



**DEPARTMENT OF WAR
FINANCIAL MANAGEMENT REGULATION**

VOLUME 15: "SECURITY COOPERATION POLICY"

**UNDER SECRETARY OF WAR
(COMPTROLLER)**

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VOLUME 15**SECURITY COOPERATION POLICY****1.0 GENERAL****1.1 Purpose**

Volume 15 provides Department of War (DoW) policy on the financial management of security cooperation (SC) programs. This Volume directs statutory and regulatory financial management requirements for a wide range of activities, including appropriated and non-appropriated working capital, revolving, and trust fund activities. Volume 15 policy applies to all organizational entities within the DoW and covers topics such as general SC information, finance, accounting, cash management, case files, pricing, billing, and reimbursement for Foreign Military Sales (FMS) and Building Partner Capacity (BPC) programs.

1.2 Authoritative Guidance

Refer to the Volume 15 authoritative guidance document on the Financial Management Regulation (FMR) webpage.

1.3 Definitions

Refer to the glossary on the FMR webpage.

1.4 Procedures

Refer to the Defense Security Cooperation Agency (DSCA) Security Assistance Management Manual (SAMM) listed throughout this Volume.

2.0 SECURITY COOPERATION PROGRAMS**2.1 Overview**

2.1.1. This section provides DoW accounting policy for SC transactions to ensure compliance with all requirements for the administrative control of SC programs. Unless specifically exempt, SC transactions must adhere to DoW accounting policy within Volume 15, as well as existing laws and regulations governing accounting of federal funds. Proposed changes to this Volume must be submitted to the Financial Management Policy and Reporting Directorate at the Office of the Deputy Chief Financial Officer (ODCFO) as soon as practicable for consideration. However, DoW Components must first submit proposed changes through the DSCA Office of Business Operations. All proposed section updates must be submitted to the appropriate approving authority and, if approved, will be incorporated into the DoW FMR as soon as possible.

2.1.2. SC. SC refers to activities undertaken by the DoW to encourage and enable international partners to work with the U.S. to achieve strategic objectives. It includes all DoW interactions with foreign defense and security establishments, including all DoW-administered security assistance programs, that: build defense and security relationships that promote specific U.S. security interests, including all international armaments cooperation activities and security assistance activities; develop allied and friendly military capabilities for self-defense and multinational operations; and provide U.S. forces with peacetime and contingency access to host nations.

2.1.3. Security Assistance (SA). SA refers to a group of programs authorized by Title 22 of the U.S. Code, or related annual foreign operations appropriations legislation under which the U.S. provides defense articles, military training, and other defense-related services by grant, loan, credit, cash sales, or lease, in furtherance of national policies and objectives. The DoW administers some, but not all, SA programs, on behalf of the Department of State. Those SA programs administered by DoW are a subset of SC. The SAMM provides guidance on the major Title 22 programs DoW administers: FMS; Foreign Military Construction Services; Foreign Military Financing; Leases; Military Assistance; International Military Education and Training (IMET); Presidential Drawdown Authority; Peacekeeping Operations; and Special Defense Acquisition Fund (SDAF).

2.1.4. BPC Programs. BPC programs refer to SC and SA activities funded with U.S. Government (USG) appropriations. The DoW may enter into agreements for the provision of defense articles and/or services with other USG departments and agencies when executing BPC programs:

2.1.4.1. Building the capacity and capabilities of partner nation security forces to conduct authorized military, stability, and counter-threat operations in alignment with U.S. national security interests in accordance with 10 U.S.C. §333, Foreign Security Forces: authority to build capacity. See SAMM, Chapter 15; or

2.1.4.2. Supporting U.S. military and stability operations, multilateral peace operations, and other programs. See SAMM, Chapter 15 or Chapter 15 - Legacy, for a detailed discussion of BPC programs.

2.2 Accounts of the U.S. Department of Treasury (Treasury)

The Foreign Affairs/Foreign Relations Committees of the Congress (rather than the Armed Services Committees) appropriates SA funds. The Executive Branch, Office of the President, identified by Treasury Index (TI) 11, receives SA funds. Funds and accounts authorized by Acts originating in the Armed Services Committees of Congress and appropriated to DoW are identified by: TI 97, "Defense Department;" TI 17, "Navy;" TI 21, "Army;" and TI 57, "Air Force." Additionally, BPC programs are funded from either a DoW Title 10 or Department of State Title 22 appropriation depending on the specific legislative authority. See SAMM, Appendix 10 for other treasury accounts used in SC for BPC cases.

2.2.1. Treasury Accounts Applicable to FMS Trust Fund Operations. Treasury account 11X8242, "Advances, FMS, Funds Appropriated to the President," is the FMS Trust Fund account

used for centrally recording contract authority and collections authorized under the FMS program. Under Section 3 of Executive Order No. 13637, responsibility for the execution and administration (e.g., obligations and disbursements) of the FMS Trust Fund was delegated from the President, identified by TI 11, to the Secretary of War (SecWar), identified by TI 97. The complete fund cite 97 11X8242, though not required for execution of consolidated financial statements and reports, identifies funds under the control of the DoW. Only 11X8242 is reported to the Bureau of Fiscal Service (Fiscal Service) and the Office of Management and Budget. Fiscal Service has established trust fund receipt and expenditure accounts to account for cash collections, budget authority (BA), and cash disbursements resulting from the FMS program.

2.2.2. For procedures related to cash receipts, budget authority, cash expenditures, and miscellaneous receipts, see SAMM, Appendix 10.

2.3 SDAF

The SDAF, established under the authority of 10 U.S.C. § 114, is a DoW-controlled revolving fund used to acquire defense articles and services in anticipation of their sale to eligible foreign countries and international organizations. Pursuant to 10 U.S.C. § 114(c)(1), the balance of the SDAF may not exceed \$3.5 billion. In accordance with 22 U.S.C. § 2795(c), the size of the fund includes funds acquired through FMS sales, also known as offsetting collections. For procedures pertaining to the SDAF, see SAMM, Appendix 10.

2.4 Treasury Accounts Applicable to Credit Sales, Guarantees, and IMET

2.4.1. For procedures related to the receipt and utilization of appropriations, as well as cash collections, see SAMM, Appendix 10.

2.4.2. Security Assistance and International Programs (SAIP) Deposit Account. Account 11X6147, "Security Assistance and International Programs, Deposit Account," was originally established in 1978 to support the North Atlantic Treaty Organization E 3A Program deposit account. Subsequently, additional activities have used this account for purposes such as recording collections received from foreign governments to reimburse the DoW for goods and services not acquired through the FMS program, or FMS customers to use the Air Force Parts and Repair Ordering System and Worldwide Warehouse Redistribution System to acquire nonstandard items, and to provide advance funding to support acquisitions. Since fiscal year (FY) 2021, the SAIP Deposit Account has been included in the SA Accounts financial statements.

2.5 Other Treasury Accounts

For a list of other Treasury accounts used in SC, see SAMM, Appendix 10.

2.6 Types of Financing

There are two types of financing associated with the FMS Trust Fund: reimbursable and direct citation. For procedures concerning these topics, as well as accounting classification codes of the FMS Trust Fund, see SAMM, Appendix 10.

2.6.1. Reimbursable Financing. Sales under 22 U.S.C. §§ 2761 and 2762, for which the President has determined it is in the National interest to defer payment (bill for defense articles and services on or after delivery), must be accomplished using reimbursable financing. When deferred payment is authorized under 22 U.S.C. § 2761 for 120 days, and for all authorized deferred payments for 22 U.S.C. § 2762 sales, an appropriation is required to finance any outlays until the purchaser makes payment. The appropriation cited must have reimbursable authority.

2.6.2. Direct Cite Financing. New procurements initiated because of FMS orders under 22 U.S.C. §§ 2762 and 2769 (except as exempted in paragraph 3.1) must be accomplished, to the maximum extent feasible and appropriate, through direct citation of the FMS Trust Fund (97 11X8242 or 97 11X6147) on applicable contractual documents.

3.0 FMS BUDGET AND OBLIGATION AUTHORITY

This section provides policy guidance for FMS Trust Fund BA, including FMS Trust Fund obligational authority (OA) for implemented cases, the FMS administrative surcharge budget, and contract administration services (CAS) surcharge budget. BA is the U.S. legal authority that empowers U.S. Government agencies to spend federal funds. BA allows the DoW to enter into obligations that will result in immediate or future outlays from Federal Government accounts. For procedural guidance on BA execution, see SAMM, Appendix 10. For BPC programs, BA is derived from specific USG appropriations (such as DoW Title 10 or Department of State Title 22) rather than partner nation funds. Title 10 BPC BA is provided to Implementing Agencies (IAs) via Funding Authorization Documents (FADs) or Military Interdepartmental Purchase Requests (MIPRs) and is strictly subject to the statutory purpose and period of availability of the underlying appropriation. Title 22 BPC BA is derived from Interagency Agreements (IAAs) or Memoranda of Agreement (MOAs) under Section 632(b) of the Foreign Assistance Act.

3.1 Responsibilities

3.1.1. DSCA must prepare the annual budget request for the FMS Trust Fund obligational and outlay authority to support the FMS Trust Fund program. DSCA reviews, approves, and distributes funding for the FMS Administrative surcharge, BPC, SDAF, and the FMS CAS surcharge accounts. DSCA is also responsible for establishing the annual safety level amount to be maintained in the FMS Trust Fund administrative surcharge, the CAS surcharge, and transportation cost clearing accounts. For procedures related to the establishment of the annual safety level amount, among other topics related to the FMS Trust Fund administrative surcharge account, see SAMM, Chapter 9.15 and Appendix 10.

3.1.2. IAs and Performing Agencies must prepare data for Letters of Offer and Acceptance (LOAs), fulfill FMS Trust Fund orders, and submit FMS administrative and CAS budget requests annually.

3.1.3. The Defense Finance and Accounting Service (DFAS) Security Cooperation Accounting (SCA) must obtain cash advances from FMS Trust Fund purchasers to liquidate obligations resulting from the use of OA created by the FMS Trust Fund.

3.2 BA

3.2.1. Recognition of OA by the FMS Trust Fund. To establish OA, FMS Trust Fund purchasers must return all accepted LOAs, Amendments, and processed Modifications to the IA. For procedures related to the establishment of an FMS Trust Fund OA, as well as Trust Fund Direct Citations, see SAMM, Appendix 10.

3.2.2. The OA Request must be used to request commitment/OA for direct citation of the FMS Trust Fund. The OA Request is used as a control device, and commitments/obligations must be limited to the dollar value of the approved OA Request. For procedures related to Trust Fund Direct Citations, see SAMM, Appendix 10.

3.2.3. Contract Authority. Contract authority is the statutory authority to incur obligations with liquidation of obligations dependent on a future act, such as receipt of an appropriation. For procedures that enable the execution of this authority, see SAMM, Appendix 10.

3.2.4. Recognition of FMS Reimbursable OA in DoW Appropriation or Fund Accounts. The LOA, Amendment, or Modification does not represent a reimbursable order to the performing DoD Components. The approved OA Request is the reimbursable order. The OA Request includes the reimbursable portion of the order that may be credited to appropriations by a DoD Component for each line within a case for a FY. The OA amount for each line within a case cannot be exceeded. For procedures related to FMS Trust Fund orders and apportionments for reimbursable orders, see SAMM, Appendix 10.

3.3 Planning Directives and OA Requests

Planning Directives and OA Requests are required for all new cases that have been submitted to FMS Trust Fund purchasers for acceptance and for all cases in the process of implementation. For all procedures related to the preparation of Planning Directives and OA Requests, see SAMM, Appendix 10.

3.4 OA Requests for Budgeted FMS CAS Costs and Funds Reimbursed

OA Requests for Budgeted FMS CAS Costs and Funds Reimbursed by the FMS CAS Surcharge Account. For procedures related to the FMS CAS surcharge budget and FMS CAS OA Requests, see SAMM, Appendix 10.

4.0 FMS ACCOUNTING

This section addresses accounting requirements designed to: (1) assure proper DoW control and accountability of cases implemented in the FMS Trust Fund; (2) provide accounting information that can be used for the preparation of the Agency Financial Report required by the Chief Financial Officer Act of 1990 and the Government Management Reform Act of 1994, quarterly bills to FMS purchasers, and financial status reports to DoW case managers and DSCA staff; (3) integrate with physical delivery (logistics) reporting systems; (4) serve as a basis for timely identification and reporting of financial management problems; and (5) establish internal controls to assure compliance with the payment requirements of the Arms Export Control Act (AECA), Public Law 90-629, codified at 22 U.S. Code Chapter 39.

4.1 Accounting Practices Procedures

For procedures on related accounting practices, see SAMM, Appendix 10.

4.2 Responsibilities

4.2.1. DSCA is responsible for providing oversight and monitoring usage of the FMS Trust Fund, including periodic reviews of funding levels and unused balances.

4.2.2. DFAS performs the accounting, billing, disbursing, and collecting functions for the FMS Trust Fund, as well as provides financial management and accounting support for SC programs. DFAS ensures entries in the accounting systems have audit trails to the source documents and generates financial statements. DFAS must:

4.2.2.1. Monitor for compliance with the centralized FMS case-line level accounts prescribed in this section, and the Fiscal Service, "U.S. Standard General Ledger (USSGL)." The DoW Standard Chart of Accounts is in the Standard Financial Information Structure, DoW USSGL Transaction Library, and Volume 1. Use information accumulated in the accounts when preparing billing statements to FMS purchasers and financial management reports to DoW case managers and DSCA staff;

4.2.2.2. Maintain FMS Trust Fund budget execution records;

4.2.2.3. Identify and notify DSCA when an FMS Trust Fund arrearage occurs as required in Volume 16;

4.2.2.4. Summarize all case-line level accounts at the FMS Trust Fund level, reconciling the summary cash accounts to Treasury's records per Treasury guidance, and using the summary accounts as the basis for required reports on FMS Trust Fund operations;

4.2.2.5. Maintain audit trails and supporting documentation for entries made to the accounting system; and

4.2.2.6. Prepare monthly, quarterly, and annual statements as required in Volume 6.

4.2.3. IAs must:

4.2.3.1. Fulfill FMS Trust Fund orders using these financing techniques:

4.2.3.1.1. Issue and accept reimbursable orders into a financing appropriation or Defense Working Capital Fund (DWCF) account,

4.2.3.1.2. Issue allotments/OA of the FMS Trust Fund to the performing DoW Components, or

4.2.3.1.3. Authorize direct citation of the FMS Trust Fund (11X8242);

4.2.3.2. Ensure appropriation/fund budget execution records accurately reflect the status of the reimbursable FMS Trust Fund program;

4.2.3.3. Perform and/or ensure the completion of the Dormant Account Review Quarterly (DAR-Q) of obligations and unfilled customer orders as described in Volume 3;

4.2.3.4. Maintain audit trails between source documents and entries to the accounting system; and

4.2.3.5. In coordination with DFAS, maintain within the IAs' respective accounting system of record the centralized FMS case-line level accounts prescribed in this section and in the USSGL.

4.2.4.4. Allotment Holders for Actual FMS Administrative Expenses. A DoW Component that receives a DSCA allotment of FMS administrative surcharge BA must:

4.2.4.4.1. Maintain obligations and expenditures within the limitations of the allotment;

4.2.4.4.2. Ensure obligating documents and accrued expenditures meet the requirements contained in this Volume;

4.2.4.4.3. Return unobligated OA to DSCA at the end of each FY; and

4.2.4.4.4. Perform the DAR-Q of obligations and unfilled customer orders as described in Volume 3.

4.3 SC Management Controls

For management controls, SC activities will follow the guidance in DoD Instruction 5010.40.

4.4 FMS Trust Fund Accounting Requirements

4.4.1. FMS Trust Fund. The FMS Trust Fund is a single account that is authorized to be credited with receipts that may be obligated and expended in accordance with the AECA. FMS Trust Fund receipts must be apportioned prior to obligation and expenditure; however, an Official, designated under 31 U.S.C. § 1513, and as per 31 U.S.C. § 1516, may exempt trust funds from apportionment.

4.4.2. For procedures related to the FMS USSGL, accounting for receivables, accounting for inventory, accounting for the FMS program, processing accounting transactions, DFAS SCA analysis of FMS case accounting data, and DFAS SCA surcharge transactions, see SAMM, Appendix 10.

4.5. Accounting Requirements for FMS

For procedures related to allotments for direct citation, allotments for reimbursable orders, and FY-end reporting requirements, see SAMM, Appendix 10.

4.6 Actual Administrative Expense Accounting Requirements for FMS

For procedures related to reimbursement for FMS administrative expenses, control of FMS administrative and SC Organizations (SCO) budget allotment authority, control of FMS administrative and SCO prior FY OA, control of unliquidated balances, administration and implementation of the monthly and end-of-year closeout guidance, and DFAS responsibilities for expired and canceled accounts, see SAMM, Appendix 10.

4.7 FMS Budget Execution

4.7.1. This section establishes the budget execution requirements that are applicable to the FMS program, with the specific objectives to ensure that: (1) mandatory budget execution reports that accurately reflect data recorded in accounting records are submitted to Treasury in a timely manner; (2) unnecessary FMS OA is withdrawn officially from all organizations participating in the execution of FMS cases at the end of each FY; and (3) FMS case records maintained by IAs are in agreement with DFAS SCA at the case line level throughout the life of each FMS case. For BPC budget execution, see Volume 15 sections 3.0, 4.7.2.3.6, and 4.12.2.4.

4.7.2. Responsibilities

4.7.2.1. DFAS must provide accounting data on FMS Trust Fund operations to the DoW Components.

4.7.2.2. DSCA must monitor the FMS program and submission of required FMS Trust Fund Budget Execution reports in accordance with requirements outlined in Volume 6.

4.7.2.3. IAs and the supporting DoW Components must:

4.7.2.3.1. Conduct year-end reviews of the unobligated FMS reimbursable program to ensure unnecessary BA is identified and returned to the FMS Trust Fund;

4.7.2.3.2. Ensure that the FMS reimbursable program is properly reported in appropriation or DWCF budget execution reports;

4.7.2.3.3. Submit financial Budget Execution reports accurately and timely in accordance with section 8.0;

4.7.2.3.4. Reconcile IA FMS case records to DFAS SCA case-line level accounting transactions on a periodic basis;

4.7.2.3.5. Partner with DFAS to resolve any variances or out-of-balance conditions in support of monthly FMS financial reporting; and

4.7.2.3.6. Prepare Case Closure Certificates signifying IA completion of all actions necessary for DFAS SCA to close the case as soon as possible after the case supply/services are complete. For cases applicable to countries participating in Accelerated Case Closure Procedures (ACCP), this should occur no longer than 24 months after such occurrence, and no longer than 36 months for training cases. See the SAMM, Appendix 7, "Case Reconciliation and Closure Guide (RCG)," for the Case Closure Certificate format, and SAMM Chapter 16 for case closure information. For case closure procedures required for non-ACCP, including BPC program cases, refer to SAMM Chapter 16.

4.8 FMS Trust Fund Budget Execution Reports and Financial Statements

For procedures related to Budget Execution Reports, see SAMM, Appendix 10. For financial statement guidance concerning the reporting of FMS amounts, see Volume 6. The Security Assistance reporting entity also provides GTAS submissions as a Significant Entity per Volume 6.

4.9 FMS Case Execution

For guidance on FY end procedures, reimbursement of appropriations and accounts, and DD 2061, "Foreign Military Sales (FMS) Planning Directive", see SAMM, Appendix 10.

4.10 FMS Case Closure Requirements

For procedures covering general topics, case closures, closure certification, billings after case closure, reopening FMS cases, and BPC funds return, see SAMM, Appendix 10.

4.11 Resolution of FMS Case Imbalances through Obligation Procedures

An IA that determines unresolved reconciliation issues exist for a case may resolve those imbalances through obligation procedures that provide reconciliation to valid obligations using current-year appropriations where necessary. The IA is responsible for providing all vouchers it prepares, citing the FMS Administrative Surcharge account to DFAS SCA. See SAMM, Appendix 10, for procedural guidance related to resolution.

4.12 Antideficiency Act (ADA) Violations and Adverse Financial Condition Reports

4.12.1. For purposes of the ADA (see Title 31 of the U.S.C. and Volume 14), appropriated funds are not limited to those funds specifically appropriated by Congress to federal agencies from the general funds of the Treasury. Funds available to agencies are considered appropriated if made available for collection and expenditure pursuant to specific statutory authority, regardless of their source. In applying the ADA, the FMS Trust Fund is considered to be appropriated funds. Therefore, the ADA applies to transactions involving the FMS Trust Fund.

4.12.2. Potential violations may occur in FMS Trust Fund transactions when:

4.12.2.1. Issuing OA or awarding an FMS contract without a signed LOA;

4.12.2.2. Obligating or expending FMS case funds for an unauthorized purpose, including purposes not provided for by law or those outside the scope of the signed LOA;

4.12.2.3. Violating apportionments or indemnity clauses; or

4.12.2.4. Incurring obligations on a BPC case where the financing appropriation's period of availability to incur new obligations has expired. Refer to Volume 14 for additional information on potential violations of the ADA.

4.12.3. Detailed guidance for identifying, investigating, and reporting violations under the ADA is in Volume 14. Due to the complexities of provisions in the AECA, it is important to consult with appropriate legal counsel and comptroller officials on potential violations of the ADA for FMS.

4.12.4. Adverse Financial Conditions. For procedures related to reporting other reportable financial events, see SAMM, Appendix 10.

5.0 FMS CASH MANAGEMENT

This section provides policy guidance to ensure cash is available to liquidate FMS Trust Fund obligations, as disbursements are due. Funds appropriated by Congress for defense purposes cannot be used to liquidate obligations resulting from the use of FMS Trust Fund contract authority, except as authorized by law. The FMS purchaser, USG appropriation made available to finance FMS Trust Fund purchases, or a third-party payer, must meet the cash requirements (outlay authority) of each FMS Trust Fund purchaser.

5.1 Responsibilities

5.1.1. Executive Order 13637 delegates authority and responsibility for the administration and functions for FMS, from the President, to the SecWar and the Secretary of State. The authority of the SecWar is further delegated in the November 7, 2025 memorandum "Unifying the Department's Arms Transfer and Security Cooperation Enterprise to Improve Efficiency and Enable Burden-Sharing" to the Under Secretary of War for Acquisition and Sustainment, and finally, to the DSCA Director under DoD Directive 5105.65, "Defense Security Cooperation Agency", dated October 26, 2012.

5.1.2. DSCA Responsibilities

5.1.2.1. Ensure adequate cash availability in the FMS Trust Fund to meet DoW's financial requirements;

5.1.2.2. Identify the specific issue and remedy should cash flow problems arise in an FMS Trust Fund account (e.g., collection of additional funds or other alternative financial arrangements, adjustments to ordered values, delivery timeframes, or ordered quantity);

5.1.2.3. Approve Standby Letters of Credit (SBLCs), Federal Reserve Bank of New York (FRBNY) accounts, and Commercial Bank Accounts (CBAs) as they may pertain to FMS financial requirements; see SAMM Appendix 10 and Chapter 9 for more detail on SBLCs, FRBNY, and CBAs;

5.1.2.4. Calculate and approve, on a quarterly basis, the Termination Liability (TL) reserve amounts required to protect the USG against liability if a particular FMS-funded contract (or contract line item number (CLIN)) is terminated prior to completion;

5.1.2.5. Perform follow-up actions on SA Program arrearages;

5.1.2.6. Construct standard payment schedules (to include any contract termination costs); and

5.1.2.7. Prepare special bills for those customers with approved special billing arrangements (SBAs).

5.1.3. DFAS Responsibilities

5.1.3.1. Post purchaser cash deposits within 2 business days of notification when the Defense Integrated Financial System (DIFS) is available. When DIFS is unavailable due to scheduled maintenance, update upon availability;

5.1.3.2. Post disbursements by the 20th day of the following month to FMS case accounting records;

5.1.3.3. Reconcile summary trust fund-level account balances in DIFS with the Treasury balance in the Account Summary from the Governmentwide Treasury Account Symbol Adjusted Trial Balance System;

5.1.3.4. Assure that approved cash expenditure authority (EA) requests do not exceed the FMS purchaser's cash available balance in the FMS Trust Fund; and

5.1.3.5. Work with the accounting activities, contract payment offices, and certifying officers as appropriate to:

5.1.3.5.1. Ensure sufficient cash is available and approve EA requests above a country threshold prior to disbursing FMS funds, when requested;

5.1.3.5.2. Facilitate resolution, or resolve all rejects of EA to lessen Prompt Payment Act interest payments;

5.1.3.5.3. Resolve situations where EA was approved but returned without a disbursement; and

5.1.3.5.4. Ensure EA is obtained prior to processing a transfer, correction of charges against, or credits to the FMS Trust Fund using Standard Form (SF) 1080, Voucher for Transfers Between Appropriations and/or Funds, or SF 1081, Voucher and Schedule of Withdrawals and Credits.

5.1.4. IAs' Responsibilities

5.1.4.1. Provide information needed to the DSCA (International Operations Office, Case Writing Division) for payment schedule preparation at the line-level, in the Defense Security Assistance Management System (DSAMS). The IA will approve the schedule as part of the Letter of Offer and Acceptance (LOA) document coordination/signature process. Additional information on payment schedule preparation is in the SAMM, Chapter 9, paragraph C9.9.1;

5.1.4.2. Develop progress payment schedules or historical cost curves systematically for DoW major weapon systems (used to determine payment schedule distributions for procured materiel requiring progress payments to contractors), and review the schedules or curves when the acquisition strategy changes;

5.1.4.3. Review all case payment schedules, at least annually, in preparation for a formal review with the FMS purchaser, or when the case value adjusts by ten percent or more;

5.1.4.4. Request and receive EA approval prior to processing a disbursement citing the FMS Trust Fund;

5.1.4.5. Resolve unmatched disbursements, negative unliquidated obligations, and in-transit disbursements using the authorities found in Volume 3;

5.1.4.6. Validate obligations in accordance with the requirements found in Volume 3; and

5.1.4.7. Perform case reviews including reviewing and reconciling general case and delivery-related data, expenditures/disbursements, and USG financial requirements.

5.1.4.7.1. If payment schedules are inadequate to meet USG financial requirements, the IA must promptly notify the responsible DSCA Country Financial Director, DFAS Security Cooperation Accounting (SCA), and the FMS purchaser of the additional requirements. The IA must also follow up on this notification by issuing a revised payment schedule via an LOA modification.

5.1.4.7.2. During the annual review of the case, if payment schedules overstate USG financial requirements due to delays in contract award, delivery slippages, or other reasons, the IA must issue a revised payment schedule via an LOA modification or amendment. The IA is responsible for ensuring that the USG does not prematurely collect customer funds.

5.1.4.7.3 For additional information on format and procedures related to payment schedule revisions via Modification and Amendment, see SAMM Chapter 9.9.3.

5.1.5. Payment Activities Responsibilities

Payment Activities are defined as the entities responsible for the payment of invoices either to commercial vendors or payees, or for executing intragovernmental payments or collections. Payment Activities are responsible for requesting and receiving EA approval prior to the certification to a disbursing officer of a voucher for a commercial payment, or an intragovernmental payment or payment refund, which cites the FMS Trust Fund.

5.2 FMS Cash Management Characteristics

5.2.1. For procedures related to cash in advance, SBLC, FRB accounts, CBAs, and disbursements, see SAMM, Appendix 10.

5.2.2. FMS Trust Fund. The FMS Trust Fund is managed as a single cash entity, regardless of the source of the deposits. All FMS Trust Fund deposits are accounted for at purchaser and case level by source of financing. Examples of funds include FMF (FMS Credit and FMS Credit (non-repayable)) and the Military Assistance Program (MAP) Merger. Examples of other types of funds are a purchaser's national funds, which include third-party funds, and other DoW appropriated funds.

5.2.3. Funds. Under the AECA, the USG may provide funds annually to certain allied or friendly countries to finance the purchase of U.S. defense articles and services. See SAMM, Appendix 10.

5.3 FMS Payment Schedules

For procedures related to payment requirements, timing of payments, initial deposits, and payment schedule revisions, see SAMM, Chapter 9.9 and Appendix 10.

5.4 FMS Cash Requirement Calculations

For procedures related to the calculation of initial estimate of cash needed, administrative surcharge included in initial deposit, estimate of cash needed to collect Nonrecurring Cost (NC) recoupment charges, and forecasting procedures, see SAMM, Appendix 10.

5.5 FMS Quarterly TL Reserve Requirement

TL Reserve is the amount of prepayments placed in reserve on a quarterly basis. For FMS purchasers with an FRB account, the TL Reserve is maintained in their FRB account, provided sufficient funds are on deposit in the FRB to cover the TL reserved amount. Otherwise, the FMS purchaser's Trust Fund TL Reserve Account will be utilized. The TL Reserve is not an additional charge or cost. These funds are fenced for potential termination costs; however, they do not necessarily represent the entire cost to cancel the contract. These funds cannot be used for normal disbursement activities (e.g., to pay for articles/services, administrative surcharges, or accessorial charges). For procedures related to the TL Reserve, see SAMM, Appendix 10.

5.6 Contractor Request for Progress Payments and Reimbursement of Costs

Contractor Request for Progress Payments and Reimbursement of Costs Under Contracts Including FMS Requirements. For procedures related to contractor allocations, allocation of payments on contracts, and contract payment offices, see SAMM, Appendix 10.

5.7 Deposit of Purchaser Cash Into Treasury Accounts

For procedures related to wire transfers and checks, see SAMM, Appendix 10.

5.8 EA

EA is an FMS country-level authority, which allows payments to be made against obligations previously recorded against a country's trust fund account. EA is the formal segregation of trust fund cash in the FMS Trust Fund, making the cash no longer available for any other purpose.

5.8.1. Cash Advances. A cash advance to an appropriation account must be obtained when a cash disbursement for an FMS contract would result in the applicable appropriation account being placed in a negative cash position. The amount requested must be equal to anticipated disbursing demands for a 30-calendar-day period. Liquidation of outstanding advances (earning the advance through payment to contractors) must be reported to DFAS SCA monthly. The objective is to limit the amount and length of time that outstanding advances remain against the trust fund.

5.8.2. Cash Flow Problems. DFAS SCA notifies the DSCA Country Financial Director when sufficient, unencumbered cash is not available for DFAS SCA to provide cash advances or EA, and contractor billings cannot be paid by the due date. The DSCA Country Financial Director then takes appropriate action as outlined in subparagraph 5.1.2.2.

6.0 SC CASE FILES

6.1 Case File Documents Policy

This section establishes policy to maintain documents for case files and is designed to facilitate uniform standards for maintaining case files to ensure that all necessary documentation is readily available and retrievable by the appropriate activities. This policy applies to all case files, regardless of storage media (i.e., electronic or hard copy).

6.2 National Archives and Records Administration (NARA)

Within the Federal Government, NARA is responsible for promulgating procedures for the disposal of all USG records. The NARA Records Management Program provides guidance and assistance for the management and disposition of Federal records in the General Records Schedules (GRS).

6.3 DoW Records Management Program

The DoW Records Management Program outlines records management policy and responsibilities. Within DoW, there are 26 Records Management Programs, each with an appointed Federal Agency Records Officer, Records Management Manual, Instruction or Regulation, and Records Disposition Schedules (RDS). DoW's RDS must comply with NARA guidelines and may include additional financial records used in DoW business operations that are not listed in the NARA GRS. For procedures related to records management, see SAMM, Appendix 10.

6.4 Concepts and Requirements

6.4.1. For procedures related to management and maintenance of case files, see SAMM, Appendix 10.

6.4.2. Each DoW Component, IA, and the DFAS, in its role as an accounting service provider, is responsible for maintaining its respective portion of the case file as required in section 3.0.

6.5 Uniform Case Documentation

For procedures related to case documentation requirements and case documentation maintenance and disposition, see SAMM, Appendix 10.

7.0 FMS PRICING

This section provides policy for articles, services, and training and to ensure the DoW Components engaged in SC uniformly and consistently apply pricing methodologies that recoup current period costs and a reasonable contribution to nonrecurring Research, Development, Test, and Evaluation (RDT&E) and production costs. Nonrecurring RDT&E and production costs represent historical decisions to expend RDT&E funds to develop new equipment or to purchase assets or facilities. FMS customers benefit from the investment decision, although it is based entirely on DoW requirements when they purchase related equipment or when the use of the assets and facilities is necessary to provide ordered services or to deliver ordered material.

7.1 Responsibilities

7.1.1. Price Establishment. The DoW Components that sell defense articles or services under FMS LOAs must:

7.1.1.1. Ensure defense articles and services provided to foreign partners are priced in accordance with the policies established in this section; and

7.1.1.2. Establish a single selling price for defense articles and services. A single selling price includes the additional charges for nonrecurring RDT&E and production costs, costs for recurring procurement support efforts, transportation costs when the use of DoW transportation is approved, and other applicable surcharges.

7.1.2. For procedures related to additional price information, transportation of material, case management, and buy-backs, see SAMM, Appendix 10.

7.2 Estimating Prices and Billed Values for an LOA

7.2.1. FMS pricing policy for an LOA stipulates how costs are determined when the FMS purchaser is billed and establishes how to develop a price estimate. An essential difference between the billed price and the estimated price on an offer is the degree of certainty associated with each pricing method. 22 U.S.C. § 2751 states that foreign military sales are approved only when they are consistent with the foreign policy interest of the United States and the purpose and principles of the United Nations Charter.

7.2.2. Per 22 U.S.C. § 2761(a)(1), the President may sell defense articles and defense services from the stocks of the DoW and the Coast Guard to any eligible country or international organization if such country or international organization agrees to pay in U.S. dollars for specific instances. For a list of such countries and international organizations, as well as a list of charges applicable to the Sale of War Articles or Services, see SAMM, Appendix 10.

7.2.3. For procedures related to LOA values and FMS billing values, see SAMM, Appendix 10.

7.3 Accessorial Costs

Accessorial Costs represent certain expenses incidental to issues, sales, and transfers of material that may or may not be included in the standard price or contract cost of material. The various types of accessorial costs that may be applicable to FMS shipments include packing, crating, and handling (PC&H); transportation; port loading and unloading; and staging.

7.3.1. PC&H. PC&H includes the costs incurred at DoW facilities for labor, materials, or services in removing requisitioned articles from storage locations, preparing them for shipment from the storage or distribution points, and processing necessary material release confirmation documents. For procedures related to PC&H costs and rates, see SAMM, Appendix 10.

7.3.2. Transportation. Transportation costs include DoW-supplied or DoW-financed transportation (land, air, inland and coastwise waterways) within and outside the U.S. and overseas transportation by vessel or air. This includes parcel post via surface or air. For procedures related to Non-DWCF, DWCF, and pricing transportation, see SAMM, Appendix 10.

7.3.3. Port Loading and Unloading Costs. Port loading and unloading costs include DoW-supplied or DoW-financed labor, materials, or services for loading, unloading, and handling at ports of embarkation or debarkation.

7.3.4. For procedures related to staging costs, see SAMM, Appendix 10.

7.4 FMS Administrative Surcharges

FMS Administrative Surcharges must be added to all FMS cases (unless waived pursuant to legal authority, see SAMM 9.6.1.) to recover DoW expenses. SAMM C9.T4 gives further guidance on the current FMS administrative surcharges and how they are applied. For procedures related to standard FMS administrative surcharges, DoW component administrative expenses, FMS administrative surcharge on cases closed at reduced or no value, and waived FMS administrative surcharge, see SAMM, Appendix 10.

7.5 Logistics Support Charge (LSC)

For procedures on charges for LSC, see SAMM, Appendix 10.

7.6 Program Management Services

For procedures related to level of service and cost allocation, see SAMM, Appendix 10.

7.7 CLSSA

For procedures related to CLSSA management, general pricing, FMS administrative surcharges, storage costs, normal operating inventory loss, unusual inventory loss, obsolete material, and purchaser equity, see SAMM, Appendix 10.

7.8 Storage, Repair, or Modification of Purchaser Owned Material

For procedures related to storage, repair, or modification, FMS administrative surcharge, and special instructions applicable to DWCF activities, see SAMM, Appendix 10.

7.9 Use or Expansion of DoW Facilities and Equipment for FMS

7.9.1. All costs of construction, or expansion of facilities, desired by and for the exclusive use of the foreign government must be financed and funded by the foreign government. Charges by the USG for labor, material, or services must be reimbursed in accordance with the provisions of paragraphs 7.14 and 7.19. Any expansion of facilities or equipment required for DoW use, which may also be available for FMS, must be funded through the normal DoW budget process.

7.9.2. For procedures related to reimbursement of proportionate share, work at DoW test facilities and laboratories, and Embedded Computer Software (ECS) facilities, see SAMM, Appendix 10.

7.10 Costs Allocable for Jointly Used Facilities.

For procedures related to joint use of office or storage space and joint use of satellites, see SAMM, Appendix 10.

7.11 Periodic Review and Rates/Surcharge Revision

Procedures related to periodic rate reviews and rate revision, see SAMM, Appendix 10.

7.12 FMS Cost Recoupment Waivers and Exclusions

7.12.1. A cost recoupment waiver is the exercise of legal authority to partially or totally waive the recoupment of incurred costs. A cost recoupment waiver is not an exception to the pricing policy.

7.12.2. Waiver of NC Recoupment Charges

7.12.2.1. 22 U.S.C. § 2761(e)(2)(A) authorizes the President to reduce or waive the NC recoupment charge or charges, which would otherwise be considered appropriate under 22 U.S.C. § 2761(e)(1)(B) for particular sales that would, if made, significantly advance USG interest in North Atlantic Treaty Organization (NATO) standardization; standardization with the Armed Forces of Japan, Australia, the Republic of Korea, Israel, or New Zealand, in furtherance of the mutual defense treaties between the U.S. and those countries; or foreign procurement in the U.S. under coproduction agreements.

7.12.2.2. 22 U.S.C. § 2761(e)(2)(B) authorizes the President to waive NC recoupment charges for a particular sale if it is determined that: (a) imposition of the charge or charges likely would result in the loss of the sale; or (b) the waiver of the charge or charges for MDE would result in savings to the U.S. that substantially offset the revenue due to this waiver.

7.12.2.3. 22 U.S.C. § 2761(e)(2)(C) gives the President the authority to waive, for particular sales of MDE, any increase in a charge or charges previously considered appropriate under 22 U.S.C. § 2761(e)(1)(B). This authority is given if the increase results from a correction of an estimate (reasonable when made) of the production quantity base that was used for calculating the charge or charges for purposes of such paragraph.

7.12.2.4. The authority to waive NC recoupment charges has been delegated to the Director, DSCA. All waiver requests must be coordinated with the Office of the Under Secretary of War (OUSW) for Policy (P) for loss of sale, and OUSW(Comptroller).

7.12.3. Special Waiver Authority for NATO Airborne Warning and Control System (AWACS). Notwithstanding subparagraph 5.4.1, 10 U.S.C. § 2350e authorizes the SecWar in carrying out the NATO AWACS program to:

7.12.3.1. Waive reimbursement for the costs of the following functions performed by personnel other than personnel employed in the U.S. Air Force AWACS program office: Auditing; quality assurance; codification; inspection; contract administration; acceptance testing; certification services; and planning, programming, and management services;

7.12.3.2. Waive any surcharge for administrative services otherwise chargeable; and

7.12.3.3. Assume contingent liability for: (1) any program losses resulting from the gross negligence of any contracting officer of the U.S.; (2) identifiable taxes, customs duties,

and other charges levied within the U.S. on the program; and (3) the U.S. share of unfunded termination liability.

7.12.4. Waiver of CAS and Cataloging Services

22 U.S.C. § 2761(h) authorizes the President to provide (without charge) quality assurance, inspection, CAS, contract audit defense services, cataloging data, and cataloging services. For a list of scenarios where 22 U.S.C. 2761 applies, see SAMM, Appendix 10.

7.12.5. Special Waiver Authority for NATO Cooperative Projects

7.12.5.1. 22 U.S.C. § 2767(e)(1) stipulates that the President may reduce or waive the charge or charges in connection with cooperative projects or agreements entered into under the authority of that section. The charges that may be reduced or waived are those that are otherwise considered appropriate under 22 U.S.C. § 2761(e) (see subparagraph 13.1.2) for sales of defense articles and services from stocks or new procurements when the other participants agree to waive or reduce such charges.

7.12.5.2. Waiver authority of the President under 22 U.S.C. § 2767 has been delegated to the Director, DSCA.

7.12.5.3. For procedures related to administrative surcharges, exclusions of Cost of Military Pay and Entitlements, exchanges of unit training and related support, and fair pricing, see SAMM, Appendix 10.

7.12.6. Special Authorities In accordance with the administration of the European Air Defense Agreements, the SecWar is authorized under the International Security and Development Cooperation Act of 1985, Section 132 (see 22 U.S.C. § 2767(e)) to (1) waive any surcharge for administrative services otherwise chargeable under 22 U.S.C. § 2761(e)(1)(A); and (2) waive any charge not otherwise waived for services associated with contract administration for the sale (under the AECA) of Patriot Air Defense Missile Fire units to the Federal Republic of Germany contemplated in the agreements.

7.13 Exception to Pricing Policies

For procedures related to pricing policy exceptions, see SAMM, Appendix 10.

7.14 Cash Sales of War Articles Issued from Stock

For procedures related to sale of defense articles, excess defense articles, quotation of firm prices, and returns, see SAMM, Appendix 10.

7.15 Cash Sales of War Articles and Services from Procurement for Direct Delivery and New Production

For procedures related to cost principles, nonrecurring RDT&E and nonrecurring production costs, CAS costs incurred in support of new procurements for FMS, CAS costs incurred in support of foreign country commercial contracts, costs for Government Furnished Material (GFM), other DoW-funded services in support of FMS procurements, customization costs, items to be replaced by later production, production by foreign governments, recoupment of interest penalties due to the Prompt Payment Act, and price codes, see SAMM, Appendix 10.

7.16 Leasing of War Articles

For procedures related to the pricing of leased defense articles and replacement costs, see SAMM, Appendix 10.

7.17 Technology Transfer

For procedures related to Technical Data Packages (TDPs) and pricing of TDPs, see SAMM, Appendix 10.

7.18 Publications

For procedures related to publication terms, publication/software pricing factors, development of per-copy selling prices, and other applicable costs, see SAMM, Appendix 10.

7.19 FMS Pricing of Personnel Services

For procedures related to pricing civilian personnel, Military Personnel (MP), foreign national personnel, travel and living allowances, and special instructions applicable to DWCF, see SAMM, Appendix 10.

7.20 Training of International Students

For procedures related to international student training price exceptions, see SAMM, Appendix 10.

7.21 Standard Guidelines for Tuition-Based Training

For procedures related to types of training, courseware development, liability for damages, training obligations, annual publication of tuition rates, adjustments to tuition rates and training obligations, training cancellations, student costs, Field Studies Program (FSP), and Retainable Instructional Materials (RIM), see SAMM, Appendix 10.

7.22 Pricing of Tuition-Based Training

7.22.1. Cost Categories. The pricing of FMS training tuition rates falls under one of two costing schemes – full cost or incremental cost. Within each cost scheme, costs are segregated into three categories: direct costs, indirect costs, and other billable costs.

7.22.1.1. Direct Cost. A direct cost is any cost that is identified specifically with the training of a student. Direct costs also include directly associated costs that would not have been incurred had the other direct costs not been incurred (e.g., costs that are allocated on a specific measurable basis - cost per student week, cost per flying hour/sortie, costs per steaming hour, costs per range hour).

7.22.1.2. Indirect Cost. Indirect costs are costs of resources that are jointly or commonly used by all activities at an installation but are not specifically identifiable with any of the users. These costs are not directly related to training but instead are associated with a variety of activities and services.

7.22.1.3. Other Billable Cost. Other billable costs are those required by legislation or policy that are additive to the cost of training an international student (e.g., FMS administrative surcharge, FSP, attrition, and RIM).

7.22.2. For procedures related to pricing of personnel, pricing of full cost of training (tuition rates A and B), and pricing of additional cost training under SC and SA authorities (rates C, D, and E), see SAMM, Appendix 10.

7.23 Specialized/Dedicated Training Programs

A specialized/dedicated training program is a training program developed or provided solely for the training of international students (one or more countries).

7.23.1. When pricing specialized/dedicated training programs, full cost-pricing principles (refer to subparagraph 7.22.2) must be applied. Appropriate legislative authority and terms of the reciprocal pricing agreements between the United States and foreign partner must be taken into consideration. General guidelines for other types of training events are found in the SAMM Chapter 10.

7.23.2. For procedures related to specialized/dedicated training programs offered by the U.S. Army, Navy, and Air Force, personnel composition, inflation factors, start-up costs, direct costs, indirect costs, and other billable costs, see SAMM, Appendix 10.

7.24 Pricing of Training Teams

See SAMM, Appendix 10 for procedures related to pricing for training teams funded under various SC and SA programs.

8.0 BILLING AND REIMBURSEMENT

This section establishes the standard policies for use when DFAS, SCA Directorate bills foreign governments and international organizations (hereafter referred to as FMS purchasers) for costs related to defense articles and services sold pursuant to the Arms Export Control Act (AECA) under the FMS program (note: AECA starts on page 427 of Legislation on Foreign Relations, Volume 1-A); the DoW Components report FMS deliveries of materiel and services, contractor progress payments, and other related costs to DFAS SCA to obtain reimbursement or to report performance under an allotment of FMS Trust Fund budget authority; and the DoW Components request reimbursement from the other DoW Components for costs associated with inter-service support of FMS cases.

8.1 Responsibilities

For procedures covering responsibilities of DSCA, DFAS, IAs, and supporting DoW components, see SAMM, Appendix 10.

8.2 FMS Billing Statement

For procedures related to billings for cases with payment upon delivery, case final statements, and FMS delivery listings, see SAMM, Appendix 10.

8.3 FMS Purchaser Requests for Billing and Supply Adjustments

Procedures related to adjustment reply codes and reply listings, see SAMM, Appendix 10.

8.4 IA Performance Reports or Requests for Reimbursement

For procedures related to reporting deliveries, interfund transfers, and DFAS SCA computations, see SAMM, Appendix 10.

8.5 Transportation Cost Look-Up Table

The purpose of the Transportation Cost Look-Up table is to provide DoW Components with estimated transportation costs for items normally shipped in the Defense Transportation System (DTS) (e.g., sensitive/hazardous end items) when costs using standard transportation percentages are significantly different from actual charges. This table is in the SAMM, Appendix 2, and is used to compute an estimate of the actual transportation costs for the items listed.

8.6 Billing for Specific Costs

For procedures related to actual administrative costs, actual FMS CAS costs, actual transportation costs, and actual PC&H, see SAMM, Appendix 10.

8.7 Supporting DoW Component Performance Reports/Requests for Reimbursements

For procedures related to processing requisitions, see SAMM, Appendix 10.

8.8 Performance and Delivery Reporting

For procedures related to pertinent DFAS reports, Reject Codes, and reconciling reports, see SAMM, Appendix 10.