



DEFENSE SECURITY COOPERATION AGENCY

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WASHINGTON, D.C. 20301-2800

March 30, 2023

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 Memorandum 23-16, DoD Component Cost Recovery of Security Assistance Functions [SAMM E-Change 625]

- References: (a) DoDIG-2020-114, “Audit of the Department of Defense Use of Security Assistance Funds and Asset Accountability,” August 17, 2020
(b) Deputy Secretary of Defense Memorandum, “Audit of the Department of Defense Use of Security Assistance Funds and Asset Accountability,” June 24, 2020
(c) Defense Security Cooperation Agency Policy Memorandum 20-78, “Deputy Secretary of Defense-Directed Comprehensive Analysis of DoD Component Cost Recovery of Security Assistance Functions,” December 4, 2020

This memorandum is a direct response to reference (a) dated August 17, 2020. In this memo, the Deputy Secretary of Defense (DSD) directed the Under Secretary of Defense for Policy (USDPA) to perform a comprehensive analysis of Security Assistance functions performed by the DoD Components. This review required DSCA to determine if the Foreign Military Sales (FMS) Administrative surcharge rate is adequate to allow the DoD to recover all costs (reference (b)). DSD also tasked USDPA to provide guidance regarding the costs that should be recovered, and the process for doing so. As the policy lead for executing these tasks, DSCA requested the DoD Components provide a summary report of any non-recovered costs identified during the analysis and identify policy gaps related to the recoupment of costs (reference (c)). This memorandum updates the SAMM with policy changes in response to the policy gaps concerning

cost recovery, materiality, leases/facilities, Department of Defense certifications, and the Manpower Travel Data Sheet (MTDS).

Of note, once the new manpower table is available in the Defense Security Assistance Management System (DSAMS), Implementing Agencies will be required to use the new row numbers when completing Manpower Travel and Data Sheets for all new cases and only those lines being touched for cases being modified or amended. DSAMS warnings requesting case validation on inactive rows or lines not being updated are to be disregarded. This memorandum is effective immediately. The policy in the attachment is incorporated into the SAMM at <https://samm.dsca.mil>.

For questions, please contact Ms. Wendy Pouliot, Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP), (571) 385-8131 or email at wendy.pouliot.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 602
DoD Component Cost Recovery of Security Assistance Functions Policy Updates
(Changes highlighted in RED text)

1. Change SAMM Section C6.7.5.3. to:

C6.7.5.3. Request for FMS and BPC Exceptions. There are several exceptions to the general prohibition on the use of minimal-dollar value lines (or any other non-executable dollar value (i.e., \$0, \$1, \$2, or \$10)). IAs are not required to submit an exception to policy (ETP) if one of the situations listed below applies to the relevant FMS or BPC case. Otherwise, the IA must request and receive an approved ETP for any lines that must remain on a case at minimal-dollar value (or any other non-executable dollar value (i.e., \$0, \$1, \$2, or \$10)) due to audit or other transactional requirements. Requests for an ETP should be submitted through the ETP mailbox and will be provided to DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)) for decision.

- a. The line is associated with the Euro-NATO Joint Jet Pilot Training Program.
- b. The line is associated with the Electronic Combat International Security Assistance Program (ECISAP) Electronic Warfare (EW) classified and unclassified software and hardware.
- c. The line is for Excess Defense Articles grants under the Foreign Assistance Act of 1961.
- d. The line is for classified software when the development costs are on other lines.
- e. The minimal-dollar value line remains on a BPC case where unused funds were reprogrammed for other BPC program priorities.
- f. The line includes defense articles or defense services redirected from and funded under another BPC case. For a case line that includes defense articles or services redirected from another BPC case, the line value should reflect \$1 and the line note should include the original case and line, quantity, item description, and location where these items are being redirected.
- g. Minimal-dollar value training lines for BPC or FMS cases for the purpose of student accounting in Defense Security Assistance Management System - Training Module for student management and congressional reporting purposes. The two most common situations for creating minimal-dollar value training lines are 1) when the training is funded on a separate line on the same case (i.e., for regional BPC programs where training is funded through a separate BPC case or another line on the same regional BPC case) and 2) when a case that includes the provision of equipment has training costs embedded on the case line for such equipment.

2. Update SAMM Section C9.3.1. to:

Current wording:

C9.3.1. Recovery of Cost. The FMS program must be managed at no cost to the USG (with certain exceptions specifically identified in the AECA). The LOA mandates that the purchaser pay the full program cost regardless of terms of sale specified for the individual case or the estimated values provided. Modifications and Amendments are used to update case values as necessary when changes to the program occur. See Section C6.7. for more information on when these documents should be used.

Revised wording:

C9.3.1. Sales from Stock. The FMS program must be managed **to recover the full costs of defense articles and defense services from the stocks of the Department of Defense and Coast Guard in accordance with the AECA.** The LOA mandates that the purchaser pay the full cost regardless of **the estimated LOA cost** for the individual case or the estimated values **that were provided on the case.** Modifications and Amendments are used to update case values as necessary when changes to the program occur. See Section C6.7. for more information on when these documents should be used.

3. Add SAMM Section C9.3.1.1.:

C9.3.1.1. Recovery of Cost. Department of Defense (DoD) Components must recover their costs for executing security assistance programs in accordance with the AECA and DoD Financial Management Regulation. For indirect cost, only those additional costs that are incurred by the United States Government in furnishing the assistance should be recovered. Refer to the DoD FMR, Volume 11a, Chapter 1, General Reimbursement Policy for guidance on determining the amounts to be reimbursed and DoD FMR, Volume 15, Chapter 7, Pricing, on how to price defense articles and services.

4. Add SAMM Section C9.3.1.2.:

C9.3.1.2. Materiality. A materiality assessment must be used to determine whether indirect and overhead costs should be included in reimbursable billings. DoD Components should ensure the materiality determination is justified and documented using data analysis, i.e., cost-benefit analysis, which is routinely reassessed to stand up to audit scrutiny. Refer to the DoD FMR, Volume 11a, Chapter 1, General Reimbursement Policy for additional guidance on materiality.

5. Update SAMM C9.3.4.6. to:

Current wording:

C9.3.4.6. Use of Appropriated Funds. Should IAs have additional pre-LOR and case development efforts that are not funded in the FMS administrative funds budget, on an exceptional basis and at the discretion of the IA, in accordance with AECA section 43(a) (22 U.S.C. 2792), these efforts may be funded with funds available to the IA for operations. AECA Section 43(a) provides: "Funds made available under other law for the operations of United States Government agencies carrying out functions under this Act shall be available for the administrative expenses incurred by such agencies under this Act." IA funds for

operations may not be used to confer a subsidy on the foreign customer in violation of AECA sections 21 (22 U.S.C. 2761) and 22 (22 U.S.C. 2762). FMS administrative funds or case funds that subsequently become available may be used, as appropriate, to reimburse the IA funds.

Revised wording:

C9.3.4.6. Use of Appropriated Funds. Should IAs have additional pre-LOR and case development efforts that are not funded in **its** FMS administrative funds budget, on an exceptional basis and at the discretion of the IA, in accordance with AECA section 43(a) (22 U.S.C. 2792), these efforts may be funded with funds available to the IA for operations. AECA Section 43(a) provides: "Funds made available under other law for the operations of United States Government agencies carrying out functions under this Act shall be available for the administrative expenses incurred by such agencies under this Act." IA funds for operations may not be used to confer a subsidy on the foreign customer in violation of AECA sections 21 (22 U.S.C. 2761) and 22 (22 U.S.C. 2762). **Each DoD Component is responsible for using the Necessary Expense Doctrine to determine whether the security assistance-related expenditures are necessary and incidental to the proper execution of the general purpose of a particular DoD appropriation.** FMS administrative funds or case funds that subsequently become available, **as consistent with U.S. law and DoD policy**, may be used, as appropriate, to reimburse the IA funds.

6. Add SAMM C9.4.2.4.1.1.1.:

C9.4.2.4.1.1.1. Reasonable Assessment of Personnel Costs. The average Work Year (WY) costs for a line is determined when the base personnel salary costs are divided by the number of Work-Years from the Manpower Travel Data Sheet. DSAMS calculates the civilian fringe benefit rate on the base personnel salary costs (Step 5) for that Grade unless specific personnel costs are known. One WY is equivalent to 2087 personnel hours per year. Verify the average WY costs against the Office of Personnel Management General Schedule Table at Salaries and Wages. Non-executive federal employees are subjected to a salary limit equivalent to the pay cap for political officials, or Level IV of the Executive Schedule pay rate. When the average WY costs exceeds the annual salary cap for non-executive federal employees, the IA must provide the agency's specific legal authority in case remarks.

7. Add SAMM C9.4.2.4.1.1.2.:

C9.4.2.4.1.1.2. Reasonable Assessment of Travel Costs. Any line in which the average daily travel costs which exceeds \$1K per day, per person, and per trip must include specific details in the case notes which supports these costs.

8. Add C9.4.2.4.4. Exemption #10:

10. DSCA Managed Case Funds for Kuwait and Taiwan support cases.

9. Update SAMM C9.14.2.1. to:

Current wording:

C9.14.2.1. Background. In 2006, financial reforms were implemented across the security assistance/cooperation (SA/SC) community. This was the result of an increase to the FMS

Administrative Surcharge rate (from 2.5 percent to 3.8 percent) and renewed efforts to enforce existing manpower requirements by DSCA and the SA/SC community, to ensure funds were spent appropriately and in a consistent manner. DSCA's responsibility to ensure funds are used correctly is defined in DoD 7000.14-R, Volume 15, and DoD Directive 5105.65. DSCA must "monitor usage of FMS Trust Funds to include periodic reviews of funding levels and unused balances." Further, DSCA exercises "financial management responsibility for the Foreign Military Sales Trust Fund and reporting functions for SC programs." DSCA began conducting these Business Process Reviews (BPRs) in FY 2011. Subsequent BPRs will take into account changes in the FMS Administrative Surcharge rate as necessary.

Revised wording:

C9.14.2.1. Background. In 2006, financial reforms were implemented across the security assistance/cooperation (SA/SC) community. This was the result of an increase to the FMS Administrative Surcharge rate (from 2.5 percent to 3.8 percent) and renewed efforts to enforce existing manpower requirements by DSCA and the SA/SC community, to ensure funds were spent appropriately and in a consistent manner. DSCA's responsibility to ensure funds are used correctly is defined in DoD 7000.14-R, Volume 15, and DoD Directive 5105.65. DSCA must "monitor usage of FMS Trust Funds to include periodic reviews of funding levels and unused balances." Further, DSCA exercises "financial management responsibility for the Foreign Military Sales Trust Fund and reporting functions for SC programs." DSCA began conducting these Business Process Reviews (BPRs) in FY 2011. **Subsequent BPRs will take into account an organization's FMS Administrative Surcharge, Contract Administration Services (CAS) Surcharge, and Building Partner Capacity (BPC) program support funds, as necessary.**

10. Update SAMM C9.14.2.2. to:

Current wording:

C9.14.2.2. Purpose. The purpose of each BPR is to evaluate an organization's business practices as they relate to the use of FMS Administrative Surcharge funds and compliance with SA policies and procedures. The review is not an audit or an inspection, but is a joint effort, with the applicable IA, to assess existing processes to better understand them and assist with any issues. The desired objectives are to identify areas for improvement (in policies, processes, or practices) and take actions necessary to correct as well as to identify best practices to share with the community.

Revised wording:

C9.14.2.2. Purpose. The purpose of each BPR is to evaluate an organization's business practices as they relate to the use of FMS Administrative **and CAS Surcharge funds, Case Funds, BPC program support funds** and compliance with SA policies and procedures. The review is not an audit or an inspection, but is a joint effort, with the applicable IA, to assess existing processes to better understand them and assist with any issues. The desired objectives are to identify areas for improvement (in policies, processes, or practices) and take actions necessary to correct as well as to identify best practices to share with the community.

11. Update SAMM Table C9.T2. Row 31c to:

ROW	ACTIVITY	ADMIN	CASE	NON-STANDARD	FREQUENCY
CASE DEVELOPMENT					
31	c. SDAF asset allocation request form and financial analysis worksheet.	X			

12. Update SAMM Table C9.T2. Row 106 to:

ROW	ACTIVITY	ADMIN	CASE	NON-STANDARD	FREQUENCY
BUSINESS SUSTAINMENT ACTIVITIES					
106	Space rental, leases and/or refurbishment charges specifically incurred to support FMS funded personnel. This includes only the pro rata share of space rental and/or refurbishment costs that are attributable to FMS funded personnel. Information Technology (IT) services/equipment, office supplies/equipment, and printing/reproduction costs incurred primarily for the benefit of FMS funded personnel. Fund the pro rata costs of these activities with the same funding source that pays an employee's	X	Additional charges necessary to support a specific LOA may be charged to the case. Also, spaces necessary for only case funded organizations (ECISAP, etc.) are funded by the LOA. See row 107.		

	salary absent specific authority designating an appropriate funding source.				
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13. Update SAMM Table C9.T2. Row 107 to:

ROW	ACTIVITY	ADMIN	CASE	NON-STANDARD	FREQUENCY
BUSINESS SUSTAINMENT ACTIVITIES					
107	Space rental, leases and/or refurbishment charges specifically incurred to support the purchaser/case (e.g., warehousing, storage, etc.).		Incremental costs above the FMS Administrative Surcharge for services provided in row #106. LOA notes must clearly define for each of these line items exactly what support beyond the administrative services provided from the FMS Administrative Surcharge.		

14. Delete SAMM Table C9.T2. Row 108.

15. Update SAMM Table C9.T2. Row 109 to:

ROW	ACTIVITY	ADMIN	CASE	NON-STANDARD	FREQUENCY
BUSINESS SUSTAINMENT ACTIVITIES					
109	Occupational skills training necessary for USG personnel to perform their official duties to support Security Assistance Activities to include travel (not specifically related to an FMS case and does not include DoD certification requirements - see Rows #112. Any questions about whether training should be funded with T22 funds should be directed to DSCA (OBO/FPRE/FP).				
		Fund occupational skills training with the same funding source that pays an employee's salary absent specific authority designating an appropriate funding source.			

16. Update SAMM Table C9.T2. Row 110 to:

ROW	ACTIVITY	ADMIN	CASE	NON-STANDARD	FREQUENCY
BUSINESS SUSTAINMENT ACTIVITIES					
110	Job-related skills training specifically related to an FMS case (does not include certification requirements - see Row #112). For example: Defensive Driving Course for team members being deployed to a high terrorist threat country.		Specialized training required to support a specific FMS case is a direct cost to the case.		

17. Update SAMM Table C9.T2. Row 112 to:

ROW	ACTIVITY	ADMIN	CASE	NON-STANDARD	FREQUENCY
BUSINESS SUSTAINMENT ACTIVITIES					
112	Training for USG personnel to obtain or maintain their DoD Certification (i.e., Defense Acquisition Workforce Improvement (DAWIA), DoD Financial Management certification, or Security Cooperation Workforce (SCW) certification as a condition of employment. Any questions about whether DoD certification or training should be T22 funded should be directed to DSCA (OBO/FPRE/FP).				
		<ol style="list-style-type: none"> 1. The USG employee is a part of the security cooperation workforce”¹ and, therefore, is subject to the requirement to obtain or maintain a Department of Defense certification. 2. There is not a specific authority designating a funding source for the training and/or certification. 3. Fund training to obtain or maintain DoD certifications from the same funding source that pays the employee’s salary. <p>¹ See 10 USC 384(h) for the definition of “security cooperation workforce”.</p>			

18. Add SAMM Table C9.T2. Row 115 to:

ROW	ACTIVITY	ADMIN	CASE	NON-STANDARD	FREQUENCY
BUSINESS SUSTAINMENT ACTIVITIES					
115	Provides inputs for audits.				
		Every organization/individual in the department may be required to perform these additional duties as required. Fund activities with the same funding source that pays an employee’s salary absent specific authority designating an appropriate funding source.			

19. Replace SAMM Table C9.T2. with the following rows:

- Pre LOR begins with "L": row numbers 1 - 17 will be replaced with L1 – 17
- Case Development begins with "CD": CD1 - CD26 replaces row numbers 18 – 43
- Case Execution begins with "CE": CE1 - CE48 replaces row numbers 44 – 91
- Case Closure begins with "CC": CC1 - CC2 replaces row numbers 92 - 93
- Case Reviews begins with "CR": CR1 - CR7 replaces row numbers 94 – 100
- Business Sustainment Activities begins with "SA": SA1 - SA14 replaces row numbers 101 - 115