



DEFENSE SECURITY COOPERATION AGENCY
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AUG 28 2012

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY DEFENSE
EXPORTS AND COOPERATION
DEPUTY ASSISTANT SECRETARY OF THE NAVY
INTERNATIONAL PROGRAMS
DEPUTY UNDER SECRETARY OF THE AIR FORCE
INTERNATIONAL AFFAIRS
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
DIRECTOR FOR SECURITY ASSISTANCE, DEFENSE FINANCE
AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE LOGISTICS INFORMATION SERVICE
DIRECTOR, DEFENSE REUTILIZATION AND MARKETING
SERVICE
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY
DIRECTOR, NATIONAL GEOSPATIAL INTELLIGENCE
AGENCY
DEPUTY DIRECTOR FOR INFORMATION ASSURANCE,
NATIONAL SECURITY AGENCY
DIRECTOR, MISSILE DEFENSE AGENCY

SUBJECT: Changes to the Department of Defense (DoD) Financial Management Regulation (FMR) Computation of the Amount to be Reserved for Future Administrative Expenses (Safety Level) Associated with the Foreign Military Sales (FMS) Administrative Surcharge Account, Defense Security Cooperation Agency (DSCA) Policy Memo 12-46

Reference: DoD FMR 7000.14-R, Volume 15, "Security Assistance Policy and Procedures", February 2012

Chapter 2, Table 2-5 of the referenced regulation sets forth a requirement to annually calculate a minimum amount to be maintained in the FMS Trust Fund Administrative Surcharge Account. Known as the "Safety Level," this amount is sufficient to cover the administrative expenses in the event that all FMS sales were to cease and FMS program termination were to occur within two fiscal years. The current DoD FMR Safety Level computation formula calculates this Safety Level as an amount adequate to fund 12 to 15 months of operating expenses. This periodic computation implements a Government Accountability Office recommendation that the Department "assess the amount of funds needed to complete existing sales commitments." This memorandum authorizes increasing the calculation objective for the Safety Level up to an amount sufficient for funding of full operating expenses for 18 months.



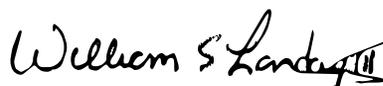
DSCA revised the assumptions and methodology to calculate a Safety Level amount designed to provide sufficient time to recognize and react to major changes in the business model before those changes threaten the FMS Trust Fund Administrative Surcharge Account solvency. This change reflects the strategic importance and size of the FMS program, and that the FMS program is a key enabler for coalition operations with partner nations and building partner capacity.

The implementation of a larger Safety Level sufficient for 18 months of operating funds at current budget levels signals a philosophical shift in the purpose of this value and its use in DSCA business analysis. Designating a larger Safety Level affords increased security to the solvency of the FMS business and affords greater strategic flexibility to respond to changes in the FMS business. If significant external changes occur, the revised Safety Level will allow DSCA to make adjustments to expenses, surcharge rates, or other variables without creating short-term changes that will be difficult to absorb by the FMS community. In its analysis, DSCA relied on information from the Annual Assessment of the FMS Trust Fund Administrative Surcharge Account, the final report of FY11 FMS activity, the FY12 and FY13 FMS forecasts, and information from the conclusion of the Budget and Program Objective Memorandum (POM) cycles.

DSCA will evaluate the solvency of the entire FMS Trust Fund Administrative Surcharge Account through a focused review of the business environment by conducting an annual review of year-end revenues and expenses and a forecast of future account balance based on anticipated sales and Budget/POM projections. In addition, DSCA will monitor the FMS program for possible "triggers" that necessitate an out-of-cycle review of the business environment and potential adjustment to the FMS business model. These "triggers" include a change in bilateral relationships with the top five FMS customers (e.g., sanctions), regional conflict, or actual sales that significantly lag the sales forecast (e.g., greater than 3 months).

The attached documents are the changes that will be made to the Security Assistance Management Manual (SAMM) Chapter 9 (Attachment 1), and the DoD FMR, Volume 15, Chapter 2 and Glossary (Attachment 2).

These changes have been coordinated with the Office of the Under Secretary of Defense (Comptroller). If you have any questions, please contact Rita Chico at (703) 602-3632 or e-mail at rita.chico@dca.mil.



William E. Landay III
Vice Admiral, USN
Director

Attachments:
As stated

cc:
DOS/PM-RSAT
DISAM
USASAC
SATFA
TRADOC
USACE
NAVICP
NAVSUP WSS
NETSAFA
AFSAC
AFSAT
AFCEE
USSOCOM
USEUCOM
USCENTCOM
USNORTHCOM
USPACOM
USAFRICOM
USSOUTHCOM
USTRANSCOM

SAMM Change

Add C9.15 to Chapter 9 of the SAMM

C9.15. Foreign Military Sales (FMS) Trust Fund Administrative Surcharge Safety Level.

C9.15.1. Safety Level General Information.

C9.15.1.1. Prior to June 30, 2012, DSCA conducted a detailed analysis of the FMS Trust Fund Administrative Surcharge Account and the “Safety Level” computation that had been used for the account. This computation is found in the DoD Financial Management Regulation (DoD FMR) archives, Volume 15, Chapter 2, Table 2-5. The computation was based on the assumption that the entire FMS program would cease in two years.

C9.15.1.2. DSCA, with Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) coordination, recognizes the underlying assumption for the Safety Level – that the FMS business would terminate and cease operations within two years – is no longer valid. FMS is a key enabler supporting coalition operations and building partner capacities and thus will remain an integral USG and DoD strategy indefinitely. DSCA is revising the assumptions and methodology for the Safety Level to sustain the FMS enterprise through a change in the FMS business environment. The Safety Level will be a larger amount of funding than the former computation in order to afford greater risk mitigation and flexibility to the FMS enterprise.

C9.15.2. Safety Level Assumptions, Methodology, and Review/Re-validation of Data Sources

C9.15.2.1. Assumptions. The underlying assumption for revising the Safety Level computation is that the multi-billion dollar FMS program will not be terminated and drawn to a rapid two year conclusion. As a result, the continuation of the current computation and its use in business planning for the FMS enterprise is no longer valid. Instead, DSCA is implementing 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.

C9.15.2.2. 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.

C9.15.2.3. 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 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 Budget and Program Objective Memorandum (POM) 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. Lastly, a further comprehensive review of all business measures employed in the conduct of FMS activities will be completed by DSCA no less than every 5 years. This detailed review will include analysis of the FMS Administrative Surcharge Rate as well as the Safety Level.

C9.15.2.3.1. Annual Assessment of the FMS Trust Fund Administrative Surcharge Account. 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 030308.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 STR/Plans Division, as prescribed in Security Assistance Management Manual (SAMM) Chapter 14, Section C14.1)
Anticipated Budget and POM requirements (projected future expenses). Budget amount provided by DBO/Comptroller Division and POM amounts from STR/Plans Division.
Input above data into DSCA Forecast Model to assess the projected balance of the FMS Trust Fund Administrative Surcharge Account.

C9.15.2.3.2. Quarterly Review. A quarterly 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
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Asymmetric threats that require new defense articles and services

C9.15.2.3.3. Comprehensive Review. Every five years, a comprehensive review of the FMS Trust Fund Administrative Surcharge Account and the Safety Level will be accomplished to ensure assumptions and reviews continue to be relevant. This review will involve participation from outside agencies (i.e.; Naval Post-Graduate School, private industry, etc.) to provide an independent perspective.

DoD FMR Changes

Volume 15, Glossary

Change

Add “Safety Level” Definition:

Safety Level: Strategic reserve of operating capital sufficient to manage the FMS business through changing business conditions to ensure the solvency of the FMS Administrative Surcharge Account. The Safety Level represents 18 months of operational funding that grants sufficient time to recognize changes in business (sales, expenses, and regulatory impacts) and then develop and implement approved adjustment measures.

Volume 15, Chapter 2

Table 2-5 Pages 2-42 and 2-43

Change

Delete Table 2-5 in its entirety

Volume 15, Chapter 2 Page 2-5

Change

020102. Responsibilities

A. Defense Security Cooperation Agency (DSCA).

1. DSCA must prepare annual budget requests for the FMS Trust Fund obligational and outlay authority necessary to support the FMS Trust Fund program. DSCA reviews, approves, and distributes budgets for the FMS administrative surcharge, Security Cooperation Organizations, and the FMS CAS surcharge accounts.

* 2. DSCA is responsible for establishing the annual Safety Level amount to be maintained in the FMS Trust Fund Administrative Surcharge Account. The Safety Level amount will represent 18 months of operational funding based at current budget levels. DSCA will establish the Safety Level before the close of the fiscal year (FY) and forward the information to the Defense Finance and Accounting Service regarding the Safety Level that must be maintained in the FMS Administrative Surcharge Account. The 18-month Safety Level will be calculated by dividing the amount under the Annual State and Foreign Operations Appropriation Act by twelve to compute a monthly operating amount, and then multiplying that amount by 18. For detailed information of the calculation, refer to the DSCA Manual 5105.38-M, Security Assistance Management Manual (SAMM), Chapter 9, Section C9.15. Any changes requiring adjustment of the Safety Level computation methodology will be forwarded to OUSD(C) for review and approval.

Volume 15, Chapter 2

Page 2-11

Change

020206. Budget Authority for FMS Administrative Expenses. The cumulative BA available in the current FY is composed of actual collections for FMS administrative expenses (including the FMS administrative charges and logistics support charges (LSCs)), less any prior allotments of such amounts and the amount to be reserved for future administrative expenses (i.e., the safety level). In no event should the annual allotment be higher than the limitation imposed in the annual Department of State, Foreign Operations, and Related Programs Appropriations Acts, unless otherwise approved through the process required by law.