

DSCA Policy Memo I-010365/99
Quality Review of Letter of Offer and Acceptance (LOA)
Documents
18 August 1999

In reply refer to:

I: 010365/99

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 (International Affairs)
Department of the Air Force
Director, Defense Logistics Agency
Director, National Imagery and Mapping Agency
Director, Defense Threat Reduction Agency
Deputy Director for Security Assistance, Defense Finance and
Accounting Service -- Denver Center

Subject: Quality Review of Letter of Offer and Acceptance (LOA) Documents

The SAMM, paragraph 70102.D. states that implementing agencies (IAs) "...must ensure that adequate controls exist to assure mathematical and factual integrity, and completeness, of the LOA package." However, recent discussions with our foreign customers as well as inputs received as part of our strategic planning efforts indicate that the quality of LOAs, amendments, and modifications need some improvement. As part of our oversight role, we have been doing "spot checks" of LOA documents received in DSCA for countersignature and have compiled a list of common/recurring problems. This list is attached for your use in improving the quality of the documents processed by your agency. The items listed represent a wide-range of problems. Some errors were serious enough to result in a rejection of the document(s) without countersignature. Other problems might not have caused a rejection, but should be noted so that future documents can be prepared correctly. We intend on publishing a similar list on a quarterly basis as dissemination of this information to all LOA-writing organizations should help reduce the number of repeat errors.

Review of the physical document is only the first step in improving LOA document quality. The detailed pricing used within the LOA must also be reviewed to ensure it is done according to existing policies and procedures. As of Jul 99, the case development portion of the Defense Security Assistance Management System (DSAMS) has been implemented to all military departments. The use of this single system for LOA, amendment, and modification processing should improve our ability to ensure consistent application of LOA-writing policies and procedures -- including pricing. A review of cases written using DSAMS, however, indicates that document preparers are not utilizing the pricing programs to the maximum extent possible. We need to be able to view a case on DSAMS and tell whether such charges as nonrecurring

recoupment costs, logistics support charges, personnel costs, etc. have been included appropriately and whether waivers have been properly applied. This is impossible unless DSAMS pricing capabilities are fully utilized. Effective immediately, all cases (LOAs, amendments, and modifications) must be priced to the fullest extent possible using DSAMS. It is unacceptable to price off-line and enter only a base price in DSAMS. We intend to do periodic "spot checks" of DSAMS-written cases to ensure pricing is being done correctly.

The third step in our effort to raise the standard of these documents is to investigate the existing LOA document review/coordination processes to ensure they are adequate. While the SAMM mandates implementing agency coordination through the comptroller and legal counsel (SAMM, paragraph 70103.E) it does not dictate the full review that must be accomplished on each document. We are not sure what other quality checks are in-place at each document preparing agency (case management organization) to ensure the integrity and completeness of the LOA package as required by the SAMM. To assist us in our research of this process, we request that each agency that prepares LOA documents provide the following information:

- a. Point of contact for quality of LOA documents, including phone number and e-mail address.
- b. Summary of the review process currently conducted on LOA documents.
- c. List of coordination activities including both mandatory and discretionary (depending on the type of sale) coordination requirements.
- d. Summary of how information concerning LOA-writing policies/procedures is disseminated throughout your agency (i.e., When a reject occurs, how does your agency let other LOA-writers know so future documents do not repeat the error?).

A response by 31 Aug 99 would be appreciated. Once we have this information, we will be contacting your point of contact to set up a visit to discuss your review procedures in more detail. Our analysis of this information will help us provide policy/procedural guidance on how these quality reviews may be improved and standardized across all document preparing agencies.

Our revitalized attention to LOA document details, has resulted in some criticism from the military departments. Specifically, we have received complaints that DSCA is rejecting documents for problems in areas that have been delegated to the military departments for approval. As the DoD focal point for the security assistance/cooperation programs, DSCA is ultimately responsible for all aspects of foreign military sales (FMS). While we have delegated certain functions to the military departments and other implementing agencies, we reserve the right to question/comment on all aspects of these programs and will direct actions as we believe necessary to ensure the best management of the overall FMS program. Our intent is not to interfere with your day-to-day management of these programs and our "spot checks" should not take the place of a thorough review of each document by the case management organization. We are hopeful that our combined efforts will ensure all documents provided to our foreign customers are accurate, consistent, and signature-worthy.

If you have any questions regarding LOA-writing policy and procedures, please contact Beth Baker, DSCA/PSD-PMD, (703) 604-6612 or e-mail: beth.baker@osd.pentagon.mil.

/Signed/
Michael S. Davison, Jr.
Lieutenant General, USA
Director

Attachment:

**DSCA Quarterly Review
Letter of Offer and Acceptance (LOA), Amendment, and Modification Documents**

August 1999

** Indicates a problem that would cause the document to be rejected.*

- 1.* Each line on an FMS case must include a Military Articles and Services List (MASL) line and MASL text description. The text descriptions used must match exactly those found in the DSCA 1200 System MASL. We are finding documents that either (1) have modified this description in some way; or (2) have deleted this description in its entirety. If the DSCA MASL description does not adequately describe what is being sold, additional information may be included on the document directly below the MASL text. DSAMS allows this as a free-form text entry. Any additional text entered must be consistent with the MASL description. For example, if the MASL reads "USG PERSONNEL ONLY," additional descriptive information cannot include the use of contractor personnel. If the MASL reads that it is for a "TECHNICAL ASSISTANCE TEAM (TAT)," additional descriptive information cannot state the line is for a "TECHNICAL ASSISTANCE FIELD TEAM (TAFT)." DSCA memorandum I-08186/99, 30 Jun 99, "Use of Military Articles and Services List (MASL) Lines on Letters of Offer and Acceptance (LOAs), Amendments, and Modifications," provides more detail on this issue.
2. The MASL line used on a case must accurately describe what is being sold. If there are instances where one MASL line is used and it is later discovered that a different MASL line would have been more appropriate, a modification should be processed to correct the line -- even if delivery/performance has already occurred.
3. Some documents refer to supplemental conditions or notes associated with each specific line. Later amendments and modifications are processed which delete some of these notes. However, the note reference continues to appear with each line even though the note itself no longer exists. When notes are deleted, any references directing the reader to these notes must be deleted as well.
- 4.* Some documents include notes or supplemental conditions that address information already provided within the boilerplate terms and conditions. If these notes do not provide any new or clarifying information, they should not be included -- repeating boilerplate is not necessary and could lead to problems if information is inconsistent in any way. If clarifying information is needed or if DSCA has authorized a deviation from boilerplate requirements, the notes should reference the boilerplate paragraph and state specifically how it is being interpreted/superseded for this unique case.
5. Sublines may be included with line items to allow further breakouts of items being sold. For sublines to be used, however, there must be at least 2 associated with a line. We are finding documents that include a subline "a" with no additional sublines.

6.* SAMM, paragraph 130503.B. requires that an estimated case closure date be included in defined order LOAs. When amendments or modifications are processed, this date should be updated to reflect a more accurate estimated date, if necessary -- especially if this note is included on a page that will be part of the amendment or modification. We are reviewing amendments and modifications which contain the estimated case closure date note/statement because it was part of a longer note or page that was being modified for another reason. Because the closure note is not being updated, it sometimes states that the case will be closed by a date that has already passed.

7.* SAMM, paragraph 70105.K. requires that all LOAs funded with Foreign Military Financing (FMF) must include the following note: "If terms of sale specify payment under a Foreign Military Financing (FMF) agreement between the Purchaser and DoD, Purchaser will pay to the USG, on a dependable undertaking basis, such costs as may be in excess of the amount funded by the FMF agreement." We are receiving LOAs with credit terms that do not include this note as required.

8.* We are finding cases that include notes or supplemental conditions that have nothing to do with what is being sold on the case. For example, a single line, defined order case included a note entitled "Blanket Order Requirement" explaining to the Purchaser how to requisition items. Since the case did not include any blanket order lines, this note was not appropriate.

9. DSCA Memorandum I-08440/99, 28 Jun 99, "Implementation Instructions for New Foreign Military Sales (FMS) 2.5 Percent Administrative Charge," required that a note be included on all documents to identify the administrative percentage charged to each line. The referenced memorandum provided the exact format of the note. We are receiving documents that are using a different format. In order to ensure consistency and ease of review by others (including our foreign customers), the administrative surcharge note should match the format provided in our memorandum. Also, this note should include all lines on the case, not just those that are being modified or amended on the particular document being processed.

10.* SAMM paragraph 70104.B. mandates 85 day offer expiration dates (OEDs) for LOAs and amendments unless exceptions for longer review periods have been granted. The following country-level exceptions currently exist:

180 Days	Saudi Arabia
145 Days	Indonesia, Philippines
130 Days	Italy
120 Days	Portugal, Korea
115 Days	Egypt, Germany, Greece, Israel, Morocco, Pakistan, Spain, Yemen
100 Days	Turkey
85 Days	All Other Purchasers

The SAMM allows a short expiration date to be used on a case-by-case basis. When a short OED is used, a note of explanation must be included in the LOA to document why less than the normal time is given (i.e., to take advantage of contract opportunities, etc.). We are finding

documents that are not including the correct number of days for review and are not including an explanatory note for short OEDs.

11.* SAMM, paragraph 130301.D. states that remarks may not be entered on FMS documents concerning the transfer of Purchaser funds from one case to another. This policy is reiterated in paragraph 130402.E. The only SAMM exception to this policy is the language permitted on concurrent modifications (SAMM, paragraph 80403.B.3.). (NOTE: There is a formal exception between DSCA and Saudi Arabia which permits the use of other concurrent documents for Saudi Arabia.) We are receiving amendments and LOAs which refer to the transfer of funds between cases. Trying to do what would in effect be “concurrent amendment” or “concurrent amendment/LOA” scenarios is problematic because the customer may chose to sign one document and not the other. In compliance with the SAMM, statements about transfers should not be made unless the documents meet the requirements of paragraph 80403.B.3.

12.* Block (5) of the LOA, amendment, and modification documents include space for availability (in number of months) to be entered in parentheses. For defined order lines, this may either be a single number (i.e., “(5)”) or a range (i.e., “(1-12)”). For blanket order lines, the availability should be a “(-).” We are receiving LOA documents with availabilities of “(0).” This is not an acceptable entry -- if items are scheduled to be delivered immediately, an availability of “(1)” should be used. We have also received documents that contain a condition code in this block. Condition code information should be included as part of the additional line description or included in the notes.

13. SAMM, paragraph 130104.C.2.b. requires that LOAs cite all of the appropriate Terms of Sale on the LOA. This paragraph goes on to state that if FMS Credit or MAP funds are used, a dollar breakout will be shown. This dollar breakout applies only to credit or grant-type funds. Any cash terms used (i.e., Cash Prior to Delivery, Dependable Undertaking, etc.) should not have a dollar value breakout. If cash and credit/grant terms appear on the same case, only the credit/grant terms should include a dollar breakout.

14.* When multiple sources of funding are used, more than one type of assistance code might be applicable. All type of assistance codes that apply must be recorded in block (5) of the LOA, amendment, or modification. We are receiving documents with a type of assistance code of 3 or 4 when the case is partially funded with credit funds. Type of assistance code “N” or “Z,” as appropriate, should also be included in block (5) for these documents. We are also seeing proposed documents that use an incorrect source of supply and type of assistance code combination (i.e., source of supply “S” with a type of assistance code of “5”). These codes need to be compatible.

15.* Some documents are instructing the Purchaser to complete block (6) of the LOA with the appropriate Offer Release Code (ORC) information. Per the Letter of Offer and Acceptance Information included with each LOA, this information is to be entered by the US Government. Documents should include ORCs as appropriate prior to submittal for countersignature and subsequent customer review. Also, all lines that provide materiel of any kind should include an ORC and a Delivery Term Code (DTC) in blocks (6) and (7) respectively to identify responsibility for transportation. We are receiving documents for materiel lines that do not

include this information. Lines for services should not include an ORC/DTC unless it is anticipated that some materiel will be delivered in direct support of the service being provided.

16. Each time a modification or amendment is processed on a case, the payment schedule should be evaluated and adjusted if appropriate (SAMM, paragraph 130401.F.2.(a)). When a modification is processed and the dollar value of the case is increasing (i.e., for a price increase or other unilateral adjustment), the payment schedule must be adjusted to reflect payments to collect the increased amount. We are receiving modifications that show (correctly) the previous dollar value listed beside “Previous Payments Scheduled Through (date).” However the next entry shows (incorrectly) the revised value beside “Revised Payments Scheduled Through (same date).” When the dollar value is increasing, the modification must show a payment(s) for the additional amount.

Example (Incorrect):

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled Through (15 Sep 99)		\$70,000
Revised Payments Scheduled Through (15 Sep 99)		\$80,000

Example (Correct):

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled Through (15 Sep 99)		70,000
15 Dec 99	\$10,000	\$80,000

17.* SAMM, Table 804-1 requires that when lines are increasing or decreasing, the amendment or modification must state the reason for the change (i.e., scope change, price increase or decrease, etc.). Most of the documents we are receiving contain very little information in the document description section. These descriptions should be more informative and tell the customer (and other readers) exactly what changes are being made and why. Any changes to line values, terms of sale, notes, MASL lines, etc. should be documented in the description section and include a brief reason for the change. Information included in the description section should be detailed enough to allow us to evaluate which document (modification or amendment) is appropriate for the type of action(s) described.

** Indicates a problem that would cause the document to be rejected.*