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18 MAY 2010

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR
DEFENSE EXPORTS AND COOPERATION (DASA-DEC)
DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR
INTERNATIONAL PROGRAMS (NAVIPO)
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DEPUTY DIRECTOR FOR INFORMATION ASSURANCE,
NATIONAL SECURITY AGENCY
DIRECTOR FOR SECURITY ASSISTANCE, DEFENSE
FINANCE AND ACCOUNTING SERVICE –
INDIANAPOLIS OPERATIONS

SUBJECT: Changes to Air Transportation Process for Pricing and Billing on Foreign
Military Sales (FMS) and FMS-Like Cases (DSCA Policy 10-32)

Reference: Defense Security Cooperation Agency Memorandum, "Increase to Delivery
Term Codes (DTCs) Percentage Rates for "Below-the-Line" Transportation
on Foreign Military Sales (FMS) and FMS-Like Cases (DSCA Policy
09-22)," June 30, 2009

In accordance with the Department of Defense Financial Management Regulation (DoDFMR), 7000.14-R, Vol. 15, transportation charges on Letter of Offer and Acceptance (LOA) documents are generally calculated using DTCs to compute an estimated amount. After performing an in-depth review and analysis of these charges, DSCA issued the referenced memorandum, which increased the percentage rates for DTCs 7 and 9, for shipments to countries within zone "b." These increases were

necessary to ensure amounts collected were sufficient to ensure the continued solvency of the FMS Transportation Account. I indicated in the memorandum that we would continue to review the account, transportation rates, and processes to develop alternatives for improving the accuracy of our estimates.

For the last several months, DSCA led a working group of transportation experts from the Military Departments, United States Transportation Command (USTRANSCOM), Defense Logistics Agency, Defense Contract Management Agency, and Defense Finance and Accounting Service (DFAS) to develop better ways to estimate and track transportation costs associated with FMS and FMS-like cases. During its deliberations, the group considered a variety of options designed to improve the accuracy of transportation pricing on LOA documents, as well as to ensure purchasers receiving transportation services are charged appropriately. Some of the options discussed included: (1) Putting all transportation charges as a direct “above-the-line” service cost, (2) Putting air transportation charges as a direct charge “above-the-line” and leaving the remaining transportation charges “below-the-line”, (3) Creating new percentage-based transportation rates for contingency zones (still as a “below-the-line” cost), (4) Developing separate percentage-based rates for air transportation (still as a “below-the-line” cost), (5) Developing cost estimates based on historical data (still as a “below-the-line” cost), and (6) Continuing with “status quo,” making no changes to the existing estimation processes.

After carefully considering all the options, the group recommended that all air transportation charges should be priced/billed as an “above-the-line” charge (Option (2) above.) As authorized by the Security Assistance Management Manual (SAMM), Chapter 7; section C7.18.1, Implementing Agencies (IAs) already provide some premium air transportation as a direct charge “above-the-line” (e.g. Special Assignment Airlift Mission.). This recommended policy change would extend that direct charge “above-the-line” pricing to all air transportation, either as a separate service line on each LOA or as a requirement against a blanket country/program transportation case. The associated air transportation expenses would be billed as a direct charge to the case and not recovered from the FMS Transportation Account.

At present, this new pricing policy for all FMS and FMS-like cases will be implemented only for the Afghanistan program because a significant amount of program air transportation currently is processed on a direct charge, “above-the-line” basis. This will provide IAs an early insight into the process for possible issues before remaining purchasers and programs transition to the new policy. This new pricing policy will not be extended to other geographic areas without first consulting affected stakeholders and obtaining the agreement of the Under Secretary of Defense (Comptroller).

Effective June 1: all defense articles delivered by air transportation on or after this date for the Afghanistan program (FMS and FMS-like cases) will be charged as an “above-the-line” direct charge.

(a) For existing FMS Afghanistan cases, the IAs must amend any case(s) that may require air transportation and establish a separate line for the air transportation. The Amendments must include a note explaining the basis and amount of change in estimated transportation cost.

(b) For DoD-funded Afghanistan program FMS-like cases, each year the IAs must establish a current year Transportation Services case that covers the estimated obligations for air transportation that will be incurred during the period of availability of appropriation funding the FMS-like case. All new Afghanistan program LOAs and Amendments offered on or after the date of this memorandum will include a note stating that air transportation will be charged to the applicable Transportation Services case. The IAs will issue pricing guidance to estimate the air transportation charges. In addition, the IAs must ensure that checks and balances are in place to preclude an over-obligation of the air transportation line. When the Transportation Services case is funded by an appropriation with a fixed period of availability, the IAs must comply with DoDFMR Vol. 3, Chapter 8, paragraph 081206, requirements pertaining to commencement of transportation during the period of availability of the appropriation.

(c) FMS and FMS-like cases must be reviewed to ensure the line value for above-the-line transportation is sufficient. If obligations for transportation deviate from those estimated on the line, a modification must be done to reflect the actual costs. Above-the-line transportation costs must not be billed to the Transportation Account.

When delivery reporting transportation for a defense article that is shipped via air transportation, a Transportation Bill Code (TBC) must be used to override the DTC to ensure that air transportation is not charged as a “below-the-line” charge to the purchaser. The TBCs are identified in the DoDFMR, 7000.14-R, Volume 15, Chapter 8.

In emergency situations when air shipment must be the mode of transportation, but a separate air transportation case or line does not exist and the IA has insufficient time to amend the case, the IAs will use a generic “above-the-line” Transportation Account Code (TAC)(exceptional use only with the approval of the Service point of contact) to execute the shipping requirement. If a generic TAC is used, the following must be accomplished in order to ensure the specific case requiring the air transportation gets billed for the cost.

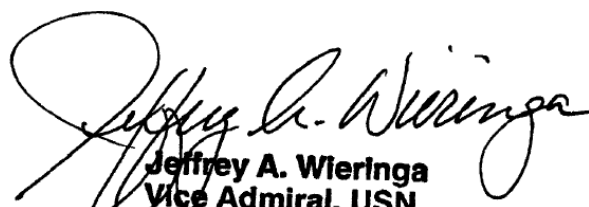
- IAs must immediately initiate a Modification to the case.
- When a bill from the shipper is received before funds are made available “above-the-line”, DFAS-IN will authorize payment from the FMS Transportation account. The IA will be notified that a correction must be processed.
- Upon implementation of the Modification, the IA will process the air transportation charges to the applicable case line and reimburse the FMS Transportation account.

The SAMM, Chapter 7; section C7.18.1. “DTS Transportation Cost,” will be revised. My staff will synchronize changes with other transportation-related documents such as the DoDFMR, 7000.14-R, Volume 15, Chapter 7, the Defense Transportation Regulation, and the Implementing Agencies Manuals and Guidance to ensure the Security Cooperation community effectively implements this change.

While this change will greatly alleviate the strain on the FMS Transportation account, I request that the IAs ensure that only surface transportation costs are charged “below-the-line” and that costs not covered by the DTCs rates be charged as “above-the-line” costs and charged appropriately. Examples of these include costs related to tagging and tracking, containers not being returned to the transportation provider, assessment of storage fees for shipments not delivered in a timely manner, etc.

This transportation process change has been coordinated with the Under Secretary of Defense (Comptroller). DSCA will work with USTRANSCOM to ensure the timely payment of transportation bills under this new policy.

I thank you for assisting in our efforts to keep the FMS Transportation Account solvent. If you have any questions, please contact Rita Chico at (703) 602-3632 or by e-mail at rita.chico@dscamail.



Jeffrey A. Wieringa
Vice Admiral, USN
Director

cc:

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