

# **Foreign Military Sales (FMS) Financial Management**

**13 December 1999**

**Deputy Secretary of Defense  
1010 Defense Pentagon  
Washington, DC 20301-1010**

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**Memorandum For:** Secretaries of the Military Departments  
Chairman of the Joint Chiefs of Staff  
Under Secretaries of Defense  
Director, Defense Research and Engineering  
Assistant Secretaries of Defense  
General Counsel of the Department of Defense  
Inspector General of the Department of Defense  
Director, Operational Test and Evaluation  
Assistants to the Secretary of Defense  
Director, Administration and Management  
Directors of the Defense Agencies  
Directors of the DoD Field Activities

**Subject:** Foreign Military Sales (FMS) Financial Management

Recent audit reports have identified a number of FMS management problems that manifest themselves in inaccurate or delayed financial management transactions. At my direction, a review of FMS processes impacting financial management was conducted. This effort was led by the Office of the Under Secretary of Defense (Comptroller) [OUSD(C)] and the Defense Security Cooperation Agency (DSCA), with participation by the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) [OUSD(AT&L)], the Military Departments, the Defense Logistics Agency, and the Defense Finance and Accounting Service (DFAS). The review produced a number of recommendations with the potential to improve financial management in the near-term. I have approved those recommendations and am directing their implementation through the actions contained in the attachment.

The attached actions are intended to reduce work load, eliminate erroneous payments, lower operating costs, permit FMS cases to be closed sooner, accelerate reimbursements to the Department and the U.S. Treasury, and ensure better customer satisfaction. Within 90 days from the date of this memorandum, the USD(AT&L.), Heads of the DoD Components, and Directors of DFAS and DSCA

are directed to report their progress on the attached actions to the USD(C). Your cooperation in implementing these rules is appreciated.

John J. Hamre

## **Attachment**

### **Foreign Military Sales (FMS) DEPSECDEF Directed Actions**

The Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L)) is directed to:

- Require that FMS contract line items be closed out as soon as the closeout requirements for those line items are satisfied. The closeout of FMS contract line items should not be delayed while waiting for requirements to closeout other non-FMS contract line items to be satisfied.
- Require one Contract Line Item Number (CLIN) per one Accounting Classification Reference Number (ACRN) for each FMS requirement on a contract.
- Emphasize the requirement that Defense Federal Acquisition Regulation Supplement (DFARS) clause (252.232.7002) is to be included on all contracts involving FMS. (This clause requires contractors to bill separately for each FMS customer).

The Under Secretary of Defense (Comptroller) (USD(C)) is directed to:

- Revise the “*DoD Financial Management Regulation*” (“DoDFMR”) to allow the use of an “estimated” price code in reporting the deliveries of major end items if an actual price code is not available within 30 days of date of shipment and require the use of an “estimated” price code in reporting the deliveries of major end items if an actual price is not available within 90 days of date of shipment.
- Revise the “DoDFMR” to require payment schedules to be updated annually on the anniversary of each major case and/or when the value of a case increases by 10 percent or more.
- Revise the “DoDFMR” to require that cases be reconciled financially and logistically on at least an annual basis, preferably on the anniversary of each major case.

The Director, Defense Finance and Accounting Service (DFAS), is directed to:

- Establish, with participation from the DoD Components, a tiger team to troubleshoot problems at locations that have major FMS delivery reporting and/or related reconciliation problems. The tiger team shall review reasons for significant reporting delays at such locations, identify and implement solutions, and augment training of personnel at such locations, as appropriate.
- Promote the maximum use of the authority to eliminate minor unresolved transactions, up to the approved threshold of \$200 per transaction using the FMS Administrative Account as the funding source.

- Resolve on a one-time basis, in cooperation with the DoD Components, problem disbursements aged over 180 days valued up to \$1,000 per transaction, using up to \$2.2 million provided by DSCA from the FMS Administrative Account. The current number of those transactions is approximately 8,800. The \$2.2 million funding and \$ 1,000 threshold are available only for the remainder of FY 2000.
- Provide a quarterly report to the Military Departments of FMS case payment schedule variances.

The Director, Defense Security Cooperation Agency (DSCA), is directed to:

- Expand the ongoing FMS reinvention effort to include representatives of the USD(AT&L), USD(C), DFAS, and representatives of the security assistance, financial management, acquisition and logistics communities within the Military Departments and DLA, and report the results of applicable meetings within 30 days from the date of this memorandum.
- Ensure the ongoing FMS reengineering effort addresses: (1) clarification of organizational responsibilities; (2) roles, responsibilities and authorities of case managers; (3) funds control, to include fiscal accountability responsibilities among DSCA, DFAS and various DoD Components; (4) recommendation of a permanent dollar threshold for minor unresolved transactions that can be charged to the FMS Administrative Account, whether additional types of transactions should be eligible to be charged to the FMS Administrative Account, and estimates of the annual financial impact of any proposed revisions to the current policy; (5) the feasibility of eliminating the Letter of Offer and Acceptance (LOA) for funded consumable item requisitions; and (6) the feasibility of FMS customers using commercial debit/purchase cards for consumable items.
- Provide additional funding authority up to \$2.2 million on a one-time basis from the FMS Administrative Account to the DFAS to resolve problem disbursements aged over 180 days with a value of up to \$1,000 per transaction. The current number of those transactions is approximately 8,800. The \$2.2 million funding and \$1,000 threshold are available only for the remainder of FY 2000.
- Revise the Security Assistance Management Manual (SAMM) to explicitly encourage consolidation of small dollar requirements under one LOA per country.
- Widely disseminate metrics developed for FMS performance measurement in the areas of LOA Processing, Delivery Reporting, Disbursements and Case Closure.
- Articulate priorities for case execution activities funded by the FMS administrative budget so that the DoD Components are able to prioritize their activities.
- Direct the Defense Institute of Security Assistance Management (DISAM) to update and expand security assistance training curricula to reflect changes to policies and procedures directed in this memorandum.

- Designate DISAM to be the repository for, and direct DISAM to facilitate the sharing of, security assistance best practices within the Department.

The heads of the DoD Components are directed to:

- Report physical deliveries of items or performance of services to the DFAS Denver Center within the 30-day timeframe specified in the “DoDFMR.”
- Ensure compliance with the revision to the “DoDFMR” that allows the use of an “estimated” price code in reporting the deliveries of major end items if an actual price is not available within 30 days of date of shipment and requires the use of an “estimated” price code in reporting the deliveries of major end items if an actual price is not available within 90 days of date of shipment.
- Require that FMS contract line items be closed out as soon as the closeout requirements for those line items are satisfied. DoD Components should not delay the closeout of FMS contract line items while waiting for requirements to closeout other non-FMS contract line items to be satisfied.
- Establish, with the DFAS, a tiger team to troubleshoot problems at locations that have major delivery reporting problems. The tiger team is to review reasons for significant delivery reporting delays at those locations, identify and implement solutions, and augment training of personnel at the those locations with respect to delivery reporting and reconciliation.
- Promote the maximum use of the authority to eliminate minor unresolved transactions, up to the approved threshold of \$200 per transaction using the FMS Administrative Account as the funding source.
- Resolve on a one-time basis, in cooperation with DFAS, problem disbursements aged over 180 days valued up to \$1,000 per transaction, using up to \$2.2 million provided by DSCA from the FMS Administrative Account. The current number of those transactions is approximately 8,800. The \$2.2 million funding and \$1,000 threshold are available only for the remainder of FY 2000.
- Distribute to each level from senior security assistance officials to case managers and across the functional disciplines of security assistance, financial management, acquisition and logistics throughout each DoD Component, and require the use of, performance metrics provided by DSCA in the areas of LOA Processing, Delivery Reporting, Disbursements and Case Closure.
- Participate in the DSCA reengineering effort to include providing representatives from the functional areas of security assistance, financial management, acquisition and logistics.
- Revise security assistance training curricula to reflect changes in policies and procedures directed in this memorandum and expand training opportunities for all personnel involved in FMS processes.

- Develop strategic training plans and submit those plans to the DSCA/DISAM Curriculum Committee for planning purposes.
- Ensure compliance with all portions of the Security Assistance Management Manual and “Department of Defense Financial Management Regulation” applicable to security assistance.