



DEFENSE SECURITY COOPERATION AGENCY

WASHINGTON, DC 20301-2800

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In reply refer to:
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MEMORANDUM FOR DEPUTY UNDER SECRETARY OF THE ARMY
(INTERNATIONAL AFFAIRS)
ATTN: SAUS-IA-DSZ
DEPARTMENT OF THE ARMY

DIRECTOR, NAVY INTERNATIONAL PROGRAMS OFFICE
DEPARTMENT OF THE NAVY

DEPUTY UNDER SECRETARY OF THE AIR FORCE
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DEPARTMENT OF THE AIR FORCE

DIRECTOR, DEFENSE LOGISTICS AGENCY

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DEPUTY DIRECTOR FOR SECURITY ASSISTANCE,
DEFENSE FINANCE AND ACCOUNTING SERVICE -
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SUBJECT: Appropriate Level of Obligational Authority (OA) Control

During recent meetings concerning development of the Defense Security Assistance Management System (DSAMS), questions have been raised about the appropriate level for managing Foreign Military Sales (FMS) cases. Specifically, we have been asked to provide a policy position on whether OA should be controlled at the case or line level. As a minimum, OA control of FMS cases should be done at the line level. The following information is provided to help clarify our position on this important issue.

a. OA control at the line level ensures that items and services provided are consistent with the agreements made on the Letter of Offer and Acceptance (LOA). The customer has agreed to purchase and we have agreed to provide a specific amount of support (blanket order lines) and/or specific items (defined order lines). When the LOA is implemented, authority to obligate exists only up to the thresholds established on each line. There may be times when a customer representative requests that funds from one line be used to support another line. Any such changes to line values must be recorded using a modification or amendment as appropriate as this helps ensure that the request/approval for the change comes from the appropriate LOA signature authority.

b. Draft change to Chapter 2 of the Financial Management Regulation (FMR), DoD 7000.14-R, Volume 15 states "...These conditions are adverse financial conditions and occur when financial reports indicate that obligational authority exceeds case or line item level values, that commitments or obligations exceed obligational authority at case or line item level..." Line level management is necessary to prevent adverse financial conditions as identified in the FMR.

c. While sublines might be present on the LOA document, there is no requirement to manage obligational authority to that level.

In certain restricted circumstances, it may be necessary to shift dollar values between lines prior to processing an official change document (modification or amendment). These should be the exception, not the rule. Discussions during the DSAMS Manage Finance meetings identified three specific situations where these advance shifts might be appropriate. We concur that use of case-level OA under the following conditions is acceptable:

a. When an interfund bill is processed, it may be necessary to make a disbursement in excess of funds available on a particular line. Because the seller was reimbursed at the time the bill was submitted, payment must be recorded. If the "OA Not Issued," "OA Not Directed," or "OA Reserved" amounts (checked in that order) are adequate to cover the bill, DSAMS should automatically utilize this OA and update these amounts accordingly. In the instance where enough funds are not available on the applicable line (to include any reserve, not directed, or not issued amounts), DSAMS should automatically utilize available OA from other lines on the case. When OA from another line must be utilized, DSAMS should set a flag requiring a modification or amendment to update the case line values to reflect these changes no later than 60 days from the date of the transaction.

b. When a price increase occurs, DSAMS should allow automatic use of available case-level OA when sufficient OA is not available on the affected line. As with the interfund example, the "OA Not Issued," "OA Not Directed," and "OA Reserved" amounts should be checked for available funds prior to utilizing OA from another line. An automatic adjustment for a price increase will only be allowed up to no more than 10 percent of the line value. Again, DSAMS should set a flag requiring a subsequent modification or amendment no later than 60 days from the date of the transaction.

c. There may be instances when a user wants to utilize OA from one line to accommodate emergency requirements on other lines. DSAMS will be programmed to allow for this under very restricted conditions. This process will not be automatic and will only be allowed on a case-by-case basis when approved at an appropriate level within the military department. As with b. above, adjustments will only be allowed up to no more than 10 percent of the line value. Again, DSAMS must set a flag requiring a modification or amendment no later than 60 days after the transaction to formalize the line changes.

To allow us to maintain control over this process, DSAMS will be required to: limit user access to these programs; provide reports showing which cases/lines are currently in this condition;

maintain a reportable audit trail identifying the changes made and when the modification/ amendment was processed, dollar value, user, approval authority, and organization; etc.

There may be times when DSCA elects to limit the amount of OA available on a line or case basis. According to documentation provided in the Manage Finance meetings, this is referred to as "OA Not Authorized, Retained by DSCA." DSAMS will be programmed to allow appropriate DSCA users to record the withhold amount in the database. DSAMS will include controls so DSCA cannot input values that are below any financial values (OA, commitments, obligations, disbursements, expenditures, deliveries) already established by the military departments and/or resident in the accounting system. As always, all actions taken on cases should be coordinated efforts between all applicable FMS players.

We believe this memorandum addresses all questions to-date on OA control issues. If you need additional information, please contact Beth Baker, DSCA/PSD-PMD, 604-6612, or Lisa Gold, DSCA/COMPT-FM, 601-3850.



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