



## DEFENSE SECURITY COOPERATION AGENCY

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03 APR 2014

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR  
DEFENSE EXPORTS AND COOPERATION  
DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR  
INTERNATIONAL PROGRAMS  
DEPUTY UNDER SECRETARY OF THE AIR FORCE FOR  
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DIRECTOR, DEFENSE LOGISTICS INFORMATION SERVICE  
DIRECTOR, DEFENSE LOGISTICS AGENCY DISPOSITION  
DEPUTY DIRECTOR FOR INFORMATION ASSURANCE,  
NATIONAL SECURITY AGENCY

SUBJECT: Clarification of Pricing Element Review Related to Letters of Offer and Acceptance (LOAs) – DSCA Policy Memo 14-08

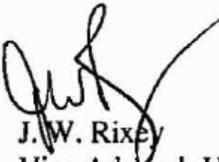
- References:
- (a) DSCA Policy 08-10, "Pricing Policy Clarification – Amendments and Modifications," April 2, 2008
  - (b) DSCA Policy 09-06, "FMS Contract Administrative Services (CAS) Surcharge Policy Clarification," April 1, 2009
  - (c) DSCA Policy 11-59, "Updated Letter of Offer and Acceptance (LOA) Checklist," December 6, 2011

This memorandum clarifies the use of appropriate pricing elements when reviewing both Foreign Military Sales (FMS) and Building Partner Capacity (BPC) cases as priced in the Defense Security Assistance Management System (DSAMS). The memorandum also clarifies when line items with pricing or financial issues must be included on Amendments and Modifications. References (a) and (b) are clarified with this memorandum; reference (c) will be modified to incorporate the changes indicated herein.

During the January 16, 2014, Defense Security Cooperation Agency (DSCA) Letter of Offer and Acceptance (LOA) Review Meeting, References (a)-(c) were discussed with

representatives from the Implementing Agencies (IAs) and DSCA personnel to come to an understanding of standard application and review of various pricing elements during the processing and review of LOAs. It was noted that due diligence should be employed by the IAs in reviewing their cases, lines, and finances on a continuous basis to ensure correctness and limit the returns of cases. It is recognized that there may be instances when an LOA must be processed more expeditiously and current procedures are hindering the process. Therefore, the procedures described in the attachment are provided for clarification and consistent application.

These procedures are effective 30 days from signature. Cases currently in review will not be returned for correction, but will include a case remark for correction the next time the case is submitted for action. Should you have any questions, please contact Ms. Michele Kennedy, DSCA DBO/FPA, (703) 604-6578, michele.kennedy@dsca.mil, or Mr. Kent Bell, DSCA STR/SPI, (703) 604-6612, kent.bell@dsca.mil.



J.W. Rixey  
Vice Admiral, USN  
Director

Attachment  
As stated

cc:

AFRICOM  
CENTCOM  
EUCOM  
NORTHCOM  
SOUTHCOM  
PACOM  
TRANSCOM  
SOCOM  
STATE/PM-RSAT  
USASAC  
SATFA  
TRADOC  
NAVSUP WSS  
NETSAFA  
AFSAC  
AFSAT  
DISAM  
MARCOR IP  
SCETC  
USCG International Affairs (G-CI)

## **Clarification of Pricing Element Review Related to Letters of Offer and Acceptance DSCA Policy 14-08**

The following procedures are provided for clarification and consistent application:

- A. For any lines on a Letter of Offer and Acceptance (LOA) affected by the Amendment or Modification, also called “Touched Lines,” the following applies:
  1. Unless addressed otherwise in this memorandum, if you are revising a line, the pricing is to be updated for these lines to include the correct Primary Category Code (PCC) structure and correct/appropriate Individual Pricing Components (IPCs) (e.g., Nonrecurring Cost (NC), Contract Administration Services (CAS), FMS Administrative Surcharge, and Transportation). [Note: Refer to DSCA Policy 08-10, paragraphs a.(1) and b.(2)(b) should you have any open lines with the Logistics Support Charge applied.]
  2. DSAMS pricing coding must be updated for these lines to ensure proper Apply (AP)/Waive (WC) codes are used for each IPC even if the price/value is otherwise correct. When necessary to use override cost (OC)/override percent (OP), a justification must be entered for each IPC in the Line Price Estimation Screen.
  
- B. For any implemented line that is not part of the Amendment or Modification, also referred to as “Untouched Lines,” the goal is to identify and fix pricing and price coding issues which do not conform to current policy/guidance in all Amendments or Modifications as they are being developed. If the price/value that is calculated and included in the value of the case is incorrect, the incorrectly-priced line item must be added to this Amendment or Modification and the pricing fixed. For example, if NC or CAS costs should have been applied and were not, the line must be corrected now that it is known that there is a pricing mistake. However, once the documents are forwarded to DSCA HQ for processing (Write and Review status), the following applies:
  1. An LOA document should not be returned to the IA when it is determined there is an incorrect pricing/pricing component(s) on untouched case lines during the review process (unless preparing for closure, in which case the correction must be addressed on the document in process). Instead, the DSCA reviewer will enter case remarks into Defense Security Assistance Management System (DSAMS) that identifies the line and the action that must be taken on the next iteration of the document (i.e., the next Amendment or Modification to the LOA document) and send an “Approve with Comment” e-mail to the Case Writing Division (CWD) countersignature team. CWD has established two new milestones in DSAMS to monitor and track these types of future correction required events – FUTCORREQW and FUTCORREQR. [Note: A case level report, the RP-434, has been developed to allow users to see whether a document has any open corrections required.] The CWD posts the appropriate FUTCORREQ milestone and reason codes based on the reviewer’s comments.

2. If the price/value that is calculated in the system and included in the value of the case is correct, but not entered appropriately in DSAMS, the line does not have to be included on the Amendment or Modification. Examples follow:
  - a. If an Indirect Pricing Component (IPC) was not applied (NA), resulting in a \$0 value when it should have been a waived cost (WC), the line does not need to be included on the particular Amendment or Modification. However, the next iteration of the document (i.e., the next Modification or Amendment to the LOA document) must reflect the correct IPC with the appropriate WC code. [Note: Waived cost in this context is not a permanently waived cost, but a \$0 cost for LOA document purposes.]
  - b. If Delivery Term Code (DTC) 4 or E with AP at \$0 is reflected on a document, the document will not be returned; however, the next iteration of the document (i.e., the next Modification or Amendment to the LOA document) must reflect the correct code of NA.
  - c. NC entries must be properly coded as either AP or WC for country national funds or NA when applicable to USG funding. If the entry is improperly coded, it will not be returned; however, the next iteration of the document (i.e., the next Amendment or Modification to the LOA document) must reflect the correct code.

C. “Touched” and “Untouched Lines” on Amendments and Modifications.

1. Agreement among Pricing Components, Source of Supply (SoS), and DTCs. Application of pricing components must be in agreement with the SoS and DTC. These procedures are not new and are reflected below as examples to reinforce existing policy:
  - a. Correct Price Element (PE) Coding. The PE Code assigned to a PCC must be appropriate to the SoS of the line, or portion of the line. The most common issue is incorrect contract cost (“CC”) PE Codes. As an example, a line is coded SoS “S” and the PE code reflects “CC.” This is incorrect since “CC” indicates the inclusion of Termination Liability (TL) in the payment schedule which is applicable only to lines coded with SoS “P” or “X.” SoS “S” lines must not reflect a PE of “CC.” Similarly, the PCC for “P” coded lines (or “P” portions of an “X” line) must have a “CC” PE Code. New cases/lines will be required to be priced in accordance with this policy. For existing lines, IAs must perform an assessment of their existing cases/lines to determine the execution status of the line to decide if the line should be corrected. Once the payment schedule collections have been made at 70% or more of the total case value, a change is not warranted.
  - b. “X”-Coded Line Structure. For lines coded SoS “X” (mixed stock and procurement), many reviews reveal there is only one PCC against which 100% of the CAS is charged. “X” coded lines must reflect a minimum of two PCCs, one for stock and one for procurement, with the CAS appropriately applied to the

procurement PCC. The PCCs also must have the correct PE coding (see paragraph c.(1)(a)). DSCA Policy 09-06 provides guidance on the allocation of line value between the stock and procurement PCCs on such “X” lines. It also provides for a default split of 50/50 between “S” and “P” if the IA has no clear anticipation of how the line will be executed. New cases/lines will be required to be priced in accordance with this policy and existing lines must be corrected through inclusion in the Amendments and Modifications as part of the ongoing review process discussed earlier in this memo.

- c. Lines with “Embedded” Manpower. As an example, Army ammo lines may be reflected on the LOA with SoS “P”; however, the RP069 must reflect the two separate PCCs – one for the procurement action and one for the manpower costs. Additionally, a Manpower and Travel Data Sheet must be provided to support the line.
  2. Lines Implemented Prior to and “Converted” into DSAMS. For most cases that have lines which were implemented at the time of conversion into DSAMS, it may be difficult to determine the specific add-on percentages for the IPCs or an appropriate breakout of IPCs. In these instances, the IA will provide a comment in the case remarks to explain this is an older case and that detailed pricing breakouts are not available without an excessive expenditure of resources. However, lines which were added to those pre-DSAMS cases on/after October 1, 2001, must be in compliance with applicable pricing rules. For “new” lines added after DSAMS conversion, as reflected on the RP079 - Document History Report, or RP087 - Case Line History, existing procedures apply. (For example, according to the RP-087 Report, FMS Case BN-P-SCN BASIC was Implemented on October 19, 1995. Post-DSAMS, new lines were added starting with Amendment 5 (Implemented July 9, 2003) such that all lines above line 17 (lines 18-32) were added in DSAMS). A case will not be returned simply based on the inability to provide the cost breakouts on pre-DSAMS lines. If there are no comments provided to indicate what the general pricing contained, then the case will be returned to the IA.
  3. Transportation. For material lines that have an associated line for a Special Assignment Airlift Mission (SAAM) flight, the IA should enter the appropriate DTC against the material line based on the mode of transportation provided (e.g., port-to-port, depot-to-in-country destination) and the rate area where articles are being delivered. For example, a material line may reflect a DTC 7 or DTC 9 with an OP at 0%. This is to be standard among the IAs. For remarks, simply state that it is a SAAM flight. The IA must also indicate whether Continental United States transportation is included in either the pricing of the material line (line note) or whether the U.S. Government is responsible for such costs (non-Working Capital Fund lines). If the latter is applicable, the LOA line must reflect DTC 2/“DTC X” (example, DTC 2/7). DSAMS Delivery Term Code Distribution Screen should be set to 100% for DTC 2 and 0% for DTC 7 to ensure DTC 2 is assessed below the line.
- D. Similar to pricing, continuous review of the financial obligation, commitment, delivery, and billing status of an LOA should be an ongoing process to ensure that the document is

financially viable at all times. As with pricing, the goal/intent is to review the overall financial status of a document when preparing new Amendments and Modifications. The Case Validation is a useful tool to identify when a line is being/has been reduced below the level of obligations, commitments, deliveries, and billings being reported by the IA financial systems. However, if the timing/need for the document is critical, it may not be feasible to perform a detailed reconciliation of funding on the line (such as to the penny) to determine if a line amount adjustment is actually required and appropriate. In this case, the IA should document the financial out of balances in a case remark, recognizing it will correct those imbalances within a certain timeframe (so stated in the case remark), and cover such costs if not corrected at the time of the next Amendment or Modification. If, during the review process, it is determined that not covering the financial imbalance will result in an unacceptable cash balance for the customer or some other egregious financial condition, the document will be returned to the IA unless the IA's case remarks in DSAMS adequately address the imbalance. This financial reconciliation of obligations and disbursements is related to, but separate from the pricing issues discussed above. Nothing in this paragraph should be interpreted to alter the requirements to apply appropriate pricing as discussed otherwise in this memo, the SAMM or other pricing memos.