

13 SEP 1999
In reply refer to:
I-011158/99

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

DIRECTOR, DEFENSE REUTILIZATION AND MARKETING
SERVICE

DEPUTY DIRECTOR FOR SECURITY ASSISTANCE,
DEFENSE FINANCE AND ACCOUNTING SERVICE -
DENVER CENTER

SUBJECT: Foreign Customer Participation in the Letter of Offer and Acceptance (LOA)
Development Process

REFERENCE: DSCA/COMPT memorandum I-00051/99, 11 Feb 99, "Release of LSC and
CAS Financial Data"

As part of our strategic planning and reinvention efforts, we have surveyed our customers and led various discussion groups to determine how we can improve Security Cooperation processes. Throughout all of these activities, a recurring theme has been the foreign customers' desire for greater visibility and increased involvement in the LOA development process. In a 23 Mar 99 memorandum, Deputy Secretary of Defense Dr. Hamre reiterated this point by stating "FMS customers should be encouraged to participate in discussions...including Letters of Offer and Acceptance development..." A "Process Transparency White Paper," developed by a team of US Government and industry representatives, recommended several policy changes which would provide foreign customers access to more information and expanded opportunities for

participation. The purpose of this memorandum is to implement some of those recommendations and provide revised guidance on how foreign customers can participate in the development of their FMS case or LOA.

Customer involvement early-on in the LOA development process is essential to ensure the final document provides the best “fit” for the purchaser's requirements. Customers should be encouraged to attend meetings and receive correspondence designed to clarify Letter of Request (LOR) information (more specifically detailed in DSCA message 221451Z Apr 99--attached). As the development of the LOA progresses, there will be many instances where Purchaser participation and input are necessary. For example, the customer should help identify unique requirements and special needs which must be accommodated in the final sales document. Any unique notes or conditions being considered may be provided to the customer for advance review to ensure these special case/program-unique needs are addressed.

The policy in the Financial Management Regulation (paragraph 070102.C.) requires that the foreign customer be provided a “single selling price” on the LOA. Under this policy, further pricing details were not to be provided unless DSCA specifically authorized release. The referenced DSCA/COMPT memorandum specifically authorizes the release of pricing information for all LOAs to permit Logistics Support Charge (LSC) and Contract Administration Services (CAS) pricing information to be provided to customers who request such information without seeking DSCA approval. In addition to these two charges, the following pricing information may also be provided to customers upon request:

- a. Nonrecurring Cost (NC) recoupment charges included on the case.
- b. Break-out of USG costs to provide more detail about what is included in each line (e.g., engineering services, training, etc. which may be embedded within a line).

Furnishing this information should help customers better understand what is being provided under each line item and clarify the differences between original contractor price and the estimate included on the LOA.

This detailed pricing information may be provided with the LOA if desired by the customer. Available reports identifying these costs may also be provided as requested. It should be noted that these price break-outs should only include USG pricing data---contract pricing may contain proprietary information and should be reviewed on a case-by-case basis with the respective contractor to determine what may be released.

The policy outlined in this memorandum is effective immediately. We have reviewed the Security Assistance Management Manual (SAMM) and have identified several paragraphs which must be rewritten to reflect this new philosophy. The attached table identifies the previous wording and the new language that will be included in the next official SAMM change.

We are hopeful that allowing greater customer participation and visibility into pricing data will improve the quality of our cases and better satisfy the needs of our customers. If you have any questions regarding this policy, please contact Beth Baker, (703) 604-6612. Any questions regarding customer participation in specific cases, should be directed to your DSCA desk officer.

/s/

MICHAEL S. DAVISON, JR.
LIEUTENANT GENERAL, USA
DIRECTOR

Attachments:

1. DSCA Message 221451Z Apr 99
2. SAMM Changes

SAMM Changes to Reflect Encouraged Customer Participation in the LOA Development Process

SAMM Reference	Current Language	Revised Language
Paragraph 70102.C.	<p><u>Supplemental Information.</u> Standard Terms must be supplemented with additional items or notes for each Offer in order to make obligations clear. When LOAs are prepared before details are known, “notes” (which include “supplemental conditions”) will include general coverage of this information and an estimate of when specific information on these topics can be provided to the Purchaser. Inclusion of all terms and information as a complete package within the LOA, rather than orally or by separate correspondence, reduces misunderstandings regarding FMS commitments</p>	<p><u>Supplemental Information.</u> Standard Terms must be supplemented with additional items or notes for each Offer in order to make obligations clear. When LOAs are prepared before details are known, “notes” will include general coverage of this information and an estimate of when specific information on these topics can be provided to the Purchaser. These notes may be shared in advance with the Purchaser to ensure any Purchaser-unique requirements are accommodated.</p>
Paragraph 70102.G.	<p><u>NC Charges.</u> LOAs will not normally be established for the sole purpose of collecting nonrecurring costs.... Pro rata NC charges for articles sold under FMS will be included in the unit price. Due to inclusion of sensitive US technical production information, data regarding USG cost pool and production quantities used to determine NC charges will not normally be released outside DoD. (see also DoDD 2140.2)</p>	<p><u>NC Charges.</u> LOAs will normally not be established for the sole purpose of collecting nonrecurring costs.... Pro rata NC charges for articles sold under FMS will be included in the unit price. This cost may be disclosed to the Purchaser on the LOA or through other means as desired (reports, meetings, discussions, etc.). Due to inclusion of sensitive US technical production information, data regarding USG cost pool and production quantities used to determine NC charges will not be released outside DoD. (see SAMM, paragraph 50202.B.4. and DoDD 2140.2)</p>
Paragraph 70102.H. (new)		<p><u>Customer Participation in the LOA Preparation Process.</u> Customer involvement early-on in the LOA</p>

		<p>development process is essential to ensure the final document provides the best “fit” for their requirements. Customers should be encouraged to attend meetings and receive correspondence designed to clarify Letter of Request (LOR) information. As the development of the LOA progresses, there will be many instances where Purchaser participation and input are necessary. For example, the customer should help identify unique requirements and special needs which must be accommodated in the final sales document. Any unique notes or conditions being considered may be provided to the customer for advance review to ensure these special case/program-unique needs are addressed.</p>
<p>Paragraph 130701.B.</p>	<p><u>Single Selling Price.</u> It is DoD policy to provide a single unit price for articles offered under FMS. It is not normal FMS practice to provide a detailed description of the components of cost included in estimated prices for line items on LOAs. When the buyer so requests, there may be instances where the provisions of such information is necessary to demonstrate that such costs are necessary.</p>	<p><u>Single Selling Price.</u> It is DoD policy to provide a single unit price for articles offered under FMS. If the customer desires, a more detailed description of the major components of cost included in estimated prices may be provided with the LOA as supplemental information or via separate report.</p>
<p>Paragraph 130704.C.2.</p>	<p><u>DD Form 1513 Presentation.</u> Estimated costs of providing engineering services associated with production of purchased items will be included in the estimated unit costs of the item being purchased. Thus, the LOA item price will include not only the estimated contract cost to produce it (including GFM) but also the cost</p>	<p><u>LOA Presentation.</u> Estimated costs of providing engineering services associated with production of purchased items will be included in the estimated unit costs of the item being purchased. Thus, the LOA item price will include not only the estimated contract cost to produce it (including GFM) but also the cost of services required to assure</p>

	<p>of services required to assure production in the correct configuration. Such costs will also include the pro-rata share of government-furnished testing and evaluation services.</p>	<p>production in the correct configuration. A break-out of USG costs may be provided to the customer if requested. Such costs will also include the pro-rata share of government-furnished testing and evaluation services.</p>
<p>Paragraph 130705.C.2.</p>	<p><u>LOA Presentation.</u> The LSC is to be included in the single selling price presented to FMS purchasers in the LOA for those lines coded with the applicable generic codes listed in the FMR, Section 0722.</p>	<p><u>LOA Presentation.</u> The LSC is to be included in the single selling price presented to FMS purchasers in the LOA for those lines coded with the applicable generic codes listed in the DoD FMR. Information on LSC pricing estimates may be provided to FMS customers.</p>