VOLUME 15: “DEFINITIONS”

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 May 2013 is archived.

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DEFINITIONS

Definitions contained in this section of Volume 15 identify terms unique to Security Cooperation policies and procedures. Refer to the Department of Defense (DoD) Financial Management Regulation Glossary for terms that are common within other volumes.

*Above Standard Level of Service

Above standard level of service activities are the incremental costs above those provided in the standard level of service.

*Accelerated Case Closure Procedures (ACCP)

ACCP allows interim case closure after supply or services completion, even if there are outstanding unliquidated obligations on the case or not all financial transactions are finalized.

Acceptance

Acceptance is the act of an authorized representative of the government in which the government assumes for itself, or as agent of another, ownership of existing and identified supplies tendered, or approves specific services rendered, as partial or complete performance of the contract by the contractor. See also Letter of Offer and Acceptance (LOA).

Accessorial Charges

Accessorial charges represent certain expenses incident to issues, sales, and transfers of materiel that may or may not be included in the standard price or contract cost of materiel. These charges include the costs of packing, crating, handling, and transportation (PCH&T); and port loading and unloading costs associated with the movement of defense articles provided under the Foreign Military Sales (FMS) program.

Accrued Costs

Accrued costs are the financial value of delivered articles and services and incurred costs reported to Defense Finance and Accounting Service Security Cooperation Accounting (DFAS SCA) via delivery transactions.

Allotment

An allotment is the authority issued to a DoD Component to incur commitments and obligations within a specified amount. In the FMS program, there are two types of allotments:

A. Allotment for Actual Administrative Expenses. All of the actual costs incurred by the DoD Components in administering the FMS program are funded by this allotment. The allotment is issued on a quarterly basis and may not be exceeded.

B. Allotment for Program Implementation. An allotment for program
implementation is the FMS case contract authority used to fund obligations citing the allotment holder’s accounting station. This type of allotment is made when DFAS SCA determines it does not have the accounting capability to support detailed accounting requirements below the FMS case line level, i.e., commitments, obligations, and disbursements to implement individual FMS case line items. The amount released on each FMS case line is a specific limitation, and the monthly status-of-allotment report must show the status of each case-line.

Anticipated Reimbursements

Anticipated reimbursements are the dollar value of reimbursable orders that have been included in the DoD Component’s budget. Applicable amounts are not available for obligation until receipt and acceptance of an actual purchase order. There are two general types of anticipated FMS reimbursements:

A. **Apportioned Anticipated Reimbursements.** Initial and interim reports of budget execution reflect apportioned anticipated reimbursements, but commitments and obligations cannot exceed the value of approved amounts reflected in column 10 of the Department of Defense (DD) Form 2060, FMS Obligational Authority (OA) (or automated equivalent). Budget execution reports as of September 30 will reflect a reduction in the amount of anticipated reimbursement to align with DD 2060 actual orders. In the event that the reimbursable program is subject to apportionment action, DD 2060 actual orders received in excess of the apportionment are not available for obligation until the apportionment for reimbursable orders is increased through the DoD budget process.

B. **Automatically Apportioned Anticipated Reimbursements.** When anticipated reimbursements are subject to automatic apportionment, the value of any DD 2060 (or automated equivalent) reimbursable order is available for obligation.

Arms Export Control Act (AECA)

The *AECA* is the basic United States (U.S.) law that provides the authority and general rules for the conduct of FMS and commercial sales of defense articles, services, and training. This act is codified at Title 22, U.S. Code *Chapter 39.*

Arrearage

An arrearage occurs when the FMS purchaser’s total cash resources on deposit with the U.S. Government (USG) are insufficient to cover the unpaid accrued expenditures made on behalf of the purchaser.

Attrition (International Military Training)

Attrition is the destruction of a DoD capital asset when a foreign student was in physical control of the asset or as a direct result of simple or gross negligence.
Below-the-Line Costs

Below-the-Line Costs are costs identified as PCH&T, administrative charges; and other costs that are displayed on lines 9 through 12 of the LOA.

Budget Authority (BA)

BA is provided by law and allows an activity to incur financial obligations (in support of FMS cases) that will result in outlays. The specific form of BA applicable to the FMS program is contract authority.

Building Partner Capacity (BPC) Programs

BPC programs encompass Security Cooperation and Security Assistance (SA) activities funded with USG appropriations and administered as cases within the FMS infrastructure. These programs provide defense articles and/or services to other USG departments and agencies for building the capacity of partner nation security forces. The DoD Implementing Agency (IA) develops a pseudo LOA to enable BPC program execution through existing SA automated systems. The pseudo LOA serves to document the transfer of articles and services to the USG Requesting Authority. See the Defense Security Cooperation Agency Manual 5105.38-M, SA Management Manual (SAMM), Chapter 15 for more information on BPC programs.

Case Line Level

The level of detail required for the control of FMS funding is at the case line level. The line is a further subdivision of an FMS case.

Concurrent Spare Parts (CSP)

Concurrent spare parts are spare parts programmed as an initial stockage related to the acquisition of a major item or system. CSPs are normally shipped in advance of the release of the major item or system.

Contract Authority

Contract authority is the form of BA used by the FMS program that permits incurrence of obligations prior to the collection of offsetting receipts from the purchaser. The offsetting receipts are used to make the outlays to liquidate the obligations incurred. Contract authority permits obligations of funds in advance of cash received. AECA Section 22 provides permanent indefinite contract authority for new procurement for FMS purchasers. When the foreign country or international organization provides a dependable undertaking, the USG is authorized to enter into contracts in advance of receiving cash.
Contractor Holdback

Contractor holdback is the amount earned by contractors or suppliers during the production period but not paid to the contractor/supplier to ensure future performance.

Cooperative Logistics Supply Support Arrangements (CLSSA)

CLSSAs are military logistics support arrangements designed to provide responsive and continuous supply support at the depot level for U.S. made military materiel possessed by foreign countries and international organizations. The CLSSA is 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 inventories.

Defense Stock

Defense stock includes defense articles on hand that are available for prompt delivery. It also includes defense articles (contract) on order that are available for delivery within a reasonable time from the date of order by an eligible foreign government or international organization without increasing outstanding contracts or entering into new contracts. Any orders received from an eligible foreign government or international organization that cannot be filled in this manner fall within the provisions of AECA section 22.

Dependable Undertaking

Pursuant to AECA section 22(a) dependable undertaking is a firm commitment by the purchaser to (1) pay the full amount of a contract which assures the USG against any loss on the contract, and (2) 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, before such payments, damages, or costs are due. See SAMM Chapter 9, C9.8.3 for more information on dependable undertaking.

Direct Cite

For the purposes of Volume 15, direct cite is the citation of the FMS Trust Fund (11 X 8242) as the financing source on documents, or contracts with such organizations as commercial firms, the General Services Administration, or the Department of Transportation. The term “direct cite” does not apply if any DoD organization establishes a reimbursable order to a DoD appropriation account or the Defense Working Capital Fund.

Estimated Actual Charges

An estimated actual charge is a systematic and documented estimate of actual cost that is used in the absence of an established cost accounting system and is sometimes referred to as a cost-finding technique.
Expenditure Authority (EA)

EA is authority issued by DFAS SCA to a certifying officer or a disbursing activity authorizing the subsequent disbursement of a FMS country’s funds. See Chapter 4 for more information on EA.

Final Closed

Final closed is the final stage in the life-cycle of an FMS case in which it is supply/service complete, all expenditures are processed, all commitments and obligations are liquidated, expenditures equal obligations, and all case records (e.g. obligation, supply and disbursement) are reconciled and equal in all systems. No further transactions will be accepted.

Financing Appropriation

The financing appropriation is the appropriation account originally increased because of the performing DoD Component’s acceptance of a reimbursable order from DFAS SCA. This activity is reflected as “FMS reimbursable.”

Foreign Military Sales (FMS) Administrative Surcharge

The FMS administrative surcharge is the cost for administering sales made under the AECA. This surcharge captures manpower (both USG and contractor-furnished) and other costs required to develop, manage, execute, and close FMS cases.

FMS Billing Statement, Department of Defense (DD) Form 645

The FMS Billing Statement represents the USG’s official claim for payment to the FMS purchaser. See also special billing arrangement (SBA).

FMS Case

An FMS case consists of a DoD LOA and the associated supporting and executing documents.

FMS Contract Administration Services (CAS)

FMS CAS is composed of three basic elements: (1) quality assurance and inspection; (2) contract audit; and (3) contract management (reference AECA section 21(h); the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, supplements thereto; and the Defense Contract Audit Agency (DCAA) Contract Audit Manual). The Defense Contract Management Agency performs the majority of the tasks associated with items (1) and (3) and DCAA performs the majority of the tasks associated with item number (2). Portions of CAS may be waived in accordance with the AECA.
**FMS CAS Surcharge**

The FMS CAS surcharge is collected and applied on the value of payments made to contractors for items purchased through an FMS case (see AECA Section 21(e)(1)(A)). This surcharge covers the cost of quality assurance and inspection, contract management, and contract audit on procurement items.

**FMS CAS Surcharge Account**

The FMS CAS Surcharge Account is a sub-account under the FMS Trust Fund to record all collections and payments/reimbursements relative to the CAS surcharge.

**FMS Order (FMSO)**

FMSOs are LOAs that implement CLSSAs. Two LOAs are written: a FMSO I and FMSO II. The FMSO I, Part A represents the on-hand value of DoD Continental U.S. inventories required to support FMS purchaser requisitions. The FMSO I, Part B provides the OA to fund the remaining portion of the order. The FMSO II is the consumption case. Report all FMSO deliveries against this consumption case.

**Implementing Agency (IA)**

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 materials or services set forth in an implemented LOA.

**Incurred Costs**

Incurred costs represent disbursements for which no physical deliveries have yet occurred.

**Indebtedness**

Indebtedness consists of financial obligations of FMS purchasers to make payment(s) to the USG in accordance with the official billing statement.

**Interim Closed**

Cases are interim closed in the military department systems using ACCP, allowing for disbursement processing, liquidating obligations, unliquidated obligation adjustments, and processing of Supply Discrepancy Reports (SDRs). The IA must continue to work interim closed cases through final closure.
Letter of Offer and Acceptance (LOA)

An LOA is the authorized document the USG uses to offer to sell defense articles and services to a foreign country or international organization. Signature by the purchaser represents acceptance of the offer.

Letter of Request (LOR)

An LOR is the request from an eligible FMS participant country or international organization for the purchase of defense articles and services. The request may be in message or letter format as described in the SAMM, Chapter 5, C.5.1.

Logistics Support Charge (LSC)

An LSC is based on the AECA requirement for full cost recovery. This charge, which only applies to deliveries prior to October 1, 2007, was intended to recover the cost of logistics support involved in providing the spares and other items required to maintain a weapon system. These support costs were associated with production control, requisition processing, inventory maintenance, administration of SDRs, and logistics management. The LSC was applied by DFAS SCA to delivery costs for those lines in FMS cases that had been identified as support lines based on the generic code included in the LOA.

Major Case

A major case is determined by the type and/or amount of an FMS case as follows: defined order $25 million or greater; blanket order or CLSSA $10 million or greater; and/or 15 percent or more of a country’s total FMS program in terms of dollar value.

Major Defense Equipment (MDE)

MDE are items of significant military equipment, as identified in the International Traffic in Arms Regulation U.S. Munitions List, that have incurred a nonrecurring cost for Research, Development, Test, and Evaluation of $50 million or a total production cost of $200 million or more (AECA Section 47(6)).

Net Case Value

The net case value is the total amount of the defense articles and services cost reflected on line 8 of the LOA (previously referred to as “Above-the-Line” Costs).

Non-Standard Article

For FMS purposes, a non-standard article is one that DoD does not manage, because applicable end items have been retired or because they were never purchased for the DoD Components.
Non-Standard Service

For FMS purposes, a non-standard service is a service that DoD does not routinely purchase or perform.

Obligational Authority (OA)

OA is the authorized amount (funding) received by the IA on a DD 2060 (or automated equivalent) in advance of commitments and obligations to be incurred against a given FMS case in an amount not to exceed the value specified (line 20 of the DD 2060). The IA records reimbursable orders against an appropriation or directly cites the FMS Trust Fund while executing the FMS case. Line 10 of the DD 2060 displays the amount programmed as reimbursable authority, and line 11 displays the direct cite authority.

Omnibus Billing

An omnibus billing is a statement of additional charges or credits to cases re-categorized from active to inactive status.

Packing, Crating, Handling, and Transportation (PCH&T)

PCH&T consists of the resources, processes, procedures, design considerations, and methods used to ensure that all system, equipment, and support items are preserved, packaged, handled, and transported properly.

Payment Schedule

A payment schedule is the list of dollar amounts and payment due dates from the FMS purchaser. The payment schedule supplements the LOA presented to the customer. After acceptance of the LOA, the payment schedule generally serves as the basis for billing to the purchaser. Changes in the estimated costs of a FMS case may require changes in the accompanying payment schedule.

Price and Availability (P&A) Data

P&A Data are prepared by the Military Departments, DSCA, and other DoD components in response to a foreign government's request for preliminary data for the possible purchase of a defense article or service. P&A data are not considered valid for the preparation of an LOA. Furnishing of this data does not constitute a commitment for the USG to offer for sale the articles and services for which the data are provided.
Reimbursable Order

A reimbursable order is an order for services, supplies, material, or equipment placed by a requiring DoD Component and furnished by another DoD Component or Federal agency with separate identification of the items, or separate citation of the funds of the requiring DoD Component, and with subsequent delivery to and reimbursement by the requiring DoD Component. The requesting DoD Component records a reimbursable order as an obligation when the procuring DoD Component accepts the reimbursable order in writing. For FMS, the authority to enter into reimbursable work is established on line 10 of the DD 2060 (or automated equivalent).

Safety Level

The Safety Level is the strategic reserve of operating capital sufficient to manage the FMS business through changing business conditions to ensure the solvency of the FMS Administrative Surcharge Account. The Safety Level represents 18 months of operating capital that grants sufficient time to recognize changes in business (sales, expenses, and regulatory impacts) and then develop and implement approved adjustment measures. DSCA is responsible for establishing the annual Safety Level amount to be maintained in the FMS Trust Fund Administrative Surcharge Account.

*Security Cooperation Enterprise Solution (SCES)*

SCES is the DSCA’s enterprise resource planning solution that will replace case execution functionality in the Military Department’s legacy systems with an integrated enterprise solution that will provide improvements in transaction processing, levels of control, data aggregation, data standardization and reporting capabilities. See SAMM Chapter 13, C13.6.1 for more information on SCES.

Special Billing Arrangement (SBA)

An SBA is an alternative to the FMS Billing Statement (DD 645) that serves as an official USG claim for payment to the FMS purchaser. An SBA is usually computed at the country or in-country service level.

Small Case Management Line (SCML)

Application of the SCML was a DSCA initiative to reduce the number of small dollar cases effective from 1 August 2006 through 2 July 2012. The SCML is a line item added to an FMS case when the computed FMS Administrative Surcharge is less than $15,000. The combined FMS Administrative Surcharge and SCML total $15,000. See SAMM Chapter 9, C.9.4.7 for more information on the SCML.
*Standard Level of Service*

Standard level of service activities are case-related activities covered by the FMS Administrative Surcharge. These activities/functions listed in SAMM Table C9.T2 under the "FMS Admin" column represent indirect charges funded by the FMS Administrative Surcharge and should not be included and/or priced as direct charges on the LOA.

**Standby Letter of Credit (SBLC)**

An SBLC is used in place of termination liability prepayment requirements, as authorized by DSCA.

**Supply/Service Complete**

Supply/service complete is the stage in the life-cycle of an FMS case when all defense articles have been delivered and all defense services have been performed.

**Termination Liability (TL)**

TL is the amount of prepayments that cover payments required by the contract, and any damages and costs that may accrue from the cancellation of such contract. Funds prepaid for Termination Liability will convert to cover actual expenditures if the contract is not terminated prior to performance completion. TL may not apply to articles/services provided under other authorities of the Foreign Assistance Act or AECA.

**Trust Fund**

In Volume 15, trust fund refers to the FMS Trust Fund, Treasury Account, 11 X 8242 “Advances, FMS, Funds Appropriated to the President”.

**Uncommitted Acceptance**

The uncommitted acceptance is the unexecuted portion of the dollar value for an FMS case that has not been released to an IA.

*Unfunded Civilian Retirement (UCR)*

UCR includes the costs for unfunded benefits such as civilian retirement, post-retirement health benefits, and post-retirement life insurance costs. An acceleration factor is updated annually at the OUSD(C) reimbursable rates Web site (to access select the applicable FY, Civilian Personnel Fringe Benefit (Tab D)) and included in billings for services provided to agencies outside of the Federal Government. The costs are credited to the miscellaneous receipts account. UCR is not included in the Administrative Surcharge account based on the AECA and Fair Pricing legislation. See Chapter 7.