



DEFENSE SECURITY COOPERATION AGENCY

WASHINGTON, DC 20301-2800

20 OCT 1998

In reply refer to:
I-75139/98

MEMORANDUM FOR COMMANDER, UNITED STATES ARMY SECURITY
ASSISTANCE COMMAND
ATTN: AMSAC-SR-P
DEPARTMENT OF THE ARMY

SUBJECT: Nonrecurring Costs for Improved Weapon Systems

REFERENCES: (a) AMSAC-SR Memorandum, 3 Aug 98, same subject

(b) AMSTA-RM-EP (37) Memorandum to AMSAC-SR, 9 Jul 98, same
subject

Your referenced memorandum requested clarification on the use of estimated nonrecurring recoupment cost (NRC) charges in foreign military sales (FMS) cases for improved weapon systems. As indicated in your memorandum, NRC charges are calculated in accordance with guidance found in DoD 7000.14-R, Volume 15. Paragraph 070305.M and Table 703-13 of this regulation provide specific information concerning recalculation of the charge when a model change (improved weapon system) occurs. The following additional information is provided:

There may be instances when an NRC charge is being developed at the same time that an LOA is being prepared to sell the item in question. If there is not enough time to complete the NRC approval process, an estimated amount for NRC should be included in the unit price of the item on the LOA. The LOA should also include a note informing the customer that NRC charges on the applicable line are estimates only and advise that a modification will be done to adjust the price once the approved NRC value is known.

Military Departments must have some rationale for deriving an estimated NRC cost. A calculation that has been "proposed" but not yet staffed through all appropriate channels might be used as a reasonable estimate, assuming that the rationale is valid. In any case, the Military Department must ensure the rate used is "...based on an estimation of the best information available..." as required by DoD 7000.14-R, Volume 15. While not the preferred method, a charge established for a previous model might also be considered appropriate as an estimate for later versions. We cannot say definitively that for an improved item the "best information available" will always be the previous version---as pointed out in your memorandum, there may be instances when the improved model differs significantly from the previous version and an NRC estimate using the amount established for the older version would not be accurate. In this instance, the Military Department should not use the previous amount, but should instead use more accurate available information to arrive at a reasonable estimate.

Your memorandum and the referenced AMSTA memorandum both indicate there may be some confusion regarding changes to NRC rates and what may or may not justify a change to the FMS case value.

a. During the life of an item, the NRC calculation should be reviewed for changes in production quantities, etc. If the review results in an estimated charge that meets the significant change criteria, the estimated charge would be submitted to DSCA for approval. When these recalculated amounts have been approved, the new rate should be applied to any new sales for the applicable item. Existing LOAs should not be changed to reflect the new rate since the approved rate in effect at the time of LOA acceptance is the amount that must be charged.

b. This prohibition on retroactive changes to the NRC rate included on the FMS case should not be confused with revising an estimated rate to an actual approved rate. LOAs that are written using estimated NRC amounts must be modified to reflect the approved rate once it has been established.

c. If NRC charges apply to a case but are inadvertently omitted from the unit price on an LOA, a modification must be processed to include the charges. This is not considered retroactive---a pricing mistake was made and must be corrected.

If you have questions or need additional information regarding NRC charges, please contact Beth Baker, DSCA/COMPT-FM, (703) 601-3737, or beth.baker@osd.pentagon.mil.


James A. McQuality
Comptroller

cc:
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