



## DEFENSE SECURITY COOPERATION AGENCY

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WASHINGTON, D.C. 20301-2800

27 December 2022

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, DEFENSE INFORMATION SYSTEMS AGENCY  
DIRECTOR, DEFENSE LOGISTICS AGENCY  
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY  
DIRECTOR, MISSILE DEFENSE AGENCY  
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE  
AGENCY  
DIRECTOR FOR SECURITY ASSISTANCE, DEFENSE FINANCE  
AND ACCOUNTING SERVICE – INDIANAPOLIS  
OPERATIONS  
DIRECTOR OF CYBERSECURITY DIRECTORATE AND DEPUTY  
NATIONAL MANAGER FOR NATIONAL SECURITY  
SYSTEMS, NATIONAL SECURITY AGENCY

SUBJECT: Defense Security Cooperation Agency Policy Memorandum 22-79, Special Defense Acquisition Fund [SAMM E-Change 603]

- References:
- (a) Department of Defense Inspector General, 2020-114, Audit of Department of Defense Use of Security Assistance Funds and Asset Accountability, August 17, 2020
  - (b) Section 51 of the Arms Export Control Act, 22 U.S.C., Section 2795, As Amended
  - (c) DoD 7000.14-R, Financial Management Regulation (FMR), Volume 15, Security Cooperation, Chapter 7, Pricing
  - (d) OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, July 15, 2016
  - (e) Security Assistance Management Manual

This memorandum updates policy in the Security Assistance Management Manual (SAMM) to ensure the Security Cooperation community properly recovers costs and accounts for assets purchased with the Special Defense Acquisition Fund (SDAF). This policy is in direct response to reference (a), which reported findings that the U.S. Implementing Agencies (IAs) did not fully recover costs in accordance with references (b) and (c) when conducting procurements

under the SDAF program, and that IAs did not maintain accountability of assets or maintain accurate SDAF inventory records in accordance with references (d) and (e). This memorandum is effective immediately.

The policy in the attachment is incorporated into the DSCA SAMM at <https://samm.dscs.mil>.

If you have questions concerning this guidance, please contact Mario Franklin, Financial Policy & Regional Execution Directorate, Financial Policy Division, 703-697-9434, [mario.c.franklin.civ@mail.mil](mailto:mario.c.franklin.civ@mail.mil).

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J. Aaron Harding  
Chief Operating Officer and Chief Financial Officer  
Defense Security Cooperation Agency

Attachment:  
As stated

## Security Assistance Management Manual E-Change 603

### SPECIAL DEFENSE ACQUISITION FUND

1. Update SAMM Section C11.9.3.5. to:

**C11.9.3.5. Account Capitalization.** The primary source of funding to grow or capitalize the SDAF is the monetary collections received from the sale and transfer of FMS-procured defense articles and services to foreign governments and international organizations where funds are identified as excess. Section 51(b) of the AECA, as amended (22 U.S.C. 2795), authorizes the transfer of offsetting collections received under FMS Letters of Offer and Acceptances (LOAs) that are executed under the authority of section 21 of the AECA to the SDAF. In accordance with this authority, the Fund may be capitalized with monies authorized and appropriated or otherwise made available for the purposes of the SDAF for the following charges on export sales by the U.S. Government and its contractors:

1. Non-recurring research, development, and production costs;
2. Asset-use charges for the use of U.S. Government-owned facilities and equipment (excludes charges for FMS leases authorized under Section 61 of the AECA, (22 U.S.C. 2796)); and
3. Collections from the sale of defense articles not intended to be under FMS LOAs that are executed under the authority of section 21 of the AECA. This includes residual/excess funds from the sale of defense articles intended to be replaced under FMS LOAs. These residual funds are to be transferred to the SDAF account because they cannot be used for their intended purpose of replacing the defense articles sold under the FMS LOA. Funds collected from the transfer of equipment from DoD stock pursuant to Title 10 or Title 22 Building Partner Capacity (BPC) authorities are not legally authorized to be deposited into the SDAF. Proceeds from BPC transfers of equipment not intended, or unable to be replaced, should be deposited into Miscellaneous Receipts.

2. Update SAMM Section C11.9.3.5.2. to:

**C11.9.3.5.2.** The SDAF collection receipt account 97-11X 4116 has been established for all three sources of offsetting collections listed above and the Implementing Agencies (IAs) are to post SDAF collections into the appropriate account to make these collections available for SDAF use. An IA must prepare a Standard Form (SF) 1080, a Voucher for Transfers between Appropriations and/or Funds. The SF1080 will be prepared by the appropriate case or financial manager and must be sent to DSCA within 30 calendar days of delivery reporting being complete or NC charges being billed to the foreign partner. The Implementing Agency (IA) must include Fiscal Station Number (FSN) 843000 in the “office receiving funds” section of the SF1080 voucher when transferring offsetting collections to the SDAF. The FSN enables Defense Finance and Accounting Service (DFAS) to know where to route

offsetting collections. Each IA is required to submit an offsetting collections report by the third Wednesday of the month covering the previous month's submissions of offsetting collection vouchers to DSCA. Report will be sent to DSCA's Comptroller office.

3. Update SAMM Section C11.9.3.7. to:

**C11.9.3.7. Cost Recovery.** SDAF defense articles and defense services should be procured, transported, receipted, stored, maintained, physically inventoried, and disposed of (if needed) using SDAF only, and at no cost to other appropriated funds or other Security Assistance Account (SAA) funds, unless a case line is identified. The intent is to begin to utilize case funds as soon as practical. Any future obligations incurred for a specific partner requirement should be funded from their associated case. SDAF case lines will be priced to recover all proportionate costs to SDAF for the associated SDAF defense article or defense service.

4. Update SAMM Section C11.9.4. to:

**C11.9.4. Procurement of Defense Articles and Defense Services.** DSCA, in consultation with the Department of State, Bureau of Political-Military Affairs (State (PM)), selects the defense articles and defense services to be purchased by the SDAF. The Military Departments (MILDEPs) / IAs execute the purchases, and in coordination with DSCA, maintain accountability of the purchased articles and services until they are sold and transferred to a foreign customer or building partner capacity program in accordance with the laws, regulations, and rules that govern such transactions.

5. Update SAMM Section C11.9.4.1.2. to:

**C11.9.4.1.2. Transportation Costs.** All estimated costs that are expected to be incurred to transport SDAF articles to an assembly or holding point that are not included in the procurement unit price should be included as a separate cost on the SDAF Procurement Proposal Form. These transportation costs need to be paid with current appropriated SDAF funds, at the date of shipment to an assembly or holding point. Approved SDAF proposals may require multiple issuances of SDAF funds to account for changes in cost due to the time lapse from when the proposal is approved and funded, to the actual date of shipment of the defense articles to the assembly or holding point. SDAF inventory is considered DoD assets, and as such, DoD rates (rather than non-DoD rates) should be applied. Any future obligations incurred for a specific partner requirement should be funded from their associated case, applying non-DoD rates.

6. Add SAMM Section C11.9.4.1.2.1. to:

**C11.9.4.1.2.1.** If costs are not known at the time, and have since been identified as being required and spent to transport and store SDAF articles, the Financial Analysis Worksheet (FAW) shall be updated so that the costs are included as part of the total price at the line level on the FMS Case. Afterwards, submit the updated FAW, along with the Asset Allocation Form, to DSCA (Office of International Operations, Global Execution Directorate, Case Writing and Development Division (IOPS/GEX/CWD)) for review (see Section C11.9.6.2.2.).

7. Update SAMM Section C11.9.4.1.3. to:

**C11.9.4.1.3. Receipt, Storage, Maintenance, Physical Security, and Physical Inventory Costs.** The costs that are expected to be incurred for the receipt, storage, maintenance, physical security, and physical inventory of the item must be included in the SDAF Procurement Proposal Form. Approved SDAF proposals may require multiple issuances of SDAF funds to account for cost variances from when the proposal is approved and funded, to the actual date of receipt, storage, maintenance, physical security, and physical inventory requirements. SDAF inventory items are considered DoD assets, and as such, DoD rates rather than non-DoD rates should be applied.

8. Add SAMM Section C11.9.4.1.3.1. to:

**C11.9.4.1.3.1.** If the costs are not known at the time the form is submitted, than a separate request from the IA to DSCA (Office of Business Operations, Comptroller Directorate (OBO/CMP)) can be coordinated to facilitate the funding of storage and maintenance costs, once costs are known. All known receipt, storage, maintenance, physical security, and physical inventory costs are to be identified on the FAW, along with the Asset Allocation Form, to DSCA (IOPS/GEX/CWD) for review (see Section C11.9.6.2.2.).

9. Update SAMM Section C11.9.4.4. to:

**C11.9.4.4. Urgent Procurement Proposal Submissions.** Procurement proposals that require immediate attention must be reviewed in accordance with Section C11.9.4.2. and Section C11.9.4.3., but will be coordinated by DSCA outside of previously scheduled reviews.

10. Update SAMM Section C11.9.4.5. to:

**C11.9.4.5. Funds Distribution and Execution.** SDAF funds are distributed by the DSCA (OBO/CMP) team to the IAs and MILDEPs on a Funding Authorization Document (FAD) in the Electronic Funds Distribution (EFD) system, once an obligation plan has been provided to the DSCA (OBO/CMP) SDAF Budget Analyst.

11. Update SAMM Section C11.9.4.5.1. to:

**C11.9.4.5.1. Military Interdepartmental Purchase Request.** When necessary, SDAF funds may be issued on a Military Interdepartmental Purchase Request (MIPR), DD Form 448. The MIPR may be accepted as direct cite or reimbursable. Acceptances (DD Form 448-2) must be provided to the DSCA Comptroller no later than ten (10) days after acceptance. DSCA will not issue a MIPR when the requested funds can be distributed in the EFD system.

12. Update SAMM Section C11.9.4.5.3. to:

**C11.9.4.5.3. Reporting Obligations.** IAs and MILDEPs are required to provide DSCA (OBO/CMP) a report by the 15th of each month on the obligation status and execution of allotted funding. This monthly execution data shall be supported with documentation from

the IA's financial system of record (General Accounting & Finance System (GAFS), General Fund Enterprise Business Systems (GFEBS), Navy Enterprise Resource Planning (NERP), etc.). Once an obligation formally takes place in the IA's financial system of record, the IA must also provide a copy of obligating documents (e.g. procurement contracts, financial system funding document, etc.) for all costs, to include procurements, transportation, receipt, storage, maintenance, and physical inventory to DSCA.

13. Update SAMM Section C11.9.4.5.4. to:

**C11.9.4.5.4. Unobligated Funding.** Funds distributed to the IAs to procure defense articles and defense services for SDAF requirements that are not obligated during the period of availability, specified when obligation authority is granted, must be returned to DSCA by 30 September of the fiscal year in which obligation authority expires.

14. Add SAMM Section C11.9.4.5.5. to:

**C11.9.4.5.5. SDAF Procurement from Military Departments.** In accordance with 10 U.S.C. 2205, SDAF funds provided to the IAs to acquire defense articles in DoD stock are available for obligation for the same period as the funds in the account to which they are transferred. In the event some or all of the provided funds are not obligated by September 30 of the fiscal year in which funds expire, any unobligated funds should be returned to SDAF. After funds expiration, if some or all the previously obligated funds are not executed prior to September 30 of the fiscal year in which funds are cancelled, any funds not disbursed should be returned to SDAF prior to funds cancellation.

15. Add SAMM Section C11.9.4.5.6. to:

**C11.9.4.5.6. Sales to Military Departments.** SDAF assets cannot be sold to a MILDEP to support a DoD acquisition requirement.

16. Update SAMM Section C11.9.5.2. to:

**C11.9.5.2. Inventory Storage and Payment.** SDAF-procured items should be segregated from other items in the inventory until title transfers. The SDAF-procured items do not have to be physically segregated from other inventory, but the inventory manager must be able to maintain accurate accountability of the SDAF-procured items. All associated costs to include receipt, storage, maintenance, physical inventory, and disposal (if needed) must be paid or reimbursed with SDAF. See Section C11.9.4.1.3.

17. Update SAMM Section C11.9.5.4. to:

**C11.9.5.4. Inventory Reports.** Inventory reports must be submitted to DSCA no more than thirty (30) days after the end of a fiscal quarter. There is no required format that must be used when submitting the report, but at a minimum, the report must contain the information listed in Table C11.T21. Inventory reports shall be submitted to the DSCA SDAF Program Manager.

18. Update Table C11.T21. SDAF Inventory Report

#	REQUIREMENT
1	Item description
2	National Stock Number (NSN) or Part Number (PN), if applicable
3	Contract award date(s)
4	Quantity in stock
5	Quantity on order, to include estimated delivery dates
6	Quantity sold by country and LOA (case line)
7	Quantity on loan to Military Departments
8	Physical location of asset
9	Unit acquisition cost

19. Add SAMM Section C11.9.5.6. to:

**C11.9.5.6. Disposal of SDAF Assets.** If SDAF inventory reaches the end of its serviceable life, the MILDEP / IA must coordinate with DSCA to obtain written approval to dispose of any item purchased by SDAF. Disposal of SDAF inventory may only occur after obtaining written approval from DSCA. All costs associated with the disposal of the SDAF inventory must be paid using SDAF.

20. Update SAMM Section C11.9.6.2. to:

**C11.9.6.2. Pricing Rules.** The allocation process begins when an eligible foreign country, international organization, or building partner capacity program requests information on defense articles and/or services, and the articles and/or services are available in the SDAF inventory. When such a request is received, the MILDEP / Implementing Agency should verify the availability of the requested asset and then submit an SDAF Asset Allocation Request and FAW to the DSCA SDAF Program Manager. If the request is approved, DSCA will sign and return the SDAF Asset Allocation Request and FAW to the MILDEP / Implementing Agency. These documents must be included with the FMS or pseudo-FMS case when it is sent to the DSCA (IOPS/GEX/CWD). Once a case is offered, the SDAF assets on the case will be held in reserve until the Offer Expiration Date (OED) expires.

21. Update SAMM Section C11.9.6.2.2. to:

**C11.9.6.2.2. Financial Analysis Worksheet.** The Financial Analysis Worksheet (FAW) provides the SDAF unit sales price. A separate FAW must be completed for each SDAF line on a case. The FAW must reference the FAD or MIPR that was issued by DSCA (OBO/CMP) to procure the items and services.

22. Add SAMM Section C11.9.6.2.2.1. to:

**C11.9.6.2.2.1.** The FAW shall be updated so that all costs are included as part of the total price at the line level on the FMS Case when the FAW is submitted, along with the Asset Allocation Form, to DSCA (IOPS/GEX/CWD).

23. Update SAMM Section C11.9.6.3. to:

**C11.9.6.3. Price and Availability Data.** Implementing Agencies must coordinate with DSCA before responding to a request for price and availability data for items and services on contract for SDAF or in the SDAF inventory. To submit such a request, Implementing Agencies must complete an SDAF Allocation Request and submit it to DSCA SDAF Program Manager. If DSCA approves the proposed allocation, the Implementing Agency will provide the customer with pricing and availability data through standard FMS procedures. The P&A data will contain an expiration date (usually 90 days), which the IA may extend in coordination with DSCA.

24. Update SAMM Section C11.9.6.5. to:

**C11.9.6.5. Pricing Rules.** SDAF lines are priced in accordance with the pricing guidance contained in DoD 7000.14.-R, DoD Financial Management Regulation, to include transportation from the SDAF inventory storage location to the partner. The SDAF sales unit price is calculated to ensure SDAF is fully reimbursed for all costs incurred against SDAF (e.g. transportation, receipt, storage, maintenance, and physical inventory costs) as reflected on the SDAF FAW.

25. Update SAMM Section C11.9.6.5.1. to:

**C11.9.6.5.1. SDAF Sales Unit Pricing.** The SDAF sales unit price for SDAF defense articles and services sold through the FMS process will be computed by starting with the SDAF contract unit price, and then adding additional proportionate charges in order to arrive at the SDAF sales unit price. Additional proportionate charges to be added include transportation, receipt, storage, maintenance, and physical inventory costs, as applicable to the SDAF inventory.

26. Update SAMM Section C11.9.6.5.1.1. to:

**C11.9.6.5.1.1. Application of Select Pricing Elements.** The SDAF sales unit price is all inclusive of the SDAF contract unit price and other costs. The FMS administrative surcharge is in addition to (and not a component of) the unit price and therefore should not be included in the SDAF sales unit price.



27. Update SAMM Section C11.9.6.5.1.2. to:

**C11.9.6.5.1.2. Added Costs.** The SDAF sales unit price must include charges incurred against SDAF to include transportation, receipt, storage, maintenance, physical inventory costs, etc., as applicable to the SDAF inventory. Any future obligations incurred for a specific partner requirement should be funded from their associated case.

28. Update SAMM Section C11.9.6.5.1.4. to:

**C11.9.6.5.1.4. Contract Administration Services Surcharge.** If contracts were used to acquire any portion of SDAF articles or services provided on a case line, a proportionate calculated Contract Administration Services (CAS) surcharge should be applied based on the units being sold and should reconcile with the SDAF FAW.

29. Update SAMM Section C11.9.6.8.1. to:

**C11.9.6.8.1. Case/Line Obligor Documents.** After a case is implemented, the IA must establish an obligation for the SDAF asset(s) in their official financial system at the case/line level. The IA can use a Miscellaneous Obligor Requirements Document, if available.