



DEFENSE SECURITY COOPERATION AGENCY

WASHINGTON, DC 20301-2800

NOV 06 2006

In reply refer to:  
I-06/014434 - DBO

MEMORANDUM FOR SEE DISTRIBUTION LIST

**SUBJECT:** Foreign Military Sales (FMS) Administrative Surcharge Structure and Rate – Security Assistance Management Manual (SAMM) Change (DSCA 06-47) (SAMM E-Change 66)

- REFERENCES:**
- a. DSCA Memorandum I-06/000933-DBO, “Changes to Foreign Military Sales (FMS) Administrative Surcharge Structure and Rate (DSCA 06-14),” 15 Mar 06
  - b. DSCA Memorandum I-06/000935-DBO, “Implementation Instructions for Changes to Foreign Military Sales (FMS) Administrative Structure and Rate (DSCA 06-19),” 15 Mar 06
  - c. DSCA Memorandum I-06/000938-DBO, “Foreign Military Sales (FMS) Case-Related Manpower Functions and Funding Source (DSCA 06-25) (SAMM E-Change 48),” 17 May 06

Reference a. announced the implementation of a package of reforms aimed at ensuring the continued solvency of the FMS Trust Fund Administrative Account. These changes included the following specific initiatives: (1) Revise the Administrative Surcharge rate to 3.8%; (2) Better define and enforce the “Standard Level of Service”; (3) Charge levels of service that are higher than the “Standard” directly to the case; (4) Ensure small dollar value cases recover at least a minimum amount of administrative costs (\$15,000) using a Small Case Management Line (SCML); (5) Eliminate the 5% Administrative Surcharge rate for non-standard items; (6) Eliminate the Logistics Support Charge (LSC) in Fiscal Year 2008; and (7) Review Administrative Surcharge rates and SCML requirements annually as part of an overall assessment of the FMS Trust Fund Administrative Account.

These reforms were “rolled out” to the community in March and detailed implementation instructions were provided (reference b.). The purpose of those instructions was to ensure Letters of Offer and Acceptance (LOAs) offered in the time period between the March 2006 announcement and the August 2006 effective date would be written and processed correctly. Now that this interim period is over and most of these changes are in-effect, revisions to the SAMM are required to provide policy and procedures to be used on all prospective cases. These changes are provided in the attachment to this memorandum. Formal SAMM changes to implement the revised changes related to case manpower (e.g., SAMM Table C5.T6.) were already provided in reference c.

DoD 5105.65-M, "Foreign Military Sales (FMS) Case Reconciliation and Closure Manual (RCM)" is also being updated to reflect the new policies (attachment 2). Of particular note in the RCM are revised procedures for case closure certifications to accommodate the new SCML requirements.

Thank you for your continued cooperation in implementing these important reforms. If you have any questions regarding any of these changes, please contact Beth Baker, DSCA/DBO/FPA, (703) 601-3839, e-mail: [beth.baker@dca.mil](mailto:beth.baker@dca.mil).

Attachment:

1. SAMM Change
2. RCM Change



Richard J. Millies  
Deputy Director

DISTRIBUTION LIST

DEPUTY ASSISTANT SECRETARY OF THE ARMY  
DEFENSE EXPORTS AND COOPERATION (DASA-DEC)  
DEPARTMENT OF THE ARMY

DEPUTY ASSISTANT SECRETARY OF THE NAVY  
INTERNATIONAL PROGRAMS (NAVIPO)  
DEPARTMENT OF THE NAVY

DEPUTY UNDER SECRETARY OF THE AIR FORCE  
INTERNATIONAL AFFAIRS (SAF/IA)  
DEPARTMENT OF THE AIR FORCE

DIRECTOR, DEFENSE LOGISTICS AGENCY

DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY

DIRECTOR, DEFENSE THREAT REDUCTION AGENCY

DIRECTOR, DEFENSE REUTILIZATION AND MARKETING SERVICE

DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY

DIRECTOR, DEFENSE LOGISTICS INFORMATION SERVICE

DEPUTY DIRECTOR FOR INFORMATION ASSURANCE,  
NATIONAL SECURITY AGENCY

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

cc: STATE/PM-RSAT  
USDP/ISA  
USDP/ISP  
DISAM  
USASAC  
SATFA TRADOC  
NAVICP  
NETSAFA  
AFSAC  
AFSAT  
JFCOM  
SOCOM  
EUCOM  
CENTCOM  
NORTHCOM  
PACOM  
SOUTHCOM

**DoD 5105.38-M, Security Assistance Management Manual (SAMM) Changes  
Related to Administrative Surcharge-Related Reforms**

1. Figure C5.F2. Sample Letter of Offer and Acceptance.

- a. Change Purchaser’s Reference date from “14 February 2003” to “14 February 2006.”
- b. Change “Estimated Cost: \$7,278,025” to read “Estimated Cost: \$7,366,907.”
- c. Change “Initial Deposit: \$156,419” to read “Initial Deposit: \$200,860.”
- d. Change U.S. Signature Date from “20 Aug 2003” to “20 Aug 2006.”
- e. Change DSCA Reviewed/Approved Date from “26 Aug 2003” to “26 Aug 2006.”
- f. Change block “(10) Administrative Charge \$170,928” to read “(10) Administrative Charge \$259,810.”
- g. Change block “(13) Total Estimated Cost \$7,278,025” to read “(13) Total Estimated Cost \$7,366,907”
- h. Change Payment Schedule to read as follows:

**ESTIMATED PAYMENT SCHEDULE**

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Initial Deposit		\$ 200,860
15 Mar 2007	\$ 222,605	\$ 423,465
15 Jun 2007	\$ 325,491	\$ 748,956
15 Sep 2007	\$ 185,199	\$ 934,155
15 Dec 2007	\$ 116,366	\$1,050,521
15 Mar 2008	\$ 431,039	\$1,481,560
15 Jun 2008	\$1,086,321	\$2,567,881
15 Sep 2008	\$2,019,944	\$4,587,825
15 Dec 2008	\$2,779,082	\$7,366,907

- i. Change Note 17 to read “An administrative surcharge of 3.8% has been applied to Lines 001-005.”

2. Table C5.F5. Instructions for Preparing a Letter of Offer and Acceptance (LOA). Change instruction #12 to read as follows:

<p>12. <u>Charges on the LOA.</u> Chapter 9 and DoD 7000-14.R (reference (o)), Volume 15, Chapter 7 identify specific pricing policies for FMS cases. The LOA includes a Net Estimated Cost that represents the total of all line items on the case. Separate entries identify Packing, Crating, and Handling (PC&amp;H), Administrative, Transportation, or</p>
--

other accessorial charges that are included. These figures are added to the Net Estimated Cost to provide a Total Estimated Cost. With the exception of the CAS and administrative surcharge, the percentage rate used for determining accessorial costs should not be indicated in the LOA. A note is included indicating the percentage of CAS and administrative surcharges that are applied against each line item (see Table C5.T5.). When calculating the administrative surcharge, if the calculated amount is less than \$15,000, a Small Case Management Line (SCML) must be added as a line item on the case to recover the difference between the calculated administrative surcharge and \$15,000. See paragraph C9.4.7. for more information on the SCML.

3. Table C5.T5. Letter of Offer and Acceptance (LOA) Notes.

a. Change “Administrative Surcharge” note to read as follows:

Note Name	Note Usage	Note Text
Administrative Surcharge	Mandatory for LOAs (including Pseudo LOAs) that include administrative surcharges. Mandatory for Amendments and Modifications even if the administrative surcharges are not affected by the changes being made. See Chapter 9, section C9.5.	<p>“An administrative surcharge of 3.8% has been applied to lines [insert applicable line numbers].”</p> <p>And/or</p> <p>“An administrative surcharge of 2.5% has been applied to lines [insert applicable line numbers].”</p> <p>And/or</p> <p>“An administrative surcharge of 3% has been applied to lines [insert applicable line numbers].”</p> <p>And/or</p> <p>“An administrative surcharge of 5% has been applied to [insert applicable line numbers].”</p> <p>And/or</p> <p>“An administrative surcharge has not been applied to lines [include applicable line numbers].”</p> <p>Only include the percentages that are included on the case.</p>

b. Change “Administrative Surcharge Waiver – NAMSA” note to read as follows:

Note Name	Note Usage	Note Text
Administrative Surcharge Waiver - NAMSA	Mandatory for NAMSA LOAs that have waived administrative surcharges. Mandatory for Amendments and Modifications even if the administrative surcharges are not affected by the changes being made. See Chapter 9, subparagraph C9.6.1.2.	<p>“This LOA is in support of [insert title of the weapon system partnership agreement or NATO/SHAPE project]. Administrative charges, to include any Small Case Management Line (SCML) value, waived on this LOA will be reimbursed to the FMS Admin Account from Program 10 funds controlled by the U.S. Mission to NATO, [insert reference describing U.S. Mission to NATO documentation]. Administrative charges are waived by the Director, DSCA, under the provisions of Section 21(e)(3)(A) of the AECA.”</p>

c. Add a new Small Case Management Line (SCML) note to read as follows:

Note Name	Note Usage	Note Text
Small Case Management Line (SCML)	Mandatory for LOAs that include an SCML. Mandatory for Amendments and Modifications that add an SCML to the case. See Chapter 9, subparagraph C9.4.7.	“ <u>Small Case Management Line (SCML)</u> . Any case “accepted” on or after 1 Aug 06 that will not collect at least \$15,000 in administrative surcharge using the established percentage must include an SCML to charge the difference in value between the calculated administrative surcharge amount and \$15,000. Line item [insert line item number] has been added to this case for that purpose. If this case is ever modified or amended and the calculated administrative surcharge amount changes, the value of the SCML will be adjusted to ensure the minimum \$15,000 combined administrative surcharge/SCML value is reached. If this case is ever modified or amended to increase the case value such that the administrative surcharge collection will exceed \$15,000, line item [insert line item number] will be reduced to \$0. The FMS administrative surcharge does not apply to the SCML.”

4. Figure C5.F6. Sample Letter of Intent (LOI).

- a. Change Purchaser’s Reference date from “03/01/2003” to “03/01/ 2006.”
- b. Change “Estimated Cost: \$2,050,000” to read “Estimated Cost: \$2,076,000.”
- c. Change “Initial Deposit: \$2,050,000” to read “Initial Deposit: \$2,076,000.”
- d. In the paragraph beginning “Standard Terms and Conditions,” in the 2<sup>nd</sup> sentence, change “. . . expend up to the sum of \$2,050,000 . . .” to read “. . . expend up to the sum of \$2,076,000.”
- e. Change the LOI expiration date from “16 Jun 2003” to “16 Jun 2006.”
- f. Change U.S. Signature Date from “06 Jun 2003” to “06 Jun 2006.”
- g. Change DSCA Reviewed/Approved Date from “06 Jun 2003” to “06 Jun 2006.”
- h. Change block “(6) Administrative Charge \$50,000” to read “(6) Administrative Charge \$76,000.”
- i. Change block “(7) Total Estimated Cost \$2,050,000” to read “(13) Total Estimated Cost \$2,076,000”
- j. Change Payment Schedule to read as follows:

## ESTIMATED PAYMENT SCHEDULE

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Initial Deposit		\$2,076,000

k. Change Note 3, 2<sup>nd</sup> sentence from "...DSCA memorandum I-03/12345, 4 Mar 03..." to read "...DSCA memorandum I-06/12345, 4 Mar 06..."

l. Change Note 8 to read "An administrative surcharge of 3.8% has been applied to line 001."

5. Figure C5.F8. Instructions for Preparing a Letter of Intent (LOI). Change instruction #11 to read as follows:

11. Charges on the LOI. Chapter 9 and the DoD 7000-14.R (reference (o)), Volume 15, Chapter 7 identify specific pricing policies for FMS cases. The LOI includes a Net Estimated Cost, which represents the total of all line items on the case. Separate entries identify administrative accessorial charges that are included. These figures are added to the Net Estimated Cost to provide a Total Estimated Cost. With the exception of the administrative surcharge, the percentage rate used for determining accessorial costs should not be indicated in the LOI. A note is included indicating the percentage of administrative surcharges that are being applied against each line item (see Table C5.T5.). When calculating the administrative surcharge, if the calculated amount is less than \$15,000, a Small Case Management Line (SCML) must be added as a line item on the LOI to recover the difference between the calculated administrative surcharge and \$15,000. See paragraph C9.4.7. for more information on the SCML.

6. Figure C5.F9. Sample Letter of Intent (LOI) Amendment.

a. In the second paragraph change "This LOI Amendment increases the cost of the LOI from \$2,050,000 to \$2,562,500.00 due to increased contractor requirements." to read "This LOI Amendment increases the cost of the LOI from \$2,076,000 to \$2,595,000.00 due to increased contractor requirements."

b. Change the Basic LOI Acceptance date from "10 Jun 2003" to "10 Jun 2006."

c. Change "Estimated Cost: \$2,562,500" to read "Estimated Cost: \$2,595,000."

d. Change "Due with Amendment Acceptance: \$512,500" to read "Due with Amendment Acceptance: \$519,000."

e. Change the LOI Amendment expiration date from "9 Jul 2003" to "9 Jul 2006."

f. Change U.S. Signature Date from "06 Jun 2003" to "06 Jun 2006."

g. Change DSCA Reviewed/Approved Date from "06 Jun 2003" to "06 Jun 2006."

h. Change block “(6) Administrative Charge [Previous] (B) \$50,000” to read “(6) Administrative Charge [Previous] \$76,000.”

i. Change block “(6) Administrative Charge [Revised] \$62,500” to read “(6) Administrative Charge [Revised] \$95,000.”

j. Change block “(7) Total Estimated Cost [Previous] \$2,050,000” to read “(7) Total Estimated Cost [Previous] \$2,076,000.”

k. Change block “(7) Total Estimated Cost [Revised] \$2,562,500” to read “(7) Total Estimated Cost [Revised] \$2,595,000.”

l. Change Payment Schedule to read as follows:

**ESTIMATED PAYMENT SCHEDULE**

Payment Date	Quarterly	Cumulative
Previous Payments Scheduled (15 Jun 06)		\$2,076,000
Current USG Financial Requirements		\$2,595,000
Amount Received From Purchaser		\$2,076,000
Due With Amendment Acceptance	\$519,000	\$2,595,000

m. Change note 8 to read “An administrative surcharge of 3.8% has been applied to line 001.”

7. Figure C6.F2. Amendment Format.

a. Change the Purchaser’s Reference date from “03/04/2003” to “03/04/2006.”

b. Change “Estimated Cost: \$7,739,975” to read “Estimated Cost: \$7,834,007.”

c. Change expiration date from “17 January 2004” to “17 January 2007.”

d. Change U.S. Signature Date from “20 Aug 2003” to “20 Aug 2006.”

e. Change DSCA/Reviewed/Approved Date from “4 Nov 2003” to “4 Nov 2006.”

f. Change “(10) Administrative Charge [Revised] \$182,178” to read “(10) Administrative Charge Revised \$276,910.”

g. Change “(13) Total Estimated Cost [Revised] \$7,739,275” to read “(13) Total Estimated Cost Revised \$7,834,007.”

h. Change Payment Schedule to read:



ESTIMATED PAYMENT SCHEDULE

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payment Scheduled Date (15 Dec 2006)		\$ 156,419
Current USG Financial Requirements		\$ 156,419
Amount Received from Purchaser		\$ 156,419
Due with Amendment Acceptance	\$ 101,044	\$ 257,463
15 Jun 2007	\$ 463,126	\$ 720,529
15 Sep 2007	\$ 100,803	\$ 821,392
15 Dec 2007	\$ 326,184	\$1,147,576
15 Mar 2008	\$1,000,536	\$2,148,112
15 Jun 2008	\$2,050,821	\$4,198,933
15 Sep 2008	\$2,268,258	\$6,467,191
15 Dec 2008	\$ 970,856	\$7,438,047
15 Mar 2009	\$ 395,960	\$7,834,007

i. Change Note 17 to read “An administrative surcharge of 2.5% has been applied to lines 001-005. An administrative surcharge of 3.8% has been applied to line 006.”

8. Figure C6.3. Modification Format.

- a. Change the Purchaser’s Reference date from “12/08/2003” to “12/08/2006.”
- b. Change “Estimated Cost: \$7,739,275” to read “Estimated Cost: \$7,834,007.”
- c. Change U.S. Signature Date from “06 Feb 2004” to “06 Feb 2007.”
- e. Change “Previous (B)” column header to read “Previous (A01)”
- f. Change “(10) Administrative Charge [Previous] \$170,928” to read “(10) Administrative Charge [Previous] \$276,910.”
- g. Change “(10) Administrative Charge [Revised] \$182,178” to read “(10) Administrative Charge [Revised] \$276,910.”
- h. Change “(13) Total Estimated Cost [Previous] \$7,739,275” to read “(13) Total Estimated Cost [Previous] \$7,834,007.”
- i. Change “(13) Total Estimated Cost [Revised] \$7,739,275” to read “(13) Total Estimated Cost [Revised] \$7,834,007.”
- j. Change Note 17 to read “An administrative surcharge of 2.5% has been applied to lines 001-005. An administrative surcharge of 3.8% has been applied to line 006.”

9. Table C6.T7. Add the following entry to the list of Amendments that require DSCA countersignature: “Any Amendment that reduces the net and/or total case value to \$0.”
10. Table C6.T8. Add the following entry to the list of Modifications that require DSCA countersignature: “Any Modification that reduces the net and/or total case value to \$0.”
11. Paragraph C6.8.4.2. Delete the paragraph in its entirety and replace it with the following:

“Case Closures at Reduced or \$0 Value. For any case that is closed, the US Government will retain funds to pay for estimated administrative costs associated with the case – even if no articles and/or services have been delivered (\$0 delivered value). The minimum, non-refundable amount will be: the value when combining the Small Case Management Line (SCML) and the administrative surcharge value; OR ½ of the administrative surcharge estimated on the case; OR the standard administrative surcharge percentage of the expended value whichever is greater. DSCA (Business Operations Directorate) may approve reductions to this policy when it can be clearly shown that the actual values of administrative costs on the case are less than these values or if the case is cancelled for the convenience of the US Government. If an SCML was not included on the basic case and the case was “accepted” on or after 1 August 2006, an SCML must be added if the case value is reduced such that an SCML is needed to reach \$15,000 in administrative collections. Case Managers wishing to request that a case be closed be at \$0 articles and/or services value, must contact DSCA (Business Operations Directorate) for approval. The DSCA (Business Operations Directorate) reply is sent to the Case Manager and DFAS Denver.”

12. Paragraph C6.9.1. Delete the paragraph in its entirety and replace it with the following:

“C6.9.1. Purchaser-Requested Case Cancellations. Purchasers may request that their FMS cases be cancelled. After a case has been implemented, cancellations are processed as a closure of the case. The purchaser is responsible for any termination costs as well as any estimated administrative costs associated with the case. The minimum, non-refundable amount of administrative costs will be: the value when combining the Small Case Management Line (SCML) and the administrative surcharge value; OR ½ of the administrative surcharge estimated on the case; OR the standard administrative surcharge percentage of the expended value whichever is greater. Implementing Agency recommendations to charge other than these amounts must be submitted to DSCA (Business Operations Directorate) for approval. See paragraph C6.8.4.2. for information on closing cases with \$0 delivered value. For cases closing with a case value greater than or equal to \$25,000,000, the Implementing Agency will submit a recommended non-refundable administrative charge amount to DSCA (Business Operations Directorate) for approval. DSCA countersignature of an LOA Modification does not constitute DSCA approval. Requests submitted to DSCA must include the following documentation:

C6.9.1.1. Brief description of the case to include the basic LOA acceptance date and the terms of sale used.

C6.9.1.2. Copy of the purchaser's request for case cancellation or a written explanation why the case was cancelled.

C6.9.1.3. Costs for items on the cancelled case that are on contract.

C6.9.1.4. Minimum amount of FMS administrative charge that would normally be charged in accordance with current policy and a statement whether costs to implement, execute, and cancel the case will be recouped by that amount. If a different amount is recommended, include the proposed amount and justification.

C6.9.1.5. Name and telephone number of the individual to whom inquiries may be directed.”

13. Paragraph C6.9.2. Delete the paragraph in its entirety and replace it with the following:

“C6.9.2. USG-Mandated Case Cancellations. In accordance with the LOA Standard Terms and Conditions (see Chapter 5, Figure C5.F3.), the US Government may cancel a case (or any part of a case) when U.S. national interest requires. The amount of administrative charges assessed against cases cancelled by the US Government must be approved by DSCA (Business Operations Directorate) even if the proposed amount is \$0.

14. Paragraph C9.4.7 (NEW). Add a new paragraph and subparagraphs as follows:

“C9.4.7. Small Case Management Line (SCML). All cases “accepted” on or after 1 Aug 06 must collect a minimum of \$15,000 in administrative charges. For cases “accepted” on or after 1 Aug 06, if the case value is so small that the Administrative Surcharge amount calculated is less than \$15,000, a separate line item (an SCML) will be added to the case so that the Administrative Surcharge and this new line item combined total \$15,000. [Example: For a case where the calculated Administrative Surcharge is \$500, the SCML value would be \$14,500.]

C9.4.7.1. SCML General Information.

C9.4.7.1.1. The value of the SCML line item will be adjusted as necessary to allow for changes in case value when the case is amended or modified. If a case “accepted” on or after 1 Aug 06 does not have an SCML initially but is modified or amended later to decrease the case value such that the Administrative Surcharge collection is anticipated to be reduced below \$15,000 the SCML will be added to the case to make up the difference in value to reach \$15,000 – even if all other lines are being reduced to \$0.

C9.4.7.1.2. Once an SCML has been added to a case, it cannot be deleted. It can be reduced to \$0 if the calculated Administrative Surcharge reaches \$15,000, but the SCML line item will remain on the case.

C9.4.7.1.3. When Administrative Surcharges are waived for a case, the SCML will be considered part of that waiver and will not be charged.

C9.4.7.1.4. The Administrative Surcharge is not assessed against the SCML.

C9.4.7.1.5. A minimum of \$15,000 in administrative charges (combination of the Administrative Surcharge and the SCML) will be retained by the U.S. Government when the case is closed. See paragraph C6.8.4.2. for additional information.

#### C9.4.7.2. SCML Scope.

C9.4.7.2.1. The SCML requirement applies to all cases (both FMS and FMS-like) “accepted” on or after 1 Aug 06 where the case is being financed with any type of funding (e.g., national funds) other than Foreign Military Financing (FMF); or the case is being financed using multiple sources of funding (one of which may be FMF); or the case is being financed wholly using FMF monies and the purchaser received more than \$400,000 in FMF funds in the previous Fiscal Year.

C9.4.7.2.2. The SCML requirement DOES NOT apply to cases where the purchaser is using FMF monies to wholly fund the case and received between \$1 and \$400,000 in FMF funds in the previous Fiscal Year. The minimum charge that would have been included in the SCML will be covered by FMF Administrative monies instead and will not be included on the FMS case. Any exceptions to this policy require the approval of the Director, DSCA.

C9.4.7.2.3. The SCML requirement DOES NOT apply to Excess Defense Articles (EDA) cases that are written solely for the purpose of transferring the grant item. These cases will have \$0 case value. If the EDA case includes support (e.g., transportation or refurbishment services, etc.), the SCML will apply.

C9.4.7.2.4. The SCML requirement DOES NOT apply to all cases established for Presidential Drawdowns using the “S9” country code.

#### C9.4.7.3. SCML Case-Writing Requirements.

C9.4.7.3.1. The Military Articles and Services List (MASL) line and generic code used for the SCML is:

(R6C) SMALLCASESUPT  
SMALL CASE SUPPORT EXPENSES

C9.4.7.3.2. A “1” month availability for the SCML will be used on the LOA (block (5) SC/MOS/TA). This will ensure that the entire value of the SCML is included in the initial deposit. Source of supply code “S” and Type of Assistance Code “3” must be used for this line. The Delivery Term Code (DTC) and Offer Release Code (ORC) for this line should both be left blank (which will print as a dash on the LOA document).

C9.4.7.3.3. Primary Category Code (PCC) CE1 must be used when pricing this line in DSAMS. No Indirect Pricing Components (IPCs) should be used against this line. DSAMS line type must be entered as CE (case expense).

C9.4.7.3.4. The SCML note must be included on all cases that include an SCML. See Table C5.T5. for specific note wording.”

#### C9.4.7.4. Case Closure Requirements for SCMLs.

C9.4.7.4.1. Increases in Case Value. Cases with expenditures that exceed the current case value require an Amendment or Modification to increase the case value before the case can be closed (see paragraph C6.7.2.1.2.). These Amendments and Modifications must include an appropriate reduction to an existing SCML. If the net case value is increased above the amount needed to achieve \$15,000 in calculated administrative surcharge value, the SCML value will be reduced to \$0. The SCML will not be deleted as it must remain on the case and in the DIFS system to ensure supporting data for previously billed amounts are available.

C9.4.7.4.2. Reductions in Case Value – SCML Already On the Case. Any case which is proposed to close at a value less than its current value will require an increase to an existing SCML. Increasing an SCML at closure DOES NOT require a case Modification or Amendment. Instead, the case manager must notify the DFAS accountant via e-mail of the required change in the SCML value. The “C1I” closure certificate update cannot be sent to DIFS until the SCML delivery and admin transfer for the increase are recorded in DIFS.

C9.4.7.4.3. Reductions in Case Value – SCML Not On the Case. There may be instances when a case that does not include an SCML (e.g., the calculated administrative surcharge value was \$15,000 or greater) is being reduced such that the new, lower case value now mandates that an SCML be included (e.g., the new calculated administrative surcharge is less than \$15,000). For cases that were accepted on or after 1 August 2006, an SCML must be added to cover the difference between the calculated administrative surcharge and \$15,000 before the case can be closed. A case Modification IS required to add an SCML to the case. For cases that were accepted before 1 August 2006, the SCML will not apply regardless of the reduction in case value.”

15. Table C9.T.2. Table of FMS Charges. Change Administrative Surcharge entry to read as follows:

Charge	Description	How Priced	Applied by – for billing	References
Administrative Surcharge	Cost of administering FMS and FMS-like programs	Included as a percentage of applicable line items as a below-the-line charge on the LOA. 3.8% for both standard and nonstandard articles/services (for LOA lines implemented on or after 1 August 2006). 2.5% for standard articles/services (for LOA lines implemented on or after 1 June 1999 and before 1 August 2006). 3% for standard articles/services (for LOA lines implemented before 1 June 1999.) 5% for non-standard articles/services (for LOA lines implemented before 1 August 2006). 5% for Foreign Military Sales Order (FMSO) I cases The administrative surcharge does not apply to Program Management Lines (PMLs) or to non-contractor provided training lines for NATO countries if the training is provided in the continental U.S. (CONUS). The administrative surcharge does not apply to Small Case Management Lines (SCMLs). For cases signed prior to 1 Oct 1977, the administrative surcharge was 2%. See paragraph C9.4.7. for information on minimum collection requirements for administrative costs.	DFAS Denver	AECA, sections 21(e)(1)(A) and 43(b) DODFMR, Volume 15, Chapter 7, paragraph 0706

16. Paragraph C9.6.1. Add the following sentence to the end of this paragraph: “When administrative surcharges are waived for a case, the SCML is considered part of that waiver and will not be charged to the customer.”

17. Paragraph C9.6.1.2. Delete the paragraph in its entirety and substitute the following:

“Waiver of Administrative Surcharges for NATO Maintenance and Supply Agency (NAMSA) FMS Programs. AECA, section 21(e)(3) (reference (c)), allows the waiver of administrative surcharges for NAMSA programs under very

specific circumstances. Waiver of administrative surcharges on these cases is not retroactive - only LOAs implemented after 1 October 1988 are eligible for consideration. The waiver value includes the calculated administrative surcharge amount and any Small Case Management Line (SCML) value included on the LOA. Only NAMSA LOAs in support of weapon system partnership agreements or NATO Supreme Headquarters Allied Powers, Europe (SHAPE) projects (i.e., common-funded projects supported by allocated credits from NATO bodies or by host nations with NATO infrastructure funds) qualify for FMS administrative surcharge waivers. Administrative surcharges waived under this program must be reimbursed to the FMS Administrative Account from Major Force Program (MFP) 10 funds controlled by the U.S. Mission to NATO. The following procedures apply.”

18. Paragraph C9.6.1.2.3. Delete the paragraph in its entirety and substitute the following:

“The Implementing Agency reviews the waiver request to ensure it supports projects cited in the legislation. The Implementing Agency provides a copy of the request to the DSCA (Operations Directorate) and ensures that the U.S. Mission to NATO has agreed to reimburse the Department of Defense. The Implementing Agency includes a statement in the LOA notes indicating the administrative surcharge, to include any SCML value, has been waived (see Chapter 5, Table C5.T5. for the specific wording of this note). The Implementing Agency includes relevant correspondence when the LOA document is sent to DSCA for countersignature.”

19. Paragraph C9.6.1.2.5. Delete the paragraph in its entirety and substitute the following:

“The U.S. Mission to NATO budgets for waived FMS administrative surcharges, advises DSCA of agreements to reimburse the Department of Defense for waived surcharges before the LOA is issued to NAMSA, and develops an understanding with NAMSA concerning programs for which waivers are supported. The U.S. Mission reserves and obligates MFP 10 funds for waived administrative surcharges under this legislation for the life of the FMS case. For cases where the calculated administrative surcharge value is greater than \$30,000, one half of the administrative surcharge is recouped as part of the initial deposit. The remaining half is recouped based on the dollar value of items or services delivered in each year. For cases where the calculated administrative surcharge is \$30,000 or less, the entire administrative surcharge value, as well as any SCML value, is recouped as part of the initial deposit.”

20. Table C9.T.10. Initial Deposit Requirements. Change the last three rows on this table to read as follows:

Condition	Initial Deposit Amount
Delivery of the defense article or service is longer than 90 days after LOA acceptance.	Any Small Case Management Line (SCML) value; plus dollar value associated with performance until a quarterly payment can be made; plus half of the total Administrative Surcharge. If the calculated Administrative Surcharge value is \$30,000 or less, the entire Administrative Surcharge value must be included in the initial deposit.
No performance scheduled on the case and no contractual actions occur during the period prior to the first quarterly payment.	Any SCML value; plus half of the total Administrative Surcharge. If the calculated Administrative Surcharge value is \$30,000 or less, the entire Administrative Surcharge value must be included in the initial deposit.
When items are placed on contract before the first quarterly payment and no SBLC applies.	Any SCML value; plus half of the total Administrative Surcharge; plus that portion of TL required if the contract is terminated during the period covered by the Initial Deposit; plus contractor holdback. If the calculated Administrative Surcharge value is \$30,000 or less, the entire Administrative Surcharge value must be included in the initial deposit.

21. Paragraph C9.9.1.5.2.8. Delete paragraph in its entirety and substitute the following:

“Administrative and Accessorial Charges. Payment schedule distributions for administrative and accessorial costs are based on estimated delivery of the primary items or services. Half of the administrative surcharge is included in the Initial Deposit. If the calculated Administrative Surcharge value is \$30,000 or less, the entire Administrative Surcharge value is included in the Initial Deposit. Any exceptions to this policy must be approved by DSCA (Business Operations Directorate).”



**DoD 5105.65-M, Foreign Military Sales (FMS) Case Reconciliation and Closure Manual  
(RCM) Changes Related to Administrative Surcharge-Related Reforms**

Paragraph C4.21 (NEW). Add a new paragraph as follows:

“C4.21. Closing Cases With Small Case Management Lines (SCMLs). DSCA Policy Memo 06-14, March 15, 2006, implemented changes to the administrative surcharge. These changes included a requirement to collect a minimum of \$15,000 in administrative fees on all cases “accepted” on or after 1 August 2006. Cases with calculated administrative surcharge values less than \$15,000 must include an SCML to recover the remaining value to achieve the \$15,000 minimum. The SAMM, paragraph C9.4.7., describes the requirements for the use of SCMLs. The SAMM, paragraph C9.4.7.4., provides detailed information on unique closure requirements for SCMLs.”