



DEFENSE SECURITY COOPERATION AGENCY
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30 APR 2019

**MEMORANDUM FOR DEFENSE SECURITY COOPERATION AGENCY, DIRECTORATE
FOR BUSINESS OPERATIONS/FINANCIAL POLICY AND
ANALYSIS**

SUBJECT: Financial Management of the Foreign Military Sales (FMS) Administrative Surcharge Trust Fund Account and the FMS Contract Administrative Services (CAS) Cost Clearing Account. (DSCA Policy 19-31), SAMM E-Change 436

Reference: Security Assistance Management Manual (SAMM) Chapter 9

This memorandum updates SAMM Chapter 9.15 and C9.16 to strengthen the Defense Security Cooperation Agency's (DSCA) financial management of the FMS Administrative Surcharge Trust Fund Account and the FMS Contract Administrative Services (CAS) Cost Clearing Account. These SAMM updates also support DSCA's efforts to fulfill the recommendations outlined in the Government Accounting Office's reports numbered 18-401 and 18-553.

As stated in the attached revision, SAMM C9.15 is expanded to include an Account Upper Control for the FMS Administrative Surcharge Trust Fund Account. This control will enhance DSCA's financial oversight of this account and manage the growth of the account's cash balance.

As stated in the attached revision, SAMM C9.16 establishes policies for management of the FMS CAS Cost Clearing Account, including the establishment of an account safety level and upper control limit, an annual account assessment, and a comprehensive rate review every five years. These steps will enhance DSCA's financial oversight of this account.

If you have questions or would like additional information, please contact Mr. Floyd Baker, DBO/FPA (Homer.f.baker.civ@mail.mil, (703) 697-9726) or Mr. Stephen Suh, DBO/FPA (Stephen.w.suh.civ@mail.mil, (703) 697-8899).


J. Aaron Harding
Chief Financial Officer

Attachment(s):
As stated

Security Assistance Management Manual (SAMM), E-Change 436

C9.15. Foreign Military Sales (FMS) Trust Fund Administrative Surcharge Account Management.

C9.15.1. Account Safety Level.

C9.15.1.1. Safety Level General Information. The safety level is a strategic reserve of operating capital sufficient to manage the FMS business through changing business conditions and ensure the account's solvency. FMS is a key enabler supporting coalition operations and building partner capacities and thus will remain an integral USG and DoD strategy indefinitely.

C9.15.1.2. Safety Level Assumptions. DSCA implements a Safety Level of 18 months of operational funding (based on annual budget requirements authorized under the Foreign Authorization Act) that affords sufficient time to recognize volatility in the FMS business environment and then develop and implement adaptive business strategies to protect the solvency of the FMS Administrative Surcharge Account and allow for the orderly disposition of cases in accordance with active FMS agreements.

C9.15.1.3. Methodology. DSCA will establish the Safety Level using the FMS Administrative Operating Ceiling noted in the Annual State and Foreign Operations Appropriation Act for the upcoming Fiscal Year. The amount under the Annual State and Foreign Operations Appropriation Act will be divided by 12 months to arrive to a monthly operational funding amount. The monthly amount will then be multiplied by 18 months to arrive at the Safety Level. The Safety Level amount will be established before the start of the fiscal year and will be forwarded to the Defense Finance and Accounting Service to ensure the FMS Administrative Surcharge Account maintains the Safety Level amount.

C9.15.1.4. Review and Re-validation of Data Sources. The Safety Level will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the Annual Assessment of the FMS Trust Fund Administrative Surcharge Account report, the final report of prior year sales, the FMS forecast, and information from the conclusion of the DSCA Security Assistance Budget and Program Review cycles. In addition to this annual review, DSCA will monitor the FMS program for possible events that necessitate an out-of-cycle/immediate review of the business environment. These events may include a change in bi-lateral relationship(s) with the top FMS customers (e.g., sanctions) relative to sales figures, regional conflict, and/or sales that significantly lag the forecast (e.g., greater than 3 months). For planning purposes, DSCA is using 18 months of expense data based on the most recent year of funding for the Safety Level computation.

C9.15.2. Account Upper Control.

C9.15.2.1. Account Upper Control General Information. DSCA recognizes that the agency should have an upper control for the FMS Trust Fund Administrative Surcharge Account. An established upper control would be a financial management tool to guard

against surcharge over collections and ensure the agency does not collect more than it needs to resource the FMS community.

C9.15.2.2. Assumptions. The underlying assumption is that an account upper control, combined with the safety level, establishes a management tool for the FMS Trust Fund Administrative Surcharge Account. By setting upper and lower bounds of acceptable levels of annual surcharge collections given normal variation, a “control box” alerts the agency to a dramatic change in the FMS operating environment that may require an agency response such as an out-of-cycle comprehensive review to address the amount of surcharge collection being deposited into the FMS Trust Fund Administrative Surcharge Account.

C9.15.2.3. Methodology. DSCA will establish the Upper Control using the FMS Administrative Operating Ceiling noted in the Annual State and Foreign Operations Appropriation Act for the upcoming Fiscal Year. The amount under the Annual State and Foreign Operations Appropriation Act will be multiplied by 5 years to arrive to an annual Upper Control level. The computation is based on 5 years as this is the desired time interval between comprehensive reviews.

C9.15.2.4. Review and Re-validation of Data Sources. The Upper Control will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the Annual Assessment of the FMS Trust Fund Administrative Surcharge Account report, the final report of prior year sales, the Security Assistance Budget and Program Review, and the FMS forecast. In addition to this annual review, DSCA will monitor the FMS program for possible events that necessitate an out-of-cycle/immediate review of the business environment. These events may include a change in bi-lateral relationship(s) with the top FMS customers (e.g., sanctions) relative to sales figures, regional conflict, and/or sales that significantly lag the forecast (e.g., greater than 3 months). For planning purposes, DSCA is using 5 years of expense data based on the most recent year of funding for the Upper Control computation.

C9.15.3. Assessment(s) of the FMS Trust Fund Administrative Surcharge Account.

C9.15.3.1. An annual assessment will be conducted during the first quarter of current Fiscal Year. The requirement for this review is defined in the [DoD FMR, Volume 15, Chapter 3, Sec 030408.G](#). For this review, DSCA uses the following information:

DFAS end of year report for the FMS Trust Fund Administrative Surcharge account balance. (Report Name: FMS Cost Charge Account. See “TOTAL ADMIN” column Ending Balance Sep 30, 20XX”)
DFAS end of year report for total undelivered articles and services. (Report Name: Quarterly Undelivered Report (July-Sept 20XX date). Document provides a list of all open cases; date case was implemented, total order value and total delivered and undelivered value of each case.
Forecast FMS sales for current and future year. (Data developed by DSCA (Strategy, Plans, and Policy Directorate (SPP) Planning and Program

Design (PPD)), as prescribed in Security Assistance Management Manual. See Section C14.1.)
Anticipated Budget and POM requirements (projected future expenses). Budget amount provided by DSCA (Directorate of Business Operations (DBO) Comptroller (CMP)) and POM amounts from DSCA (Strategy, Plans, and Policy Directorate (SPP) Planning and Program Design (PPD)).
Input above data into DSCA Forecast Model to assess the projected balance of the FMS Trust Fund Administrative Surcharge Account.

An annual report will be drafted at the conclusion of the annual assessment. The annual report is used to monitor the health of the FMS Trust Fund Administrative Surcharge Account from the previous fiscal year. The report will detail the account’s financial activity, beginning and ending balances, and any implemented surcharge rate adjustment.

C9.15.3.2. Monthly Review. A monthly review of the business environment will be conducted to determine if the results of the Annual Assessment of the FMS Trust Fund Administrative Surcharge Account remain valid. Data considered in this review will include the following:

- Changes in bi-lateral relationship(s) with top five FMS customers (e.g., sanctions) relative to sales
- Regional conflicts
- Changes in global economy
- Forecast FMS sales lagging for greater than 3 months
- Asymmetric threats that require new defense articles and services

C9.15.3.3. Comprehensive Review. Absent no change to the FMS Administrative Surcharge Rate, every five years, a comprehensive review of the FMS Trust Fund Administrative Surcharge Account will be performed to include an examination of the FMS Administrative Surcharge Rate, Upper Control Limit, and the Safety Level and their underlying assumptions. Or, a comprehensive review will be performed five year after a change to the FMS Administrative Surcharge Rate has occurred. This detailed review will include analysis of the FMS Administrative Surcharge Rate as well as the Safety Level and Upper Control. However, based on the financial health of the FMS Trust Fund Administrative Surcharge Account and at the discretion of the Director, DSCA, the comprehensive review can be accelerated or delayed to perform and out-of-cycle comprehensive review outside the five-year window. This review may involve participation from outside agencies (i.e.; Naval Post-Graduate School, private industry, etc.) to provide an independent perspective.

C9.16. FMS Contract Administration Services (CAS) Cost Clearing Account.

C9.16.1. Account Safety Level. The safety level ensures the FMS Contract Administrative Services (CAS) Cost Clearing Account carries a sufficient balance of CAS surcharge collections to reimburse service providers for their actual expenses.

C9.16.1.1. Safety Level General Information. The account safety level allows DSCA sufficient time to react to significant changes in the account balance if necessary. The

account safety level takes into account the fluctuation in sales levels and the value of the procurement delivered. The safety level is calculated every fiscal year.

C9.16.1.2. Methodology. DSCA will set and calculate the Safety Level based on three years of estimated annual account expenditures. A safety level representing three years of annual expenditures plus outstanding obligation authority from previous years is necessary to cover all of the account's possible expenses. The Safety Level will be calculated at the start of the fiscal year and will be forwarded to the Defense Finance and Accounting Service to ensure the FMS Contract Administrative Services (CAS) Cost Clearing Account maintains the Safety Level amount.

C9.16.1.3. Review and Re-validation of Data Sources. The Safety Level will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS Contract Administrative Services (CAS) Cost Clearing Account report, the final report of prior year sales, OUSD(C) future year inflation projections, and information from the conclusion of the DSCA Security Assistance Budget and Program Review cycle.

C9.16.2. Account Upper Control.

C9.16.2.1. Account Upper Control General Information. DSCA recognizes that the agency should have an upper control for the FMS Contract Administrative Services (CAS) Cost Clearing Account. An established upper control would be a financial management tool to guard against surcharge over collections and ensure the agency does not collect more that it needs to support contract-related activities.

C9.16.2.2. Assumptions. The underlying assumption is that an account upper control, combined with the safety level, establishes a management tool for the FMS Contract Administrative Services (CAS) Cost Clearing Account. By setting upper and lower bounds of acceptable levels of annual surcharge collections given normal variation, a "control box" alerts the agency to a dramatic change in the operating environment that may require an agency response such as an out-of-cycle comprehensive review to address the amount of surcharge collection being deposited into the FMS Contract Administrative Services (CAS) Cost Clearing Account.

C9.16.2.3. Methodology. DSCA will establish the Upper Control using prior year outstanding obligation authority, two year budget projections, plus three additional years that include an adjustment factor. The adjustment factor is determined by looking at prior year growth, OUSD(C) inflation factors (primarily for civilian personnel), and FMS sales trends..

C9.16.2.4. Review and Re-validation of Data Sources. The Upper Control will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS Contract Administrative Services (CAS) Cost Clearing Account report, the final report of prior year sales, OUSD(C) future year inflation projections, and information from the conclusion of the DSCA Security Assistance Budget and Program Review cycle.

C9.16.3. Assessment(s) of the FMS Contract Administration Services (CAS) Cost Clearing Account.

C9.16.3.1. An annual assessment will be conducted during the first quarter of current Fiscal Year. The requirement for this review is defined in the DSCA Manager's Internal Control Program Process Map Narrative.

The annual assessment provides a financial overview of the FMS Contract Administrative Services (CAS) Cost Clearing Account, examines the account's safety level and upper control limit, reviews actual CAS expenditures, and provides an account outlook for the upcoming fiscal year.

An annual report will be drafted at the conclusion of the annual assessment. The annual report is used to monitor the health of the FMS Contract Administrative Services (CAS) Cost Clearing Account from the previous fiscal year. The report will detail the account's financial activity, beginning and ending balances, and any implemented surcharge rate adjustment.

C9.16.3.2. Monthly Review. A monthly review of the FMS Contract Administrative Services (CAS) Cost Clearing Account will be performed to examine if the account balance remains within the established upper control limit and the safety level. Monthly reports will be provided by DFAS to perform the review.

The monthly review will also examine the business environment to prevent the account disbursing too much money for required activities or not collecting sufficient amounts to maintain the safety level.

C9.16.3.3. Comprehensive Review. Absent no change to the CAS Surcharge Rate, every five years, a comprehensive review of the FMS Contract Administrative Services (CAS) Cost Clearing Account will be performed to include an examination of the CAS Surcharge Rate, Upper Control Limit, and the Safety Level and their underlying assumptions. Or, a comprehensive review will be performed five year after a change to the CAS Surcharge Rate has occurred. For this detailed review, DSCA will analyze the following:

- Expected budget requests vs actuals from provider
- 5-year projected expenses, workload from providers
- Sales projections from DSCA
- DFAS monthly Cost Clearing Account Report
- DSAMS CAS Pricing

However, based on the financial health of the FMS Contract Administrative Services (CAS) Cost Clearing Account and at the discretion of the Director, DSCA, the comprehensive review can be accelerated or delayed to perform an out-of-cycle comprehensive review outside the five-year window. This review may involve participation from outside agencies (i.e.; Naval Post-Graduate School, private industry, etc.) to provide an independent perspective.