



OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

DEC 12 2019

COMPTROLLER

MEMORANDUM FOR DIRECTOR, DEFENSE SECURITY COOPERATION AGENCY

SUBJECT: Reduction to the Foreign Military Sales Contract Administrative Services Surcharge Rate (FPM 19-13)

I approve your October 2, 2019 request (attached) to reduce the Foreign Military Sales (FMS) Contract Administrative Services (CAS) Surcharge Rate to 1.0 percent and proposed rate structure as shown in your memorandum, effective January 1, 2020. These changes will revise the revenues generated and deposited into the FMS Trust Fund CAS Cost Clearing Account and will be used to reimburse the DoD Components for expenses related to performing contract administrative services. This policy change will be published in the next Department of Defense Financial Management Regulation update to Volume 15, Chapter 7.

My staff point of contact is Ms. Glenys Vasquez-Banchon. She can be reached at 703-695-9265 or glenys.j.vasquez-banchon.civ@mail.mil.

A handwritten signature in black ink, appearing to read "Mark E. Easton".

Mark E. Easton
Deputy Chief Financial Officer

Attachment:

As stated

cc:

Director, Defense Finance and Accounting Service



DEFENSE SECURITY COOPERATION AGENCY
201 12TH STREET SOUTH, SUITE 101
ARLINGTON, VA 22202-5408

OCT 0 2 2019

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Reduction to the Foreign Military Sales (FMS) Contract Administrative Services (CAS) Surcharge Rate

Reference: (a) DoD 7000.14-R, "Department of Defense Financial Management Regulation," Volume 15, Chapter 7, Paragraph 071202, November 2018

(b) DoD 7000.14-R, "Department of Defense Financial Management Regulation," Volume 15, Chapter 3, Paragraph 030202.A, May 2018

The Department of Defense (DoD) Financial Management Regulation (FMR) requires that proposed revisions to rates or surcharges be approved by the Office of the Under Secretary of Defense (Comptroller) (Reference (a)). The purpose of this memorandum is to request your approval of the Defense Security Cooperation Agency's (DSCA) proposal to reduce the FMS Contract Administrative Services Surcharge Rate from 1.2 percent to 1.0 percent. This represents a 16.7 percent reduction to the rate. The following information is provided to support this proposal.

The Arms Export Control Act requires that FMS activities be conducted at no cost to the U.S. Government and authorizes an FMS CAS Surcharge on the procurement sections of FMS cases to recover all U.S. Government costs incurred to pay for quality assurance, contract management, and contract audit performed primarily by the Defense Contract Management Agency and the Defense Contract Audit Agency. The FMS CAS Surcharge is assessed as a percentage of the value of procured articles and services on each FMS and Building Partner Capacity (BPC) case. The collections generated from this surcharge are deposited into the FMS CAS Surcharge Account to reimburse U.S. Government expenses related to the administration of FMS and BPC contracts.

As required by the FMR (Reference (b)), DSCA closely monitors the FMS CAS Surcharge Account. The DSCA Security Assistance Management Manual (SAMM) formalizes periodic reviews of the FMS business and a proactive and anticipatory account management. The FMS CAS Surcharge Account's activity is reviewed monthly and annually to ensure a healthy balance is maintained and a deeper assessment conducted every five years to determine if a rate adjustment (up or down) is appropriate. The results of these reviews serve as a basis for any recommendation on rate changes.

As a result of process improvements implemented since the 2013 rate review, DSCA has established both upper and lower control levels to guard the health of the account. The current lower level control is set at \$991 million the Upper level Control is \$1.528 billion. The lower

level control is established to pay for three years of projected expenditures based on projections provided by the CAS providers, to ensure the future health of the account. The current balance in the account exceeds the \$991 million lower level control by 46%.

As part of our five year assessment, we conducted a comprehensive analysis examining anticipated collections, anticipated CAS budgets, and forecasted sales to evaluate the financial risks that might be associated with a rate reduction. Our analysis confirmed this change to the FMS CAS Surcharge Rate will not have a negative impact on the CAS account and will not affect the CAS provider's budgets, as they are reimbursed in accordance with the DoD FMR.

Based on our analysis, DSCA has determined that a FMS CAS Surcharge rate reduction from 1.2 percent to 1.0 percent is warranted. With your approval, the revised rate will be charged to all new FMS and BPC cases implemented on or after December 1, 2019. Any cases implemented prior to December 1, 2019, will continue to be assessed the surcharge rate in effect at the time the case implemented and will continue with that rate through the life of the case.

DSCA recommends a change to the FMR to document the new surcharge rate and its effective date. These changes are stated on the attached.

I request your favorable consideration of this requested change. If you have questions or would like additional information, please contact Ms. Jeneen Caldwell, DSCA DBO/FPA, (703) 697-8923 or email: jeneen.k.caldwell.civ@mail.mil.



J. Aaron Harding
Chief Financial Officer

Attachment
As stated

Recommended Changes to the DoD Financial Management Regulation

Volume 15, Chapter 7

071603. CAS Costs Incurred in Support of New Procurements for FMS

A. **CAS Surcharge.** 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 Implemented Before October 1, 2002	For LOAs Implemented Before December 1, 2014	For LOAs Implemented After December 1, 2014	For LOAs Implemented After December 1, 2019
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 United States (CONUS) FMS CAS	1.50%	1.50%	1.20%	1.0%
Outside the CONUS (OCONUS)	Previously included above	0.20%	0.20%	0.20%
Total , CONUS + OCONUS FMS CAS	1.50%	1.70%	1.40%	1.20%

B. **CAS Waivers.** CAS is subject to waiver in whole or in part under 22 U.S.C. § 2761(h). See paragraph 071303 for more information on CAS waivers. A listing of waived programs is included in the *SAMM, Chapter 9*. 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.

071604. 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 fiscal year (FY) by OUSD(C). For the current rate, see "Financial Management Reports, Department of Defense Reimbursable Rates, Contract Administration," (Tab E).