



DEPUTY SECRETARY OF DEFENSE

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JUN 28 1999

**MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES**

**SUBJECT: Reduction of the Standard Foreign Military Sales (FMS) Administrative Charge
from 3 Percent to 2.5 Percent**

**References: (a) DoD Financial Management Regulation (FMR) 7000.14-R, Volume 15,
Security Assistance Policy and Procedures, March 1993, paragraph 070602C**

**(b) Defense Security Cooperation Agency (DSCA) memorandum I-99/05958 of
7 May 1998, Subject: Annual Review of Foreign Military Sales (FMS)
Administrative Charge and Logistics Support Charge (LSC) Accounts**

The FMS Administrative charge is hereby reduced to 2.5 percent for all new FMS cases and new lines implemented by the USG on or after 1 June 1999.

This reduction is possible because of past actions of the Security Assistance community to reduce FMS management operating costs and properly assess costs to appropriate charges. The DSCA's financial analyses show a need to further reduce FMS operating costs to achieve a long term parity between income and budgets, based on current sales estimates. Our challenge is to make other significant adjustments to ensure the long-term solvency of the FMS Administrative account.

The DSCA will continue its study and reinvention efforts, pursuing Defense Reform Initiative (DRI) and Acquisition Reform principles to achieve efficiencies in business practices and reduce redundancies in FMS-involved organizations. DSCA will annually review the Administrative and LSC rates, as required by the DoD Financial Management Regulation, Volume 15. I direct DoD organizations to continue their full support for DSCA's reform initiatives.


John J. Hamre

U10354 /99

Implementation Instructions for New FMS Administrative Rate

28 June 1999

Subject: Implementation Instructions For New FMS Administrative Rate

From: SECDEF Washington DC//USDP:DSCA//

DTG 280900Z JUN 99

UNCLAS

1. On 25 June 1999, DEPSECDEF approved reducing the standard administrative rate from 3% to 2.5%. This message provides implementation instructions to the Security Cooperation community. Additional implementation instructions were provided to the Military Departments under separate cover. Please provide the widest dissemination of this message. Recommend the information be passed to your foreign counterparts soonest.
2. The rate change applies to all new cases and to new lines established on existing cases implemented on or after 1 June 1999. This date was selected to preclude a delay in submission of Letters of Request. No exceptions to this date will be considered.
3. Please note this administrative rate decrease does not impact the 5% administrative surcharge applied to nonstandard lines. Also, program management lines are still exempt from administrative surcharges.
4. The following procedures apply:
 - A. ***LOAs implemented prior to 1 Jun 99.*** All case lines implemented prior to 1 Jun 99 will retain the administrative surcharge in effect at the time the document was implemented (usually 3%). Existing (implemented) case lines will not be adjusted to reflect the reduced rate. If line adjustments are made on future modifications/amendments (i.e. to reflect Pricing or quantity changes), the line will be priced using its original administrative rate.
 - B. ***LOAs offered to the customer.*** All LOAs which have been offered to the customer (countersigned (if required) but not yet accepted) are eligible for the new rate. It is recommended that these LOAs be accepted by the customer as written. Within 30 days of implementation, modifications to these LOAs shall be processed by the Military Departments adjusting the standard administrative rate to 2.5% on all applicable lines. If the customer prefers that the rate be changed prior to acceptance,

the LOA may be restated with the new rate and re-offered to the customer or a pen and ink change may be processed to document the changes. All case documents, restatement, and pen and ink changes adjusting the administrative rate must be countersigned (coordinated in the case of pen and ink changes) by DSCA.

- C. ***LOAs in accepted status.*** All LOAs which have been accepted (signed by the customer but not yet implemented in the Defense Integrated Financial System (DIFS)) are eligible for the new rate. Upon receipt of initial deposit requirements, DFAS-DE will implement these cases as written. A modification shall be processed by the Military Department adjusting the standard administrative rate to 2.5% on all applicable lines. The modification should be completed within 30 days of implementation and must be countersigned by DSCA.
- D. ***LOAs implemented on or after 1 Jun 99.*** Military Departments will process modifications for LOAs which were implemented on or after 1 Jun 99 with the 3% surcharge rate. These modifications will reduce the administrative surcharge rate to 2.5%. They should be processed no later than 30 Jul 99 and must be countersigned by DSCA.
- E. ***Amendments/modifications adding new lines to existing (already implemented) cases.*** It is possible for amendments (and modifications in rare circumstances) to be processed to add new lines to existing cases. If an amendment or modification includes a new line(s):
 - (1). Modifications which have already been signed by the Military Department and countersigned (if required) but have not yet been implemented by DFAS-DE in DIFS, are also eligible for the 2.5% administrative surcharge assessment on any new standard lines. Within 30 days after DFAS-DE implements these modifications, the Military Departments will process another modification to adjust the administrative rate on any applicable lines. The modifications must be countersigned by DSCA.
 - (2). Amendments which have been offered to the customer (countersigned (if required) but not yet accepted) are eligible for the new rate on any new standard lines. It is recommended that these amendments be accepted by the customer as written. Within 30 days of implementation, modifications to these cases shall be processed by the Military Departments adjusting the standard administrative rate to 2.5% on all applicable lines. If the customer prefers that the rate be changed prior to acceptance, the amendment may be restated with the new rate and re-offered to the customer or a pen and ink change may be processed to document the changes. All case documents, restatements, and pen and ink changes adjusting the administrative surcharge rate must be countersigned (coordinated in the case of pen and ink changes) by DSCA.
 - (3). Any amendments and modifications which were implemented on or after 1 Jun 99 that included new standard lines priced using the 3% administrative rate must be corrected. The Military Departments shall process modifications on

these cases to adjust the administrative surcharge rate to 2.5% for applicable lines. The correcting document should be processed no later than 30 Jul 99 and must be countersigned by DSCA.

5. Additional Information:

- A. Documents Requesting elimination of a line followed by an amendment to add the same type article of service (to take advantage of the reduced rate) will not be allowed.
- B. All documents written to adjust the administrative surcharge rate will include the following statement in the document description paragraph: The purpose of this document is to adjust the administrative surcharge rate in accordance with DEPSECDEF memorandum dated 25 June 1999.
- C. It is recommended that documents processed to adjust the administrative surcharge rate be written as stand-alone documents. This will make tracking easier. If, however, other changes are in process, they may be included on the same document. Even if documents include multiple changes, the statement required in paragraph 4.B. above must still be included in the description paragraph.
- D. Effective immediately, a note will be included on all LOAs, amendments, and modifications which identifies the administrative surcharge rate being applied to each line. A sample note should read as follows: "An administrative surcharge of 3% has been applied to lines 001-010. An administrative surcharge of 5% has been applied to line 011. An administrative surcharge of 2.5% has been applied to line 13." In the above example, line 012 is a program management line which is exempt from the administrative surcharge and therefore not included in the note. Line 013 was included on this case and implemented after 1 Jun 99.