



DEFENSE SECURITY COOPERATION AGENCY

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WASHINGTON, D.C. 20301-2800

06 NOV 2014

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF THE AIR FORCE FOR
INTERNATIONAL AFFAIRS
DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR
DEFENSE EXPORTS AND COOPERATION
DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR
INTERNATIONAL PROGRAMS
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
DIRECTOR FOR SECURITY ASSISTANCE, DEFENSE FINANCE
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DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE LOGISTICS INFORMATION SERVICE
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DIRECTOR, DEFENSE THREAT REDUCTION AGENCY
DIRECTOR, NATIONAL GEOSPATIAL INTELLIGENCE
AGENCY
DEPUTY DIRECTOR FOR INFORMATION ASSURANCE,
NATIONAL SECURITY AGENCY
DIRECTOR, MISSILE DEFENSE AGENCY

SUBJECT: Reduction to the Foreign Military Sales Contract Administrative Services Surcharge Rate and Rate Structure, Defense Security Cooperation Agency Policy Memo 14-27, [E-SAMM Change 262]

References: (a) DSCA Policy Memo, "FMS Contract Administrative Services (CAS) Surcharge Policy Improvements (DSCA 02-14)," June 3, 2002
(b) Department of Defense (DoD) 7000.14-R, Financial Management Regulation (FMR), Volume 15, Chapter 2
(c) DSCA Manual 5105.38-M, Security Assistance Management Manual (SAMM), Chapter 9, Table C9.T4.

In June 2002, the Defense Security Cooperation Agency (DSCA) issued Reference (a) announcing Foreign Military Sales (FMS) financial policies and procedures for implementing Contract Administrative Services (CAS) improvements including establishing a revised rate structure. Although, the 2002 policy did not change the overall rate of 1.5% for the three primary elements (Contract Quality Assurance and Inspection, Contract Administration/Management, and Contract Audit) it did realign the surcharge percentages among the three primary CAS elements and added a secondary element for CAS performed overseas (OCONUS). The revenues generated from this surcharge are deposited in the FMS Trust Fund Contract Administrative Services Surcharge Account and are used to reimburse the Department of Defense Components (Defense Contract Management Agency, Defense Contract Audit Agency,

Army, and Navy) for expenses related to performing contract administrative services as outlined in the DoD FMR, Vol 15, Chapter 2, Section 0205 (Reference (b)).

Beginning in July 2013, DSCA conducted an in-depth review of the CAS Surcharge Account and as a result identified several process improvements including the implementation of a “safety” level and an annual assessment and health of the account report. In addition, our analysis determined that a modest reduction in the rates for two of the three primary CAS elements (Contract Quality Assurance and Inspection and Contract Management) is supportable. The reduction would revise the overall rate to 1.2%. Reference (b) will be updated to include the new rate and rate structure below with an implementation date of December 1, 2014, for all new (basic) Letters of Offer and Acceptance (LOAs).

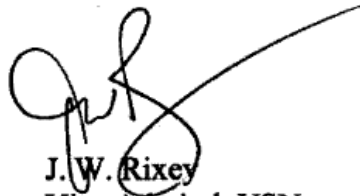
FMS CAS Component	For LOAs Implemented After December 1, 2014
Contract Administration/Management	.50%
Quality Assurance and Inspection	.50%
Contract Audit	.20%
Subtotal, continental United States (CONUS) FMS CAS	1.20%
Outside the CONUS (OCONUS)	.20%
Total, CONUS + OCONUS FMS CAS	1.40%

This CAS rate reduction has been coordinated with the Office of the Under Secretary of Defense Comptroller.

Existing cases will continue to execute as prescribed in the Security Assistance Management Manual (SAMM), Chapter 9, Table C9.T4 (Reference (c)). Effective with new (basic) LOAs implemented on or after December 1, 2014, the new rate and rate structure will apply. This new rate and rate structure does not apply to amendments or modifications of basic LOAs implemented prior to December 1, 2014. Specific implementing instructions are attached and describe how FMS cases currently in various stages of preparation should be written or modified to comply with the new rate and rate structure.

Attached are the SAMM Chapter 9, Table C9.T4 changes required to formally document this rate and rate structure revision. All Defense Security Management Assistance System program changes and Defense Finance and Accounting Service Defense Integrated Financial Systems program changes needed to implement this policy will be in place by December 1, 2014.

Should you have any questions, please contact my action officer in DBO/FPA: Ms. Candace Sampere, candace.sampere@dscs.mil, (703) 601-3750.



J.W. Rixey
Vice Admiral, USN
Director

Attachment:
As stated

cc:
STATE/PM-RSAT
DISAM
USASAC
SATFA
TRADOC
USACE
NAVICP
NETSAFA
AFSAC
AFSAT
AFCEE
JFCOM
SOCOM
EUCOM
CENTCOM
NORTHCOM
PACOM
AFRICOM
SOUTHCOM
TRANSCOM

SAMM E-Change 262

Update C9.T4. Contract Administration Services (CAS) Surcharge as shown below:

Charge	Description	How Priced	Applied by - for billing	References
<p>Contract Administration Services (CAS) Surcharge</p>	<p>CAS is comprised of three basic elements:</p> <ol style="list-style-type: none"> 1. quality assurance and inspection; 2. contract management; and 3. contract audit. <p>For cases implemented on or after October 1, 2002 that have contracts administered overseas, an additional element (OCONUS CAS) applies.</p> <p>For United States Army Corps of Engineers (USACE) contracts, quality assurance and inspections and other contract administrative services costs are included in its supervision and administration costs charged to the case line, so CAS(1) and CAS(2) do not apply to USACE.</p>	<p>Included in value of procurement line items (Source of Supply (SOS) of "P" or "X") on the LOA. A surcharge applies to each element.</p> <p>May be waived if reciprocal agreements exist.</p> <p>For cases implemented before October 1, 2002, a surcharge of .5% applies to each element for a maximum of 1.5% if all elements apply to a given FMS case.</p> <p>For cases implemented on or after October 1, 2002, a surcharge of .65% applies to contract administration/management, .65% to quality assurance and inspection, .20% to contract audits, for a total of 1.5%.</p> <p>For contracts administered overseas an additional .20% (OCONUS CAS) applies to the entire case.</p> <p>For USACE cases implemented before October 1, 2002, a surcharge of .5% for contract audit is applied.</p> <p>For USACE cases implemented on or after October 1, 2002, a surcharge of .2% for contract audit is applied.</p> <p>The .2% OCONUS CAS does not apply to USACE contracts administered overseas.</p> <p>For cases implemented on or after December 1, 2014, a surcharge of .50% applies to contract administration/management, .50% to quality assurance and inspection, .20% to contract audits, for a total of 1.2%.</p> <p>For contracts administered overseas an additional .20% (OCONUS CAS) applies to the entire case.</p>	<p>DFAS Indianapolis</p>	<p><u>AECA, sections 21(e), 21(h), 43(b) (22 U.S.C. 2761(e), 2761(h), and 22 U.S.C. 2792)</u></p> <p><u>DoD FMR, Volume 15, Chapter 7, paragraph 070405</u></p> <p>BPC: Applicable CAS charges are no different than FMS cases.</p>

Implementation Instructions

Reduction to the Contract Administrative Surcharge (CAS) Rate and Rate Structure

Scope. The rate assessed to lines that include procurement of articles and services on Letters of Offer and Acceptance (LOAs) implemented on or after 1 December 2014.

- 1. Cases “Implemented” prior to 1 December 2014.** All new (basic) cases, Amendments and Modifications “implemented” prior to 1 December 2014 will continue to be assessed the rate applied to the original (basic) LOA for the life of the case.
- 2. Cases currently in “Development” Status.** All new (basic) cases which are still being developed should use the existing rate and rate structure until the policy implements on 1 December 2014.
- 3. Cases in Write, Review or Proposed Status.** For any document affected by this policy memo which is under CWD control in "W", "R", or "P" status on the date of implementation for this policy, the CWD will process the documents as-is, but will annotate DSAMS that a future correction may be required. A Future Correction Required Milestone and corresponding case remark will be entered into DSAMS as well.
- 4. Cases Currently in “Offer” or “Accepted” Status.** All new (basic) LOAs currently in offered or accepted status where the implementation date is on or after 1 December 2014, the Implementing Agency will issue a modification to revise the rate to the new rate and rate structure within 30 days of implementation of the LOA. Defense Finance and Accounting Service (DFAS) will load the new rate into the Defense Integrated Financial System (DIFS) for each new (basic) case received on or after 1 December 2014. For cases with CAS “waivers” DFAS will load the applicable CAS rate using the new rate structure for those remaining CAS elements not included in the “waiver”.