25.00)       |

- 1. Amounts collected for L1D, L1E, and L4O must be reimbursed to the shipping depot shown in the delivery transaction. SF 1080 billings for actual costs are not required.
- 2. Wherever "L1B/L1C" appears, if the POE Code is "A," L1C is computed; otherwise, L1B is computed.
- 3. L1B is computed at 3.75 percent for rate area one or 5.5 percent for rate area two. See Chapter 7, subparagraph 4.2.3.2 "Below-the-Line Transportation Services" for more information.

\*Table 8-2. Transportation Charges Based on TBC for Inventory Items Not Shipped by DWCF (Continued)

- 4. L1C is computed at 4.0 percent for rate area one or 6.0 percent for rate area two. See Chapter 7, subparagraph 4.2.3.2 "Below-the-Line Transportation Services" for more information.
- 5. L1A is computed twice on non-DWCF items shipped to a CONUS staging or aggregation area and then on to the CONUS water or aerial port for TBCs P, Q, R, and S.

\*Table 8-3. Surcharge Matrix

| DSC | Contract Administration <sup>1</sup> | PC&H <sup>2</sup> | Admin <sup>3</sup> | Transportation <sup>4,5</sup> Parcel Post <sup>6</sup> |
|-----|--------------------------------------|-------------------|--------------------|--|
| AA  | N                                    | N                 | Y                  | A  |
| AB  | N                                    | N                 | Y                  | A  |
| AC  | N                                    | N                 | Y                  | A  |
| AD  | N                                    | N                 | Y                  | A  |
| AE  | N                                    | Y                 | Y                  | В  |
| AG  | N                                    | Y                 | Y                  | В  |
| AH  | N                                    | N                 | Y                  | A  |
| AJ  | N                                    | N                 | Y                  | A  |
| AK  | N                                    | N                 | Y                  | В  |
| AL  | N                                    | N                 | Y                  | В  |
| BA  | N                                    | N                 | Y                  | N  |
| BB  | Y                                    | N                 | Y                  | N  |
| BC  | N                                    | $N^7$             | Y                  | $N^7$  |
| BD  | N                                    | N                 | Y                  | N  |
| BE  | N                                    | N                 | Y                  | N  |
| BF  | N                                    | N                 | N                  | N  |
| BG  | N                                    | N                 | Y                  | N  |
| BH  | N                                    | N                 | Y                  | N  |
| BK  | N                                    | N                 | Y                  | N  |
| BT  | N                                    | N                 | Y                  | N  |
| CA  | N                                    | N                 | N                  | N  |
| СВ  | N                                    | N                 | Y                  | N  |
| CC  | N                                    | N                 | Y                  | N  |
| CD  | N                                    | N                 | N                  | N  |
| DA  | N                                    | N                 | Y                  | N  |
| DB  | N                                    | N                 | Y                  | A  |
| DC  | N                                    | N                 | Y                  | В  |
| DD  | N                                    | N                 | Y                  | N  |
| DE  | Y                                    | N                 | Y                  | N  |
| DF  | N                                    | N                 | Y                  | N  |
| DG  | N                                    | N                 | Y                  | N  |
| DJ  | N                                    | N                 | Y                  | N  |
| DK  | Y                                    | N                 | Y                  | N  |
| DL  | N                                    | N                 | Y                  | N  |
| DX  | N                                    | N                 | Y                  | N  |
| EE  | N                                    | N                 | Y                  | N  |
| EF  | N                                    | $\mathbf{Y}^8$    | Y                  | $B^9$  |
| EG  | N                                    | N                 | Y                  | $B^9$  |
| EH  | N                                    | N                 | Y                  | N  |
| EJ  | N                                    | Y                 | Y                  | Y  |
| EK  | N                                    | N                 | Y                  | N  |
| EL  | N                                    | N                 | N                  | N  |

\*Table 8-3. Surcharge Matrix (continued)

| DSC | Contract<br>Administration <sup>1</sup> | PC&H <sup>2</sup> | Admin <sup>3</sup> | Transportation <sup>4,5</sup> Parcel Post <sup>6</sup> |
|-----|---|-------------------|--------------------|--|
| EM  | N                                       | N                 | N                  | N  |
| EN  | N                                       | N                 | Y                  | N  |
| SA  | N                                       | N                 | Y                  | A  |
| SB  | N                                       | Y                 | Y                  | В  |
| SD  | N                                       | Y                 | Y                  | В  |
| SE  | N                                       | N                 | Y                  | В  |

- 1. DFAS SCA will compute CAS if Price Code is "N" and Reimbursement Code is other than "N" unless statutory waiver of contract administration has been made.
- 2. PC&H does not apply to DWCF items with ship dates after September 30, 1990.
- 3. Administrative costs will be computed unless administrative costs have been waived pursuant to statute.
- 4. The Inland CONUS transportation charge of 2.75 percent does not apply to DWCF shipments with shipping dates after September 30, 1990. Computation for generic codes L1D and L1E for DWCF items was discontinued on items with shipping dates after September 30, 1991.
- 5. In this column, A refers to items furnished from DWCF. B refers to inventory items that are not shipped from DWCF. Transportation for inventory items furnished from DWCF to freight forwarders or Canada (except Newfoundland and Labrador) is included in the price. Shipments beyond that point are computed according to Table 8-1. Costs for items that are not furnished from DWCFs are also computed according to Table 8-2.
- 6. Transportation costs are computed using the TBC of the transaction. However, if this position is blank, transportation costs are computed using the DTC. If a DTC is not on the DTC Table, reject the transaction.
- 7. Included in actual or estimated actual repair cost.
- 8. Computed standard PC&H except if RIC begins with "G." RIC that begins with "G" will not have PC&H computed.
- 9. For DSC "EF" and "EG" when transportation is by the General Services Administration (GSA) (RIC begins with "G") and the TBC is not blank, or where the TBC is blank and the DTC is other than "4," the CONUS transportation add-on (generic codes L1A, L1D, and L1E) is not computed. GSA includes CONUS transportation in the price of the item.

\*Table 8-4. TBC

| TBC   | Description   |
|---|---|
|   | Materiel moved by parcel post to an inland CONUS/Canada (except Newfoundland and  |
| A   | Labrador) destination or freight forwarder, or to an overseas destination through the APO   |
|   | or international mail. The FMS purchaser makes all subsequent arrangements.   |
| _   | Materiel moved by commercial package carrier to an inland CONUS/Canada (except  |
| В   | Newfoundland and Labrador) destination or freight forwarder, when all subsequent  |
|   | arrangements are made by the FMS purchaser. However, see TBC "Z."  Materiel moved by GBL, AMC channel airlift, Air Force organizational airlift, MSC                    |
|   | sealift, and combinations thereof, to an overseas port of debarkation (POD) in rate area  |
| C   | one or two, including overseas carrier discharge. The FMS purchaser makes all   |
|   | subsequent arrangements.  |
|   | Any form of materiel for which the FMS purchaser is totally responsible, such as materiel   |
|   | moved by a collect commercial bill of lading to an inland CONUS destination, free   |
| D   | alongside ship (FAS), an overseas carrier at a CONUS POE, freight forwarder, a CONUS  |
|   | POE, or an inland overseas destination. Also used if transportation costs are not   |
|   | applicable.  Materiel moved by GBL, AMC channel airlift, Air Force organizational airlift, MSC  |
| _   | sealift, and combinations thereof, to an inland CONUS destination, FAS an overseas  |
| E   | carrier at a CONUS POE, a freight forwarder, or a CONUS POE when all subsequent   |
|   | arrangements are made by the FMS purchaser.   |
|   | Materiel moved by GBL, AMC channel airlift, Air Force organizational airlift, MSC   |
| F   | sealift, and combinations thereof, to an overseas POD in rate area one or two, when   |
|   | overseas carrier discharge and all subsequent arrangements are made by the FMS  |
|   | purchaser.  Materiel moved by GBL, AMC channel airlift, Air Force organizational airlift, MSC   |
| sealift Defense Courier Service Military Ordinary Mail Weapons Sy |   |
| G   | Service, and combinations thereof, to the ultimate FMS consignee at an overseas inland  |
|   | destination in rate area one or two.  |
|   | Materiel moved by GBL, AMC channel airlift, Air Force organizational airlift, MSC   |
| Н   | sealift, and combinations thereof, to a CONUS POE when all arrangements subsequent to   |
|   | loading the vessel are made by the FMS purchaser.   |
|   | Materiel moved by AMC channel airlift to an overseas aerial POD (APOD) in rate area one or two when the use of inland CONUS transportation is not required in effecting |
| J   | delivery to the CONUS POE. The FMS purchaser makes all arrangements subsequent to   |
|   | carrier discharge.  |
|   | Materiel moved by AMC Special Assignment Airlift Mission (SAAM) within CONUS to   |
| K   | an overseas APOD or inland FMS consignee base within an overseas area or between  |
|   | overseas areas. The FMS purchaser makes any arrangements subsequent to carrier  |
|   | discharge.  Substitute for any other standard codes whenever actual transportation costs will be  |
| L   | reported in accordance with Chapter 7.  |
| M   | Materiel moved by FMS country-owned aircraft from a U.S./DoD staging area.  |

\*Table 8-4. TBC (Continued)

| TBC | Description  |
|-----|--|
| N   | Materiel moved by GBL "or other CONUS inland mode" to a CONUS staging or aggregation area, staging or aggregation of the materiel, and onward movement of the materiel to a freight forwarder by a collect commercial bill of lading or country-owned or provided aircraft, or by AMC or by commercial SAAM.   |
| P   | Materiel moved by GBL "or other CONUS inland mode" to a CONUS staging or aggregation area, staging or aggregation of the materiel, and onward movement of materiel by GBL or other prepaid (reimbursable) CONUS transportation to an aerial or water POE, FAS an overseas carrier at a CONUS POE, or arrangements are made by the FMS purchaser.   |
| Q   | Materiel moved by GBL "or other CONUS inland mode" to a CONUS staging or aggregation area, staging or aggregation of the materiel; out movement of the materiel from the staging area by GBL, or other prepaid (reimbursable) CONUS transportation to an aerial or water POE; port handling of the materiel, and onward movement by GBL, AMC channel airlift, Air Force organizational aircraft, MSC sealift, and combinations thereof, to an overseas POD in rate area one or two, when overseas carrier discharge and all subsequent arrangements are made by the FMS purchaser.   |
| R   | Materiel moved by GBL "or other CONUS inland mode" to a CONUS staging or aggregation area, staging or aggregation of the materiel; and out movement of the materiel from the staging area by GBL, or other prepaid (reimbursable) CONUS transportation to an aerial or water POE; port handling of the materiel, and onward movement by GBL, AMC channel airlift, Air Force organizational aircraft, MSC sealift, and combinations thereof, to an overseas POD in rate area one or two; overseas port handling of the materiel; and onward overseas inland movement to the ultimate FMS consignee at an overseas, inland destination rate area one or two. |
| S   | Materiel moved by GBL "or other CONUS inland mode" to a CONUS staging or aggregation area, staging or aggregation of the materiel, out movement of the materiel from the staging area by GBL, or other prepaid (reimbursable) CONUS transportation to an aerial or water POE; and loading of the materiel aboard a country-owned or provided aircraft or vessel, when all arrangements subsequent to loading the aircraft or vessel are made by the FMS purchaser.   |
| U   | Materiel moved by parcel post or commercial package carrier to CONUS POD when all arrangements subsequent to loading the vessel are made by the FMS purchaser (Mode of shipment determines whether parcel post or commercial package carrier is used.)   |
| V   | Materiel moved by parcel post or commercial package carrier to an overseas POD in rate areas one or two, including overseas carrier discharge, when arrangements subsequent to loading the vessel are made by the FMS purchaser (The mode of shipment determines whether parcel post or a commercial package carrier is used.)   |
| W   | Materiel movement charged according to rates listed in the transportation cost look-up table (see section 6.0).  |
| X   | Materiel moved by parcel post or commercial package carrier to an overseas POD in rate areas one or two, when the FMS purchaser makes overseas carrier discharge and subsequent arrangements (The mode of shipment determines whether parcel post or commercial package carrier is used.)  |

\*Table 8-4. TBC (Continued)

| TBC | Description   |
|-----|---|
| Y   | Materiel moved by parcel post or commercial package carrier to the ultimate FMS   |
|     | consignee at an overseas inland destination in rate areas one or two (The mode of |
|     | shipment determines whether parcel post or commercial package carrier is used.)   |
| Z   | Materiel moved within the CONUS by commercial carrier with a published maximum    |
|     | rate of \$25.00 (for example, as published by United Parcel Service).             |

Note: Rate Area 1 includes Europe, Central America, Mediterranean Ports, Alaska, and Hawaii. Rate Area 2 includes Newfoundland, Labrador, Thule, Iceland, South America (East & West Coasts), Far East, African Ports (other than Mediterranean) and Near East.



# DEPARTMENT OF DEFENSE FINANCIAL MANAGEMENT REGULATION

VOLUME ABBREVIATIONS & ACRONYMS: "ARCHIVED"

UNDER SECRETARY OF DEFENSE (COMPTROLLER)



## DEPARTMENT OF DEFENSE FINANCIAL MANAGEMENT REGULATION

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UNDER SECRETARY OF DEFENSE (COMPTROLLER)