# Audit Report

OFFICE OF THE INSPECTOR GENERAL

**PRINCIPAL FINANCIAL STATEMENTS OF THE DEFENSE SECURITY ASSISTANCE AGENCY - FY 1992**

Report No. 93-142 June 30, 1993

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**Department of Defense**

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**Acronyms**

| | |
|---|---|
| AECA | Arms Export Control Act, as amended |
| CFO | Chief Financial Officer |
| DFAS | Defense Finance and Accounting Service |
| DSAA | Defense Security Assistance Agency |
| FMFDLFA | Foreign Military Financing Direct Loan Financing Account |
| FMLLA | Foreign Military Loan Liquidating Account |
| FMFIA | Federal Managers' Financial Integrity Act |
| FMS | Foreign Military Sales |
| MILDEPS | Military Departments |
| OMB | Office of Management and Budget |
| SDAF | Special Defense Acquisition Fund |

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

June 30, 1993

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF
THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Principal Financial Statements of the Defense Security Assistance Agency - FY 1992 (Report No. 93-142)

We are providing this audit report for your information and use, and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General to express an opinion on the fairness of financial statements. Also, we are required to report on the adequacy of internal controls and compliance with laws and regulations. This report summarizes our audits of the financial statements of three funds managed by the Defense Security Assistance Agency (DSAA). We have issued separate audit reports for each of the three funds. Report No. 93-123 addressed the Foreign Military Sales (FMS) Trust Fund, Report No. 93-106 addressed the Foreign Military Loan Liquidating Account (FMLLA), and Report No. 93-121 addressed the Special Defense Acquisition Fund (SDAF).

We are expressing an adverse opinion on the Principal Financial Statements. The DoD did not account for revenues, expenses, or net position of the FMS Trust Fund. These account balances were reported at zero amounts, although the DoD disbursed $12.4 billion on behalf of foreign customers for goods and services sold in FY 1992. In addition, accounts payable by the FMS Trust Fund were not included in the statements for Army and Navy sales cases; and SDAF revenues, expenses, and results of operations were not recognized when required by the DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983.

In our separate reports on the funds, we expressed an adverse opinion on the FMS Trust Fund, an unqualified opinion on the FMLLA, and a disclaimer of opinion on the SDAF.

We found that no official or organization exercised overall management of the FMS Trust Fund's day-to-day operations; that audit trails for FMS disbursements were inadequate; that the SDAF general ledger accounting system did not meet the requirements for a DoD general ledger system; and that there were no written procedures for SDAF accounting. We also observed instances of noncompliance with laws and regulations. Because FMS revenues and expenses were not accounted for, we could not determine whether DoD was complying with the Arms Export Control Act (as amended), which requires that the FMS program be operated at no cost to the U.S. Government. Internal control reviews of FMS, performed under the provisions of the Federal Managers' Financial Integrity Act, were inadequate. Also, DoD did not follow accrual accounting principles for the recognition of SDAF revenues, expenses, and results of operations. Details of the conditions are discussed in Parts II and III of the report. This report contains no recommendations that are subject to resolution in accordance with DoD 7650.3; therefore, comments are not required.

The Principal Financial Statements are not reliable or useful. The statements do not include FMS revenues, expenses, and net position. Also, DoD has postponed the recognition of SDAF revenues, expenses, and results of operations. For these reasons, the financial statements are distorted and withhold important information. Until DoD accounts for the revenues, expenses, and net position of the FMS Trust Fund and SDAF, DSAA's Principal Statements should not be used as a basis for making decisions.

The courtesies extended to the audit staff during the audit are appreciated. If you have any questions, please call Mr. David C. Funk, Program Director, at (303) 676-7445 (DSN 926-7445), or Mr. Byron B. Harbert, Project Manager, at (303) 676-7405 (DSN 926-7405). Please see Part IV, Appendix C, for the distribution of this report.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

**Office of the Inspector General, Department of Defense**

Report No. 93-142 June 30, 1993
(Project No. 2FD-2005.01)

# AUDIT REPORT ON THE PRINCIPAL FINANCIAL STATEMENTS OF THE DEFENSE SECURITY ASSISTANCE AGENCY - FY 1992

## EXECUTIVE SUMMARY

**Introduction.** The Chief Financial Officers Act requires an annual audit of funds such as the Foreign Military Sales Trust Fund (the FMS Trust Fund), the Foreign Military Loan Liquidating Account (FMLLA), and the Special Defense Acquisition Fund (SDAF). The FMS Trust Fund administers the financial transactions of the FMS program. The FMLLA consolidated all pre-1992 direct loans and loan guarantees for foreign military financing. The SDAF was established as a revolving fund to finance the acquisition of defense items with long procurement lead times, in anticipation of sales to foreign countries. The FMS Trust Fund, the FMLLA, and the SDAF had assets of $21.8 billion, $10.9 billion, and $1.1 billion, respectively, on September 30, 1992.

This report summarizes our audits of the financial statements of the three funds managed by the Defense Security Assistance Agency (DSAA). We have issued separate audit reports for each of the three funds. Report No. 93-123 addressed the Foreign Military Sales (FMS) Trust Fund, Report No. 93-106 addressed the FMLLA, and Report No. 93-121 addressed the SDAF.

**Objectives.** The primary objective of the audit was to determine whether the Principal Financial Statements for FY 1992 were presented fairly in accordance with generally accepted accounting principles for Federal entities. We evaluated the internal control structure established for the three funds, and we assessed compliance with laws and regulations that could have a material effect on the financial statements. We also determined the reliability and usefulness of financial information reported to the Office of Management and Budget (OMB), the Department of the Treasury, DoD, and management of the funds.

**Independent Auditor's Opinion.** We are expressing an adverse opinion on the Principal Financial Statements. The statements did not account for revenues, expenses, or net position of the FMS Trust Fund. Those account balances were reported at zero amounts, although the DoD disbursed $12.4 billion on behalf of foreign customers for goods and services sold in FY 1992. In addition, accounts payable of the FMS Trust Fund were not included in the statements for Army and Navy sales cases. Also, SDAF revenues, expenses, and results of operations were not recognized when required by DoD Manual 7220.9-M, the "DoD Accounting Manual," October 1983.

In our separate reports on the funds, we expressed an adverse opinion on the FMS Trust Fund, an unqualified opinion on the FMLLA, and a disclaimer of opinion on the SDAF.

**Internal Controls.** We found internal control weaknesses that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06. We found that no official or organization managed the FMS Trust Fund's day-to-day operations. DSAA was responsible for overall program policy and direction and was designated as the FMS Trust Fund's manager, but did not have the authority to exercise its responsibilities. Authorities and responsibilities were divided among many officials and organizations, and the FMS program had no unified system for management and accounting. We also found that audit trails for disbursements were inadequate; that the SDAF general ledger accounting system did not meet the requirements for a DoD general ledger system; and there were no written procedures for SDAF accounting.

**Compliance with Laws and Regulations.** Material instances of noncompliance were disclosed. DoD did not account for the revenues, expenses, and net position of the FMS Trust Fund as required by OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, and DoD Manual 7220.9-M, "DoD Accounting Manual," Chapter 52, October 1983. Consequently, the financial statements were misleading and we were unable to determine whether DoD was complying with the provision of the Arms Export Control Act that requires the FMS program to be operated at no cost to the U.S. Government. An internal control review, under the provisions of the Federal Managers' Financial Integrity Act, was not performed for FMS; such a review was outside the scope of any single organization engaged in FMS operations. The financial statements did not include accounts payable for Army and Navy transactions, as required by DoD Manual 7220.9-M. In addition, DoD did not follow accrual accounting principles for the recognition of SDAF revenues, expenses, and results of operations.

**Usefulness of Financial Statements.** The Principal Financial Statements are not reliable or useful. The statements do not include FMS revenues, expenses, and net position. Also, DoD has postponed the recognition of SDAF revenues, expenses, and results of operations. For these reasons, the financial statements are distorted and withhold important information. Until DoD accounts for the revenues, expenses, and net position of the FMS Trust Fund and SDAF, DSAA's Principal Statements should not be used as a basis for making decisions.

**Management Comments.** We provided management with draft reports of Parts II and III of each of the reports on the three funds. We received comments from the Chief Financial Officer (CFO) and from the DSAA Comptroller.

The CFO nonconcurred with most of the internal control and compliance issues related to the FMS Trust Fund, including the need to account for revenues, expenses, and net position. The CFO also disagreed that the FMS program needs a fund manager with authority over all its operations. The CFO agreed that SDAF revenues, expenses, and results of operations should be recognized when deliveries are made, but stated that a change in accounting methods would not be cost-effective because the SDAF is being disestablished. The CFO agreed that the SDAF general ledger system did not meet requirements and that written accounting procedures for SDAF were needed.

The DSAA Comptroller disagreed with the need for an FMS fund manager with authority over all FMS operations, and he did not agree that audit trails are inadequate. He agreed with our position on most other FMS issues. The DSAA Comptroller disagreed that SDAF revenues, expenses, and results of operations should be recognized when deliveries are made to customers. He did not agree that the SDAF general ledger system was inadequate, and he partially agreed that written accounting procedures for SDAF were needed.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

# Part I - Independent Auditor's Opinion on the Financial Statements

# Introduction

The Principal Financial Statements of the Defense Security Assistance Agency (DSAA) consolidate the financial statements of the Foreign Military Sales (FMS) Trust Fund, the Foreign Military Loan Liquidating Account (FMLLA), the Special Defense Acquisition Fund (SDAF), and the Foreign Military Financing Direct Loan Financing Account (FMFDLFA). The FMS Trust Fund was established to administer the financial transactions of the FMS program. The FMLLA consolidated all pre-1992 Foreign Military Financing direct loans and loan guarantees. The SDAF was established as a revolving fund to finance the acquisition of defense items with long procurement lead times in anticipation of sales to foreign countries. The FMFDLFA was established to provide borrowing authority for recipient countries to buy items through the FMS program and direct commercial sales. The FMS Trust Fund, the FMLLA, the SDAF, and the FMFDLFA have assets of $21.8 billion, $10.9 billion, $1.1 billion, and $50 million, respectively.

The Chief Financial Officers Act requires an annual audit of funds such as the FMS Trust Fund, the FMLLA, the SDAF, and the FMFDLFA. DoD is required to produce financial statements for these funds. Those statements are the responsibility of DoD. Our responsibility is to express an opinion on those statements based on our audit.

# Scope

The audit was made from January 1992 to June 1993. We visited the Office of the Comptroller of the Department of Defense; the DSAA; Headquarters, DFAS; DFAS centers in Columbus, Ohio, Indianapolis, Indiana, and Denver, Colorado; the Defense Logistics Agency; and selected activities in the Army, the Navy, and the Air Force. Appendix B, Part IV, contains a list of organizations visited or contacted. We examined the Principal Financial Statements of DSAA and the financial statements of the FMS Trust Fund, the FMLLA, and the SDAF, as of and for the fiscal year ended September 30, 1992. We did not examine the statements of the FMFDLFA because the amount of that account was not material. The objective of our audit was to determine whether the Principal Statements presented fairly, in all material respects, the financial position, results of operations, and changes in financial position of the three DSAA funds in accordance with DoD accounting principles. The Principal Financial Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements, including the Notes to the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statements. We developed client profiles and cycle

memorandums for each of the three funds. We reviewed policies, procedures, and internal controls for assets, liabilities, revenues, and expenses; we also performed such tests of the accounting records as we considered necessary. We believe that our audit efforts provide a reasonable basis for our opinion.

## Auditing Standards

We conducted our audit in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

## Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Comptroller General and the Director, OMB, based on advice from the Board. In the interim, Federal agencies are to follow the applicable accounting standards contained in agency accounting policies, procedure manuals, and related guidance.

## Adverse Opinion

DoD did not account for revenues, expenses, or net position of the FMS Trust Fund. Those account balances were reported at zero. This presentation erroneously asserts that DoD did not sell any goods or services to foreign countries in FY 1992, did not incur any expenses in procuring goods or services on behalf of foreign countries, and has no net position resulting from sales in FY 1992 and prior years. DoD records show that $12.4 billion was paid for goods sold to foreign customers. That amount was disbursed to contractors and reimbursed to DoD Components from the FMS Trust Fund in FY 1992. The acting Chief Financial Officer (CFO) directed that no amounts be reported for revenues, expenses, and net position in the financial statements of the FMS Trust Fund. This direction contradicted the accrual accounting policy in DoD Manual 7220.9-M, the "DoD Accounting Manual," October 1983. It also contradicted the requirements for presentation of financial statements found in OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992.

For the Army and the Navy, accounts payable were not included in the financial statements of the FMS Trust Fund. Consequently, FMS accounts payable are materially understated and include only the amount pertaining to the Air Force.

Revenues and expenses for SDAF were recognized upon closure of applicable FMS cases, rather than when items were delivered to foreign customers. This treatment postponed, by several years, the recognition of revenues and expenses. In addition, the value of the SDAF's work-in-process inventory was not disclosed.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the Principal Financial Statements do not present fairly, in accordance with DoD accounting principles, the financial position of the funds managed by DSAA as of September 30, 1992, or the results of the funds' operations or their cash flows for the year then ended.

# Additional Information

During the audit, we reported several FMS accounting deficiencies to the CFO, the DFAS, and the DSAA in the form of a Management Advisory Memorandum (see Part VI). The deficiencies included failure to account for revenues, expenses, and net position; failure to include fixed assets and depreciation expenses in the statements; a lack of procedures for aging past-due accounts; and a lack of provisions for writing off uncollectible accounts. The CFO, the DFAS, and the DSAA took no action on accounting for revenues, expenses, net position, fixed assets, and depreciation. The fixed assets and depreciation were not material. The CFO and DFAS took action to establish procedures for aging accounts receivable. A legal opinion from the General Counsel, DoD, held that the DoD lacks authority to write off amounts greater than $100,000.

We also reviewed the financial information presented in management's Overview of the Reporting Entity and Supplemental Financial and Management Information for FY 1992. That information has not been audited by us; therefore, we are not expressing an opinion on it.

# Part II - Internal Controls

# Introduction

We audited the internal control structure of the Foreign Military Sales (FMS) Trust Fund, the Foreign Military Loan Liquidating Account (FMLLA), and the Special Defense Acquisition Fund (SDAF) for the year ended September 30, 1992. Such audits are a requirement of the Chief Financial Officers Act of 1990.

Managers of the DoD Components that operate the FMS Trust Fund, the FMLLA, and the SDAF are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, management must make estimates and judgments in order to assess the expected benefits and related costs of internal control structure policies and procedures. An internal control structure should provide management with reasonable but not absolute assurance that the following objectives are met.

o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

o Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the consolidating statements, and any other laws and regulations that the Office of Management and Budget (OMB), entity management, or the Inspector General, Department of Defense, has identified as being significant and for which compliance can be objectively measured and evaluated.

o Data that support reported performance measures are properly accounted for to permit preparation of reliable and complete information.

# Objectives and Scope

The objective of the audit was to determine whether material internal control weaknesses existed.

In planning and performing our audits of the FMS Trust Fund, the FMLLA, and the SDAF for the year ended September 30, 1992, we evaluated those funds' internal control structures. Our evaluation had two purposes: to determine our auditing procedures for expressing our opinion on the financial statements, and to determine whether the internal control structure was established to ensure that the statements were free of material misstatements. We obtained an understanding of the internal control policies and procedures and assessed the level of control risk relevant to all significant cycles, classes of

transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable, and would not necessarily disclose all conditions that are also considered to be material weaknesses. The conditions discussed in this report materially affect the DSAA's FY 1992 Principal Statements. The Comptroller of the Department of Defense, the Defense Security Assistance Agency (DSAA), the Defense Finance and Accounting Service (DFAS), and the Military Departments did not report the conditions in the annual statements they issued for FY 1992 to meet requirements of the Federal Managers' Financial Integrity Act.

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

## Prior Audit Coverage

Internal control issues of the DSAA funds were addressed by the following audits and other reviews performed by the Inspector General, Department of Defense, and the General Accounting Office (GAO).

**"Foreign Military Sales Defense Efforts Are Improving Program Accounting," Report No. AFMD-90-18.** The GAO issued this report in January 1990. The objective of the audit was to evaluate DoD's progress in resolving the differences between billing and disbursement records in the Fund. The GAO found that progress had been made in resolving the differences, but significant differences remained. No recommendations were made.

**"Defense Security Assistance Programs," Report No. 90-INS-15."** The Inspector General, Department of Defense, issued this report in July 1990. This report stated that flaws in the FMS accounting system have resulted in an out-of-balance condition in the Fund. The report recommended that DSAA and the Security Assistance Accounting Center (now the DFAS-Denver Center) continue to make improvements in the Fund's accounting procedures.

**"Report on the Audit of Foreign Military Sales Trust Fund Disbursement Reporting," Report No. 91-118.** The Inspector General, Department of Defense, issued this report in September 1991. The objective of the audit was to determine whether disbursements from the FMS Trust Fund were promptly and accurately reported to the DFAS-Denver Center. The report concluded that internal controls for disbursements were adequate, and that transaction records

were generally supported by valid documentation. However, the audit did not address the validity of disbursements or the adequacy of related audit trails. No recommendations were made.

**"Audit of the Special Defense Acquisition Fund," Report No. 92-080.** The Inspector General, Department of Defense, issued this report on April 20, 1992. This report concluded that DSAA had postponed recognition of the SDAF's revenues, expenses, and results of operations until the related FMS cases were closed. We recommended that DSAA implement the procedure outlined in DoD Manual 7220.9-M, which requires that revenues, expenses, and results of operations be recorded at the time deliveries are made and title is transferred to customers. Management disagreed with our recommendation and did not implement the recommended accounting change. The report also recommended that DSAA establish an inventory control system that could be reconciled to the Military Departments' inventory systems. Management agreed with the recommendation, but our audit of the FY 1992 financial statements showed that procedures for valuing and reporting inventory were still inadequate.

# Results of Audit

We found internal control weaknesses that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be material in relation to the statements being audited, or material to a performance measure or aggregation of related performance measures, and would not be detected within a timely period by employees in the normal course of performing their assigned functions.

We found that no official or organization exercised overall management of the FMS Trust Fund's day-to-day operations, audit trails for FMS disbursements were inadequate, the SDAF general ledger accounting system did not meet DoD requirements for a DoD general ledger system, and written procedures did not exist for accounting for the SDAF.

**Lack of Overall Management.** Authorities and responsibilities for management of the FMS Trust Fund's day-to-day operations were divided among many officials and organizations. The FMS program also had no unified system for management and accounting. Although DSAA was designated the FMS Trust Fund manager, it did not have the authority to exercise its responsibility. The DSAA had no authority over the Military Departments and other Defense agencies that negotiated and executed the sales, contracted for or provided goods and services to foreign customers, and performed accounting

services for the FMS. In the Military Departments and Defense agencies, we identified 15 different automated systems used to process FMS transactions. Many of those systems were not designed to meet FMS requirements and did not adequately identify and report accrued expenses, accounts payable, disbursements, and interest penalties on late payments to contractors. The DSAA lacked the authority to hold managers in the Military Departments and other Defense agencies accountable for the adequacy of accounting and reporting of FMS transactions. Without central authority, there was no assurance that transactions were adequately reported, charges were correctly computed, and DoD accounting policies were followed.

Government auditing standards require that we ask the head of a reporting entity to provide a management representation letter regarding the financial statements and assertions. Because the FMS Trust Fund did not have a single overall manager, we addressed our request to the Chief Financial Officer (CFO) of the Department of Defense. The CFO replied that his policy was not to sign letters of representation; he stated that such letters should be signed by an official responsible for the day-to-day operations of the reporting entity. Since the FMS Trust Fund had no such official, we could not obtain a management representation letter providing adequate assurance for the financial statements. We received an unrequested representation letter from the DSAA Comptroller. Most of the assurances in the letter included the statement: "Within our cognizance...." Since the DSAA had no authority or cognizance over the DoD activities that execute and account for the FMS program, the DSAA Comptroller's letter did not fulfill the requirement for a management representation letter.

The FMS program needs a single manager with full authority over all operations. Until such a position is established, management of FMS will continue to be fragmented. Consequently, the FMS financial statements will be subject to high risk that presentation is not fair, resources are not adequately protected, account balances are inaccurate, and all applicable costs are not recovered from foreign customers.

**Inadequate Audit Trails for FMS Disbursements.** The DoD had not established adequate audit trails to enable managers or auditors to verify payments. Payments posted to FMS case records at the DFAS-Denver Center could not be traced to the records of the DoD Components that reported the payments, because the systems used did not have this capability. In addition, the DFAS-Denver Center had not established a statistically valid universe of payments, and the DFAS-Columbus Center (DoD's largest disbursing office for FMS contractor payments) did not keep records of all payments. Therefore, we could not perform audit tests to ensure that FMS funds were not used to make fraudulent or erroneous payments.

**SDAF's Accounting System.** SDAF's general ledger accounting system did not meet DoD's requirements for a general ledger system. SDAF's system was not a double-entry system and was not used to compute major account balances, such as inventory, revenues, and cost of sales. Computer systems and data bases at DFAS lacked general and application controls and could produce

unreliable data. In addition, all transactions in the data bases were not properly classified.

**SDAF's Standard Operating Procedures.** Written procedures did not exist to ensure that necessary accounting transactions were properly recorded and reported.

# Management Comments

The CFO nonconcurred with our conclusion that there was inadequate management of the FMS program. He stated that the Director, DSAA, was the fund manager. He acknowledged that execution of the FMS program is decentralized in the DoD Components, which perform day-to-day management of the program. The CFO also gave reasons to support his belief that FMS management should be dispersed among the DoD Components. See Part VII of this report for the full text of the CFO's response.

The DSAA Comptroller also nonconcurred with our assertion about inadequate management of the FMS Trust Fund, but stated, "We agree that no single DoD official or organization exercised management authority over the day-to-day operations of the Foreign Military Sales (FMS) program." The DSAA Comptroller cited DoD's organizational structure and policies as the reasons for his nonconcurrence. See Part VII of this report for the full text of his response.

The CFO nonconcurred with our conclusion that audit trails for disbursements were inadequate, stating that disbursements could be traced to source documentation. The CFO, however, did not state how such tracing could be accomplished. The CFO also stated that DFAS-Columbus Center keeps records of payments.

The DSAA Comptroller nonconcurred with the issue of audit trails and stated that Headquarters, DFAS, advised his agency that the DFAS-Columbus Center keeps records of FMS contractor payments. The DSAA Comptroller did not state how disbursements could be traced.

The CFO concurred that SDAF's general ledger system was inadequate, and stated that DFAS plans to make further changes in order to properly classify all accounts. The changes that are considered cost-effective are expected to be staffed by September 30, 1993.

The DSAA Comptroller did not agree that the SDAF general ledger system was inadequate. He defended DSAA's practice of recognizing revenues and expenses at the time of case closure, rather than when items are delivered to foreign customers.

The CFO concurred that written procedures did not exist for SDAF accounting, and stated that DFAS will establish written procedures by November 1, 1993.

The DSAA Comptroller partially agreed that written procedures for SDAF accounting did not exist, and stated that standard operating procedures would be issued.

## Audit Evaluation of Management Comments

In their responses on the FMS Trust Fund management issue, both the CFO and the DSAA Comptroller cite facts that we believe support our position. The responses agree that no single official has the authority to exercise day-to-day management over FMS. The comments focused, however, on defending current organizational practices within DoD. In our opinion, the dispersed authorities and responsibilities have resulted in inadequate accounting and internal controls.

Regarding FMS audit trails, both the CFO and the DSAA Comptroller stated that disbursement records were kept at the DFAS-Columbus Center. We requested a listing of FMS payments made during FY 1992. However, the Director of the DFAS-Columbus Center stated in a memorandum to us: "An electronic file of each disbursement made in FY 1992 on behalf of an FMS customer is not available at the Columbus Center as we do not have the accounting records."

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# Part III - Compliance with Laws and Regulations

# Introduction

We tested the Foreign Military Sales (FMS) Trust Fund, the Foreign Military Loan Liquidating Account (FMLLA), and the Special Defense Acquisition Fund (SDAF) for material instances of noncompliance with laws and regulations for the year ended September 30, 1992. Such tests are required by the Chief Financial Officers Act of 1990.

# Objectives and Scope

The objective of the audit was to determine whether material instances of noncompliance with laws and regulations existed. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations. Such failures or violations cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or have a sensitive nature that would cause them to be perceived as significant by others.

Compliance with laws and regulations applicable to the Fund is the responsibility of the Chief Financial Officer (CFO) of the Department of Defense; the Director, Defense Security Assistance Agency (DSAA); the Director, Defense Finance and Accounting Service (DFAS); the Directors of other Defense agencies; and the Secretaries of the Army, the Navy, and the Air Force. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements. We also tested compliance with other laws and regulations suggested by the Office of Management and Budget (OMB) and DoD (see Appendix A, Part IV, for a complete list of the laws and regulations we tested). As part of our audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA). We compared the audited entity's most recent FMFIA reports with our evaluation of the entity's policies, procedures, and systems for documenting and supporting financial, statistical, and other information as presented to us in the Overview and Supplemental sections of the financial statements.

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance that the DSAA financial statements are free of material misstatements.

## Prior Audit Coverage

Compliance issues related to the DSAA funds were addressed by the same audits and other reviews discussed on pages 7 and 8 of this report under Internal Controls.

## Results of Audit

The results of our tests of compliance disclosed the following instances of noncompliance that materially affected the reliability of the DSAA's Principal Financial Statements.

**Revenues, Expenses, and Net Position of FMS Not Accounted For.** OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, and DoD Manual 7220.9-M, the "DoD Accounting Manual," October 1983, Chapter 52, require that revenues, expenses, and net position be accounted for and presented in the financial statements. Guidance from the CFO did not allow DSAA and DFAS to account for the FMS Trust Fund's revenues, expenses, and net position. We issued an advisory memorandum to the CFO on August 6, 1992, requesting that revenues, expenses, and net position (equity) be shown in the Fund's financial statements (see Part VI). The CFO responded in a memorandum on August 31, 1992, stating that the FMS program extended beyond the FMS Trust Fund and that revenues, expenses, and net position did not apply to the FMS Trust Fund. We disagree with the CFO. Since the FMS program can only operate through the FMS Trust Fund, accounting for the FMS Trust Fund cannot be separated from accounting for the FMS program. To ensure compliance with the Arms Export Control Act and to effectively manage the Fund's resources, managers and other users need information on the revenues, expenses, and net position of the FMS program.

**FMS Costs Not Determined.** The Arms Export Control Act requires that the FMS program be operated at no cost to the U.S. Government, except where authorized. We could not determine whether the FMS program was in compliance with this law because DoD did not account for FMS revenues, expenses, and net position. Accrual accounting in accordance with DoD Manual 7220.9-M is essential to determining whether DoD is fully recovering all costs of the FMS program.

**FMS Internal Control Reviews.** Internal control reviews did not adequately assess FMS systems and processes. There was no internal control review of the overall FMS program. Operations and accounting for FMS occur within the DoD Components (the Army, the Navy, the Air Force, and the Defense agencies). The DoD Components conducted FMFIA reviews as required; however, there was no overall FMFIA review of accounting for FMS transactions because such a review was outside the scope of any single organization. As a result, FMFIA reviews focused on each organization's role in the FMS program without considering how any one organization's role and procedures affected the role and procedures of the other organizations, or whether the goals of the FMS program were met. We noted a material

weakness in internal controls over accounting for FMS disbursements. That weakness was not addressed in FMFIA reviews. It is discussed in Part II, "Report on Internal Controls."

**Accounts Payable for FMS Were Not Included in Financial Statements.** The "Statement of Financial Position" included accounts payable for the Air Force, but no mechanisms had been established to report accounts payable for Army and Navy transactions. Consequently, the accounts payable balance was materially understated. DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," September 18, 1986, Chapter 3, requires that accounts payable be reported to the DFAS-Denver Center.

**Accounting for SDAF.** DSAA recognized SDAF's revenues, expenses, and results of operations at the time applicable FMS cases were closed. This practice postponed, by several years, the recognition of revenues, expenses, and results of operations. DoD Manual 7220.9-M requires that revenues and expenses be recorded at the time deliveries are made and title is transferred to customers.

The results of our tests of compliance indicated that DoD did not comply with provisions of the FMFIA, OMB Bulletin No. 93-02, DoD Manual 7220.9-M, and DoD Manual 7290.3-M. Therefore, the resulting conditions had a material effect on the FY 1992 financial statements and affected our opinion on the Principal Financial Statements. With respect to items not tested, nothing came to our attention to cause us to believe that the DoD had not complied, in all material respects, with those provisions.

# Management Comments

The CFO nonconcurred with our position that revenues, expenses, and net position must be accounted for and presented in the financial statements of the FMS Trust Fund. The CFO stated that accounting for the FMS Trust Fund should include only cash received and cash disbursed and that accounting for revenues, expenses, and net position was inappropriate. See Part VII of this report for the complete text of the CFO's comments.

The DSAA Comptroller did not state whether he concurred or nonconcurred with the issue on revenues, expenses, and net position. He stated that DSAA had adhered to the CFO's policy of omitting revenues, expenses, and net position in the financial statements. The DSAA's complete comments are also in Part VII of this report.

The CFO nonconcurred with our conclusion that FMS costs could not be determined. He stated that each performing activity's records must be examined in order to determine if a loss has occurred. The CFO also stated that accrual accounting should not be expected to ensure that expenses do not exceed revenues at the installation level.

The DSAA Comptroller partially concurred on the issue of determining FMS costs. He stated, however, that DSAA has taken steps to recover all costs. He also stated that accrual accounting cannot guarantee that costs are accurately determined and reported.

The CFO nonconcurred with our conclusion that internal control reviews were inadequate. He stated that the reviews were consistent with the way the FMS Trust Fund is managed. The CFO also stated that DoD does not perform FMFIA reviews of programs that cut across organizational lines. He said that internal control reviews were performed for the FMS Trust Fund and its feeder systems.

The DSAA Comptroller agreed that internal control reviews were inadequate. He stated that DoD's policy is to perform internal control reviews on an organizational basis, not on a program basis.

The CFO concurred in principle with our conclusion that accounts payable were understated. He stated that our report did not indicate whether the accounts payable were those of the Military Departments or the FMS Trust Fund, and he suggested that the Fund's financial statements should include only accounts payable of the Fund.

The DSAA Comptroller agreed that accounts payable were understated, and said that the accounts payable presented in the statements included only those pertaining to the Air Force.

The CFO agreed that SDAF revenues, expenses, and results of operations should be recognized at the time deliveries are made to customers. However, the CFO stated that since the SDAF is being disestablished, changing the accounting method would not be cost-effective.

The DSAA Comptroller did not agree that SDAF revenues, expenses, and results of operations should be recognized when deliveries are made to customers. He stated that recognizing these events at case closure most accurately represents the financial status of the SDAF as Congress defined it in Section 51 of the Arms Export Control Act.

## Audit Evaluation of Management Comments

Regarding the omission of FMS revenues, expenses, and net position in the financial statements, the CFO did not comment on the provision in Chapter 52, DoD Manual 7220.9-M, that requires accounting for revenues, expenses, and net position of the FMS Trust Fund. The CFO also did not comment on how his position could be reconciled with the requirement in OMB Bulletin No. 93-02 to report on the revenues, expenses, and net position of trust funds. We did not find any guidance or set of established accounting principles that excludes accounting for revenues, expenses, and net position in a set of financial statements. More important, the financial statements resulting from

the CFO's policy do not provide managers or interested outside parties with useful information for managing or evaluating the FMS Trust Fund.

By stating that each performing activity's records must be examined to ensure that FMS costs are fully recovered, the CFO highlighted the fact that accounting for FMS is not accomplished at DoD level. It is misleading for the CFO to state that accrual accounting would not ensure that expenses do not exceed revenues at installation level. While accrual accounting does not ensure that expenses do not exceed revenues, accrual accounting does highlight such conditions. Such reporting would allow management to take appropriate action. A complete and uniform system of accrual accounting for FMS would ensure that costs at all levels (including installation level) were accurately determined, reported, and summarized for management's use.

We agree with the DSAA Comptroller's statement that current management procedures assist in determining some FMS costs. However, the procedures do not address most cost determinations that are made in the activities over which the DSAA has no oversight. We disagree with the DSAA Comptroller's statement about accrual accounting. When properly implemented, accrual accounting accurately identifies and reports all costs.

The CFO acknowledged that no internal management control review was accomplished for the FMS program, but disagreed with our position that such a review is needed. We maintain that only a program review can fully consider the overall functioning of the FMS process and interrelationships between organizations. Because no review had been conducted, many problems remained undetected by management.

With regard to the understatement of FMS accounts payable, the CFO was concerned about whether the accounts payable discussed were payable by the FMS Trust Fund or by a Military Department. The accounts payable we referred to were payable by the FMS Trust Fund. Accounts are payable by the FMS Trust Fund when a performing activity provides goods or services to an FMS customer. The FMS Trust Fund pays for such goods and services by reimbursing appropriations that make the initial payment, or by paying contractors directly with FMS funds. In either case, once the goods or services are provided, the Fund has incurred a liability to pay. Whether the recipient of the payment is a contractor or a DoD component's appropriations is irrelevant.

# Part IV - Additional Information

# Appendix A. Laws and Regulations

Budget and Accounting Procedures Act of 1950, Public Law (P.L.) 784

Foreign Assistance Act of 1961, P.L. 87-195

Arms Export Control Act, as amended, P.L. 90-629

Federal Managers' Financial Integrity Act of 1982, P. L. 97-255

Debt Collection Act of 1982, P.L. 97-365

Prompt Payment Act of 1988, P. L. 100-496

Federal Credit Reform Act of 1990, P.L. 101-508

Brooke-Alexander Amendment to P.L. 101-513, November 5, 1990

Chief Financial Officers Act of 1990, P.L. 101-576

Title 2 of the General Accounting Office's "Policies and Procedures Manual for Guidance of Federal Agencies," Title 2, August 1987

OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992

OMB Circular No. A-123, "Internal Control System," August 4, 1986

DoD Instruction 2140.2, "Collecting and Reporting of Foreign Indebtedness Within the Department of Defense (DoD)," October 15, 1986

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983

DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," September 18, 1986

DoD Manual 5105.38-M, "Security Assistance Management Manual," October 1, 1988

# Appendix B. Organizations Visited or Contacted

## Office of the Secretary of Defense

Comptroller and Chief Financial Officer of the Department of Defense
Deputy Comptroller of the Department of Defense (Management Systems), Washington, DC

## Department of the Army

Assistant Secretary of the Army (Financial Management)
Army Materiel Command, Alexandria, VA
- Army Security Affairs Command, Alexandria, VA
- Army Security Affairs Command, New Cumberland, PA
- Army Armaments, Munitions, and Chemical Command, Rock Island, IL
- Army Communications-Electronics Command, Fort Monmouth, NJ
- Army Aviation and Troop Command, St. Louis, MO
- Army Tank-Automotive Command, Warren, MI
- Lexington-Blue Grass Army Depot, Lexington, KY
- Anniston Army Depot, Anniston, AL
- Red River Army Depot, Texarkana, TX

## Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Navy International Programs Office, Washington, DC
Naval Air Systems Command, Washington, DC
Naval Sea Systems Command, Washington, DC
- Naval Surface Warfare Center, Crane, IN
- Naval Undersea Warfare Center, Keyport, WA
- Naval Weapons Station, Seal Beach, CA

Space and Naval Warfare Systems Command, Washington, DC
Naval Supply Systems Command, Washington, DC
- Naval International Logistics Control Office, Philadelphia, PA
- Naval Aviation Supply Office, Philadelphia, PA
- Naval Ships Parts Control Center, Mechanicsburg, PA

## Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Air Force International Affairs Office, Washington, DC
Air Force Security Assistance Office, Wright-Patterson AFB, OH

## Defense Agencies

Defense Security Assistance Agency, Washington, DC
Defense Finance and Accounting Service, Washington, DC
- Defense Finance and Accounting Service-Columbus Center, Columbus, OH
- Defense Finance and Accounting Service-Denver Center, Denver, CO
- Defense Finance and Accounting Service-Indianapolis Center, Indianapolis, IN

Defense Logistics Agency, Alexandria, VA
- Defense Distribution Region West, Stockton, CA
  - Defense Distribution Depot Sacramento, Sacramento, CA
- Defense Distribution Region East, Susquehanna, PA
  - Defense Distribution Depot Tobyhanna, Tobyhanna, PA
  - Defense Distribution Depot Letterkenny, Chambersburg, PA
  - Defense Distribution Depot Susquehanna, Susquehanna, PA
- Defense Distribution Region Central, Memphis, TN
  - Defense Distribution Depot Anniston, Anniston, AL
  - Defense Distribution Depot Red River, Texarkana, TX

## Non-DoD Federal Organizations

General Accounting Office, Washington, DC
Department of Commerce, Washington, DC
Department of State, Washington, DC
Department of the Treasury, Washington, DC
National Security Agency, Fort George G. Meade, MD

## Non-Defense Organizations

Alliant Techsystems, Hopkins, MN
Chemical Bank, New York, NY
First National Bank of Chicago, Chicago, IL
Manufacturers and Traders Trust Company, Buffalo, NY
State Street Bank and Trust, Hartford, CT

## Other

Republic of Botswana
Republic of Cameroon
Government of Colombia
Government of the Dominican Republic
Government of Ecuador
Government of El Salvador
Government of the Gabonese Republic
Government of Greece
Government of Honduras
Government of Indonesia
Government of Israel
Government of Jamaica
Hashemite Kingdom of Jordan
Republic of Kenya
Government of Korea
Government of Morocco
Government of Nicaragua
Government of Niger
Government of Pakistan
Government of Panama
Government of Peru
Republic of the Philippines
Government of Portugal
Republic of Senegal
Government of Spain
Democratic Republic of the Sudan
Government of Thailand
Government of Tunisia
Republic of Turkey
Government of Zaire

# Appendix C. Report Distribution

## Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Under Secretary of Defense for Policy
Assistant Secretary of Defense (Production and Logistics)
Comptroller and Chief Financial Officer of the Department of Defense
Deputy Chief Financial Officer of the Department of Defense

## Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Research, Development and Acquisition)
Army Materiel Command
Inspector General, Department of the Army
Auditor General, U.S.Army Audit Agency

## Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy for Financial Management
Assistant Secretary of the Navy (Research, Development and Acquisition)
Comptroller of the Navy
Auditor General, Naval Audit Service
Naval Air Systems Command
Naval Sea Systems Command
Space and Naval Warfare Systems Command

## Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Acquisition)
Auditor General, Air Force Audit Agency

## Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Security Assistance Agency

## Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office,
NSIAD Technical Information Center
Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Foreign Relations
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

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# Part V - Principal Financial Statements of the Defense Security Assistance Agency - FY 1992

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301 1100

MAR 31 1993

MAR 25 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of the Defense Security Assistance Agency Financial Statements on FY 1992 Financial Activity

The attached financial statements for the Defense Security Assistance Agency (DSAA) on FY 1992 financial activity are submitted for audit as required by the Chief Financial Officers Act of 1990.

The principal statements include consolidating and supporting financial statements for accounts 97-11X4116, 97-11X4121, 97-11X4122 and 97-11X8242 to provide an audit trail from the individual accounts to the principal statements.

My staff, and that of the Defense Security Assistance Agency, are available to provide assistance and information as you require in the upcoming audit of these financial statements. We will work with your staff to make the adjustments and improvements necessary to ensure the financial statements present fairly, in all material respects, the assets, liabilities, and net financial position, of the Defense Security Assistance Agency as of September 30, 1992.

Alvin Tucker
Acting Chief Financial Officer

Attachment

# *FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY*

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*FY 1992 ANNUAL FINANCIAL STATEMENT*
*DEFENSE SECURITY ASSISTANCE AGENCY*

# OVERVIEW OF THE REPORTING ENTITY - PART I

## PART I

OVERVIEW OF THE REPORTING ENTITY

(1) DESCRIPTION: OVERVIEW AND SUMMARY

(2) PROGRAM AND FINANCIAL PERFORMANCE MEASURES

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, 4121

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT, 4122

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

# FY 1992 ANNUAL FINANCIAL STATEMENT
# DEFENSE SECURITY ASSISTANCE AGENCY

## OVERVIEW AND SUMMARY - PART I

The Defense Security Assistance Agency (DSAA) administers the military segment of U.S. Government security assistance programs.

## SECURITY ASSISTANCE DEFINED:

Security Assistance refers to the range of programs authorized by the Foreign Assistance Act of 1961 and the Arms Export Control Act (AECA), as amended. Security assistance is a valuable instrument of U.S. national security and foreign policy. It helps friends and allies deter and defend against aggression and shoulder more of the common defense burden It helps maintain strong and cohesive defense arrangements with friends and allies and to secure access to important military facilities throughout the world. It promotes regional stability through arms transfer controls on the volume and types of weaponry provided to security assistance recipients. It also fosters respect for human rights, democratic values and institutions.

The military component of U S. Government security assistance includes the following programs:

- Foreign Military Sales (FMS) FMS is the government-to-government channel for the sale of U.S. defense articles and services to eligible foreign governments and international organizations. Historically, approximately eighty percent of all sales are government-to-government Foreign governments and international organizations, in most cases, may also purchase U.S. defense articles and services directly from U.S. commercial firms, subject to State Department's issuance of the requisite munitions export license.

- Foreign Military Financing (FMF) FMF is an appropriated aid program that makes financing available to certain U.S friends and allies to procure U.S. defense articles and services through FMS and, for a more limited number of countries, direct commercial purchases. FMF is made available on a grant and a concessional interest rate loan basis.

- International Military Education and Training (IMET). IMET is an appropriated grant aid program that makes available professional and management education and technical training to military and civilian officials of over 100 countries.

## 4 Overview

- Excess Defense Articles (EDA). EDA of the DoD may be transferred to eligible foreign governments and international organizations on a grant basis pursuant to several authorities in the Foreign Assistance Act of 1961. EDA may also be sold at its current value through FMS.

- Emergency Drawdown Authorities. Section 506 of the Foreign Assistance Act of 1961 authorizes the President, on a grant basis, to drawdown defense articles from DoD inventories and provide defense services to foreign governments and international organizations in response to military emergencies or to provide assistance for international narcotics control, international disaster relief, or refugees.

- Special Defense Acquisition Fund (SDAF). SDAF is a revolving fund that procures defense articles and services in anticipation of later sale to foreign governments and international organizations through FMS. SDAF's annual obligation limit is established in annual appropriations legislation.

## SECURITY ASSISTANCE RESPONSIBILITIES:

Within the Executive Branch, the National Security Council, the Office of Management and Budget, the Department of the Treasury, the Department of Commerce, and others have responsibilities related to security assistance. However, the principal responsibilities fall to the Department of State and the Department of Defense

The Secretary of State has statutory responsibility for security assistance policy. Simply put, the State Department determines what assistance will be provided or what sales will be made to what countries or international organizations. The Secretary of Defense has statutory responsibility for determining what defense articles or services are available for sale or transfer abroad and for implementing the military segment of security assistance programs. The Department of Defense also has significant input into the Department of State's decision making. The security assistance functions delegated to the Secretary of Defense have been redelegated to the Director, DSAA. The Director, DSAA reports to the Secretary of Defense and Deputy Secretary of Defense through the Assistant Secretary of Defense for International Security Affairs and the Under Secretary of Defense for Policy.

DSAA is primarily a policy and oversight organization; the Military Departments actually implement programs. DSAA functions include the following: coordinate formulation and execution of security assistance within DoD, including the development of DoD regulations governing security assistance programs and the DoD position on security assistance budget and legislative matters; monitor major systems sale competitions and technology transfer issues; manage all budgetary and financial arrangements associated with FMS on a cash or FMF basis; manage the IMET program; maintain the FMS and IMET data bases; implement drawdown authority transfers to foreign countries from DoD stock and transfers of excess defense articles; serve as DoD focal point for liaison with

other Executive Branch agencies, Congress, and U.S industry on security assistance matters; and supervise the organization, training, administrative support and staffing of DoD elements in foreign countries responsible for managing security assistance programs.

Accomplishing DSAA's management responsibilities with notable effectiveness would not be possible without clearly focused centralized program management supported by the decentralized logistics and services organizations of DoD. Security Assistance is multi-dination and management outside of the Security Assistance management structure. DSAA provides the central focus, working directly with Congress, Office of Management and Budget (OMB), Department of State, Department of Treasury, National Security Council and other Executive Agencies. This central management is supported by decentralized operational activities. The Military Departments' program offices provide a subordinate structure to manage the interface of logistics, training, transportation, technology and program management of Service-unique weapons systems and organizational performance. These program offices work directly with the over 100 FMS purchasers and with their counterpart field activities to structure their Service's assistance program within DSAA guidance.

## IMPLEMENTATION OF U.S. SECURITY ASSISTANCE POLICY AND OBJECTIVES:

An understanding of the functions performed by DSAA is best conveyed by examining DSAA's role in the U.S. Government The Agency is uniquely positioned to translate the goals of national security policy into the realities of defense logistical, services, procurement and financial systems and weapons systems production lines. The ability to link the broad goals of national security policy to concrete plans coordinated through these disparate realities can only be done centrally.

DSAA continues to play a central role in support of Administration policies and Congressionally legislated actions for international security assistance. Examples include the Operation Desert Shield/Desert Storm and Operation Provide Comfort efforts. In critical international situations, past and ongoing international security relationships have proven to be essential in providing the foundation for implementation of U.S. foreign policy and international security.

During FY 1992, DSAA continued to work with our allies from the Desert Shield/Desert Storm operation and others to help them enhance their defense capabilities. Approximately $3 billion of foreign military sales were undertaken with Egypt, Saudi Arabia, Kuwait, United Arab Emirates, and Turkey, which will lead to considerable enhancement of the air and land forces capabilities of these countries. In the case of Turkey, their major purchase of additional F-16 C/D aircraft is being facilitated financially by the implementation by DSAA of a third party contributory account whereby Desert Shield/Desert Storm allies will make available more than $2 billion dollars which when combined with Turkish national funds will help to finance this purchase as well as anticipated follow-on buys.

## 6 Overview

In FY 1992, the Foreign Military Financing and International Military Education and Training (IMET) Program appropriations were significantly reduced from FY 1991 funding This required significant restructuring of the security assistance grant programs and very close focus on the utility of our funding allocations. Nevertheless, we have distributed the shortfalls as equitably as possible to maintain viable security assistance relationships. In the case of IMET, we have expanded training assistance to include ten former communist block nations including Russia and the Ukraine from the former Soviet Union. These initial programs open up our military-to-military relations and will form a solid basis for the evolving security assistance relationships which are determined to be in our best interests.

During FY 1992, DSAA initiated and conducted what will be a continuing program of in-depth country financial reviews. These reviews take a comprehensive look at the financial status of a country's Foreign Military Sales cases, with a view towards identifying funds (U.S. Security Assistance Financing or the country's national funds) which could be freed up and reallocated to other uses. The FY 1992 reviews for African, Caribbean nations, and Korea identified close to $100 million for reallocation.

Also during FY 1992, the newly designated Foreign Military Loan Liquidating Account (FMLLA) disbursed $541 million of additional loan funds on behalf of foreign purchasers and $125 million in guaranty payments on defaulted loans. During the same period, it collected $1,407 million in principal, interest and late charges on all receivables, of which the fund returned $652 million to the Treasury Miscellaneous Receipts Account and 'paid' $647 million to the Federal Financing Bank (FFB) The fund recognized $275 million in accrued interest and penalty revenue

### DSAA'S EVOLVING INTERNATIONAL SECURITY ASSISTANCE ROLE:

An extension of the DSAA role was the stimulation and building of international and domestic consensus for international security issues. DSAA has guided sensitive negotiations in support of the Japanese FSX fighter program to protect U.S. technology advantages, while assisting the Japanese in acquiring a mainline air defense system. This should strengthen the defense and economic bonds between our countries. DSAA oversight of negotiations during the formulation of the Korean Fighter Program was instrumental in protecting U.S. economic interests, while meeting the Korean Defense Forces needs, culminating in the FY 1992 F-16 aircraft coproduction sale valued at more than $2.1 billion. Similar benefits were associated with the F/A-18 aircraft sale to Finland.

In addition, DSAA has provided essential leadership in maintaining the bridge between foreign security assistance requirements and maintenance of U S. production capability The continued long-term operation of numerous production and rebuild lines for major items of defense equipment are heavily impacted by, or dependent on, continued international security agreements Some examples are:

- M1A2 and M60 Tanks
- 2 1/2-ton Trucks
- HAWK Missiles
- HARPOON Missiles
- MARK 46 Torpedoes
- Patriot Missiles
- AH-1 Helicopters
- UH-1 Helicopters
- UH-60 Helicopters
- F-15 Fighters
- F-16 Fighters
- F-18 Fighters
- MLRS Rocket System

These supplements to the production base tangibly reduce the U.S taxpayers' cost of maintaining the defense production base, while providing economic benefits to the U.S. work force and local communities where production lines operate.

## SPECIFIC DSAA FUNCTIONS:

DSAA is involved in numerous managerial and administrative functions relative to implementing the Security Assistance Programs. Highlights follow:

- Develop the Congressional Presentation Document (including the extensive classified annex for reprogramming) to include the consolidated operational assessment of countries needs for equipment, training, support, financing and technology. DSAA provides central management, since the nine implementing agencies cannot individually consolidate or prioritize sales and grant requirements or reconcile these requirements to country financial resources. Examples are: Priority of distribution of excess defense equipment among various purchasers and priority of delivery of weapons systems, such as: F-16 fighter; F-18 fighter; Multiple Launch Rocket System (MLRS); and AH-64 helicopter.

- Collect and report security assistance plans and performance under statutory requirements for the Congressional Presentation Document, Congressional security assistance surveys, Congressional Reports on commercial and military exports, and reports on FMS price and availability.

- Develop, defend and manage requirements and resources for the over 60 countries which receive appropriated loan and grant funds assistance. Priority of appropriated fund allocations are coordinated by DSAA with other DoD offices, State and OMB throughout the programming and budgeting cycle. Execution of the program is managed singularly by

## 8 Overview

DSAA. Examples are: Priority of allocation of International Military Education and Training (IMET) and Foreign Military Financing (FMF) funding among countries such as Philippines, Portugal, Turkey, and Central America.

- Develop, present and coordinate transfers of defense articles under Sections 506(a)(2) of the Foreign Assistance Act for Colombia, Mexico, and Pakistan.

- Negotiate, coordinate and provide representation with Department of State, Commerce, Treasury, OMB and Congress on political, program, and financial issues involving foreign assistance. Issues are as various as: (1) rescheduling and forgiveness of FMF debts for approved countries; (2) coordinating Southern Regional Amendment transfers; (3) negotiating terms and technology of weapon systems sales; (4) coordinating international narcotics control assistance; and (5) control of country ceilings for Taiwan, Greece, and Turkey.

- Program, budget, and execute: the multi-billion dollar annual Foreign Military Financing Program (including billing and collection for the $22 billion of repayable principal and interest); the $43 million annual International Military Education and Training (IMET) Program; the $9 billion dollar Foreign Military Loan Liquidating Account; the $1.07 billion Special Defense Acquisition Fund; the multi-billion Foreign Military Sales Trust Fund; the $300 million annual administrative fee budget; and other FMS surcharge accounts.

- Approve and financially execute commercial contracts totaling over $1.1 billion annually under the Foreign Military Financing Program for ten Congressionally authorized countries.

- Approve, coordinate, and notify the proper authorities of sales and transfers that are subject to Presidential, Department of State, and Congressional approval.

- Coordinate, prioritize and approve procurement programs within the Special Defense Acquisition Fund for missiles, UH-1H Helicopter Refurbishment, ammunition, and vehicles to reduce the diversion of DoD equipment.

- Staff and care for the worldwide Security Assistance Organizations in over 70 countries, providing manpower, funding, and policy.

- Standardize DoD Security Assistance Policy and Performance in multi-functional areas, such as: sales preparation, presentation, approval and performance; logistics; financial; training; technology; leases; and information reporting.

## SALES, REVENUE, AND COST MANAGEMENT:

Fiscal years 1991 and 1992 Foreign Military Sales were among the highest levels of activity ever experienced in security assistance, totaling over $39 billion, which is equivalent to twenty percent of all currently active sales cases. World-wide manpower resources for administration of the sales program have decreased eight percent.

Through more disciplined management of administration resources, DSAA has improved the matching of costs to revenues. Since 1988, the cash position of the sub-accounts that finance the administration of the Security Assistance Program has improved by over $300 million, with net balance at the end of FY 1992 totaling nearly $400 million.

## COMMERCIAL FUNCTIONS, REVOLVING FUNDS, AND TRUST FUNDS REPORTED:

DSAA was established as a separate agency of the DoD to administer the military assistance component of the nation's security assistance programs In fulfilling this mission, DSAA has managerial and administrative responsibility for: the Foreign Military Sales (FMS) Trust Fund; the Foreign Military Financing Program Account; the Foreign Military Loan Liquidating Account; the Foreign Military Financing Direct Loan Financing Account; the Special Defense Acquisition Fund (SDAF); and the Guaranty Reserve Fund (GRF).

FOREIGN MILITARY SALES (FMS) TRUST FUND. The FMS Trust Fund, Account 8242, was established as a means of facilitating the purchases of U.S. defense articles and services by foreign countries, as authorized in the Arms Export Control Act (AECA). The Trust Fund provides a vehicle through which the United States Government processes foreign country funds required for FMS case payments to U.S. contractors for new procurement, and to Department of Defense (DoD) components for sales from DoD stocks

SPECIAL DEFENSE ACQUISITION FUND (SDAF). The SDAF, Account 4116, was authorized by the International Security and Development Cooperation Act of 1981. The SDAF is a revolving fund under the control of the DoD which finances the acquisition of defense articles and services in anticipation of their transfer (pursuant to the AECA), to eligible foreign nations and international organizations. The SDAF account is replenished from the proceeds of sales of items purchased by the account.

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (FMFPA). This account is not being reported, however, the following narrative is provided to reflect its relationship to the Foreign Military Financing Direct Loan Financing Account 4122. The FMFPA, Account 1085, was established by the Credit Reform Act as an appropriated fund account to provide the funding necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disburse-

ments and are transferred into the Foreign Military Financing Direct Loan Financing Account (Account 4122) to make the required loan disbursements for approved FMS or commercial sales.

GUARANTY RESERVE FUND (GRF). The GRF, Account 4121, was established by Congress to provide a guaranty against country loan arrearages or defaults on the repayment of loans due to the Federal Financing Bank (FFB) and commercial banks. The nature and purpose of this account was changed on October 1, 1991, by implementation of the Credit Reform Act. It has now been replaced by the Foreign Military Loan Liquidating Account.

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (FMLLA). The FMLLA, Account 4121, was established under the Credit Reform Act. Consolidated into this symbol were all assets, liabilities, and equities for loan balances previously recorded in accounts 11*1082, 11M1083, 11M1084, and 11x4121. This account disburses funds previously made available and accounted under the previously mentioned accounts.

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA). The FMFDLFA, Account 4122, was established under the Credit Reform Act. The establishment of this account provides the vehicle for making disbursement of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans. The account uses permanent borrowing authority from the Treasury, combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury

## ACCOUNTING RESPONSIBILITIES FOR THE FUNDS

The Defense Finance and Accounting Service - Denver, Security Assistance Accounting Center (SAAC), provides central accounting services for the FMS Trust Fund and the SDAF activity. Accounting for the FMFLLA, FMFPA, and FMFDLFA and the executive agency portion of the SDAF is performed by DSAA All accounts use approved DoD general ledger accounts and automated accounting systems in accordance with Title 2. DSAA's accounting responsibilities are scheduled to be transferred to the Defense Finance and Accounting Service during FY 1993.

## KEY ACCOUNTING CHANGES

During FY 1992, several key accounting changes were implemented. Although these changes were not completely separate and discrete from each other, they fall into three general categories: Credit Reform; SDAF Accounting; and SDAF Inventory

CREDIT REFORM During FY 1992, new accounting procedures prescribed by the Credit Reform Act of 1990 were implemented. These changes included the transfer of $1,900 million of obligated and unobligated balances and $8,897 million of loans and accounts receivable balances from the Foreign Military Financing Grants Account (11x1082) to the Foreign Military Loan Liquidating Account (11*4121). In addition, two new accounts, the Foreign Military Financing Program Account (11x1085) and the Foreign Military Financing Direct Loan Financing Account (11*4122), were established.

SDAF ACCOUNTING Beginning with FY 1992, SDAF implemented within its existing accural accounting process, an accounting procedure that more closely matches the actual operation of the fund. This procedure, known as the 'completed contract method of accounting,' recognizes that a single procurement contract represents a discrete aggregation of effort which best embodies the recordable activity of the fund, and that final costs on a procurement contract cannot be determined until the contract is legally complete and closed Upon contract closure, all expenses are matched with the appropriate revenues.

SDAF INVENTORY The SDAF inventory valuation was based on actual amounts reported by the Military Departments since these assets are controlled and managed by these agencies. This method of reporting replaced the previous method, which included both the constructive work-in-process and inventory held by the Military Departments.

## DSAA PROGRAM PERFORMANCE INDICATORS - PART I

### SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116

**Title: Number of Purchase Orders Issued, New and Revised**

| | TOTAL |
|---|---|
| FY 1992 ACTIVITY | |
| MILITARY PURCHASE ORDERS ISSUED (MIPRs) | 376 |
| FY 1991 ACTIVITY | |
| MILITARY PURCHASE ORDERS ISSUED (MIPRs) | 275 |

This performance indicator includes new Purchase Orders (MIPRS) that were issued with current and prior year obligation authority and revisions to existing Purchase Orders. The FY 1991 position is included for comparison.

### SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116

**Title: Number of Purchase Orders Closed**

| FY 1992 ACTIVITY<br>Age in Years | TOTAL |
|---|---|
| 0-3 | 17 |
| 4-6 | 95 |
| 7-9 | 348 |
| 10+ | 19 |
| TOTAL | 479 |

| FY 1991 ACTIVITY<br>Age in Years | TOTAL |
|---|---|
| 0-3 | 0 |
| 4-6 | 1 |
| 7-9 | 1 |
| 10+ | 0 |
| TOTAL | 2 |

This shows the number of Purchase Orders that were closed during FY's 1991 and 1992 and the relative age The increase in activity between FY 1991 and 1992 was due to maturing orders and increased management oversight.

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### SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116

**Title: OPERATING RESULTS**

| | (WHOLE DOLLARS) |
|---|---|
| FY 1992 ACTIVITY | TOTAL |
| Net Profit Returned to U.S. Government Treasury | $1,863,949 |
| FY 1991 ACTIVITY | |
| Net Profit Returned to U S. Government Treasury | $11,156,744 |

The FY 1992 profit returned is a net figure following a $8,091,000 write-off of unsellable inventory. There were no write-offs during FY 1991.

**Title: FINANCIAL OBLIGATIONS**

| | (THOUSANDS) |
|---|---|
| FY 1992 END OF YEAR POSITION | TOTAL |
| Assets | $1,088,400 |
| Liabilities | 18,400 |
| Equity | $1,070,000 |
| Current Ratio (Current Assets to Current Liabilities) | 59 : 1 |
| FY 1991 END OF YEAR POSITION | TOTAL |
| Assets | $1,081,532 |
| Liabilities | 11,182 |
| Equity | $1,070,000 |
| Current Ratio (Current Assets to Current Liabilities) | 96 : 1 |

These ratios indicate that the Special Defense Acquisition Fund, Account 4116 is very sound. the fund has more than enough assets to cover its liabilities.

## SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116

Title: FINANCIAL CONDITION: Asset and Liability Accounts Balances and Ratio

| | (THOUSANDS) |
|---|---|
| FY 1992 YEAR END POSITION | TOTAL |
| ASSETS | |
| Cash / Fund Balance with Treasury | $884,132 |
| Inventory | 179,387 |
| Advances and Prepayments | 0 |
| Accounts Receivable, Federal | 24,881 |
| TOTAL ASSETS | $1,088,400 |
| LIABILITIES | |
| Accounts Payable, Non-Federal | $8,353 |
| Other Liabilites | 7,360 |
| Accounts Payable, Federal | 2,687 |
| TOTAL LIABILITIES | $18,400 |
| Current Ratio (Current Assets to Current Liabilities) | 59 : 1 |

| | |
|---|---|
| FY 1991 YEAR END POSITION | TOTAL |
| ASSETS | |
| Cash / Fund Balance with Treasury | $941,738 |
| Inventory | 63,289 |
| Advances and Prepayments | 70,745 |
| Accounts Receivable, Federal | 5,760 |
| TOTAL ASSETS | $1,081,532 |
| LIABILITIES | |
| Accounts Payable, Non-Federal | $5,763 |
| Other Liabilites | |
| Accounts Payable, Federal | 5,419 |
| TOTAL LIABILITIES | $11,182 |
| Current Ratio (Current Assets to Current Liabilities) | 96 : 1 |

All assets and liabilities are considered "current" such that there are no "long term" accounts.

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### SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116

**Title: OPERATING COSTS**

| | (THOUSANDS) |
|---|---|
| FY 1992 End of Year Position | TOTAL |
| Net Operating Costs | |
| Revenues and Reimbursements | $140,143 |
| Less: Total Expenses and Losses | 140,143 |
| Cost of Operating a Program (Profit) | $0 |

| | |
|---|---|
| FY 1991 End of Year Position | TOTAL |
| Net Operating Costs | |
| Revenues and Reimbursements | $114,850 |
| Less: Total Expenses and Losses | 114,850 |
| Cost of Operating a Program (Profit) | $0 |

Results of Operations(Profit/Loss) are determined annually. During FY 1992 and before the September 30, 1992 position was determined, $1,863,949.08 was returned to the U.S. Treasury as net profit. The net profit for FY 1991 was $11,156,744.47.

**Title: REIMBURSEMENT OF DoD FOR ARTICLES AND SERVICES**

| | (THOUSANDS) |
|---|---|
| FY 1992 ACTIVITY, END OF YEAR POSITION | TOTAL |
| COLLECTIONS | $235,284 |
| DISBURSEMENTS | $291,026 |
| FY 1991 ACTIVITY, END OF YEAR POSITION | TOTAL |
| COLLECTIONS | $289,342 |
| DISBURSEMENTS | $167,996 |

During the year, collections were received through the FMS Trust Fund from foreign customers and from DoD Agencies for articles and services sold from the SDAF. Disbursements were to commercial contractors or DoD agencies.

## FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, 4121

| Title: OPERATING RESULTS | (THOUSANDS) |
|---|---|
| FY 1992 ACTIVITY | TOTAL |
| Appropriations or Revenues | $80,644 |
| Less: Expenses | 387,090 |
| Operating Results | -$306,446 |
| FY 1991 ACTIVITY | TOTAL |
| Appropriations or Revenues | $115,923 |
| Less: Expenses | 7,677,116 |
| Operating Results | -$7,561,193 |

This account was restructured during FY 1992. Comparisons with FY 1991 have no meaning

| Title: FINANCIAL OBLIGATIONS | (MILLIONS) |
|---|---|
| FY 1992 END OF YEAR POSITION | TOTAL |
| Assets | $10,920 |
| Liabilities | $4,413 |
| Equity | $6,507 |
| Assets to Liabilities Ratio | 2.5 : 1 |
| FY 1991 END OF YEAR POSITION | TOTAL |
| Assets | $734 |
| Liabilities | |
| Equity | $734 |
| Assets to Liabilities Ratio | N/A |

This account was restructured after FY 1991 year end close-out and reporting. Therefore, comparison of the two years is impractical. This measure indicates that the fund is financially sound.

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### FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, 4121

Title: FINANCIAL CONDITION: Asset and Liability Accounts Balances and Ratio

| | (MILLIONS) |
|---|---|
| FY 1992 YEAR END POSITION | TOTAL |
| ASSETS | |
| Cash / Fund Balance with Treasury | $1,331 |
| Inventory | 0 |
| Advances and Prepayments | 0 |
| Accounts Receivable, Non-Federal | 369 |
| Loans Receivable | 9,220 |
| TOTAL ASSETS | $10,920 |
| LIABILITIES | |
| Accounts Payable, Non-Federal | $0 |
| Other Liabilites | 4,413 |
| Accounts Payable, Federal | 0 |
| TOTAL LIABILITIES | $4,413 |
| CURRENT RATIO | 2.5 : 1 |
| FY 1991 YEAR END POSITION | TOTAL |
| ASSETS | |
| Cash / Fund Balance with Treasury | $34 |
| Inventory | 0 |
| Advances and Prepayments | 0 |
| Accounts Receivable, Non-Federal | 175 |
| Loans Receivable | 524 |
| TOTAL ASSETS | $734 |
| LIABILITIES | |
| Accounts Payable, Non-Federal | $0 |
| Other Liabilites | 0 |
| Accounts Payable, Federal | 0 |
| TOTAL LIABILITIES | $0 |
| CURRENT RATIO | N/A |

This account was restructured after the FY 1991 year-end position was reported. Therefore, comparison of the two years is impractical This ratio indicates that the fund is sound.

## FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, 4121

**Title: REIMBURSEMENT OF DoD FOR ARTICLES AND SERVICES**

| FY 1992 ACTIVITY, END OF YEAR POSITION | | (THOUSANDS) TOTAL |
|---|---|---|
| 11X4121 | Principal and interest collections on defaulted Federal Financing Bank and Commercial Guarnteed Loans and principal collections on the Guaranteed portion of rescheduled loans. | 100,818.0 |
| 112968 | Principal collections on Direct Loans and the direct portion of rescheduled loans- | 381,091.0 |
| 111468 | Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Federal Financing Bank and Commercial Guaranteed Loans- | 277,884.5 |
| 11X4121 | Principal on Federal Financing Bank loans - transferred to 20X4521 097 | 255,697.2 |
| 11X4121 | Interest on Federal Financing Bank loans - transferred to 20X4521 | 391,512.2 |
| TOTAL COLLECTIONS | | 1,407,002.9 |

| FY 1991 ACTIVITY, END OF YEAR POSITION | TOTAL |
|---|---|
| COLLECTIONS | $173,670.6 |

This account was restructured at the end of FY 1991. Therefore, comparison of the years is somewhat impractical. However, the FY 1991 total is comparable to the 11X4121 value for FY 1992.

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### FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT, 4122

**Title: OPERATING RESULTS**

| | (THOUSANDS) |
|---|---|
| FY 1992 ACTIVITY | TOTAL |
| Net Profit Returned to U.S. Government Treasury | NONE |
| FY 1991 ACTIVITY | TOTAL |
| Net Profit Returned to U.S. Government Treasury | N/A |

This account was established during FY 1992 There was no activity in the account as of the end of FY 1992

**Title: FINANCIAL OBLIGATIONS**

| | (THOUSANDS) |
|---|---|
| FY 1992 END OF YEAR POSITION | TOTAL |
| Assets | $345,046 |
| Liabilities | 345,000 |
| Equity | $46 |
| Assets to Liabilities Ratio | 1 : 1 |
| FY 1991 END OF YEAR POSITION | TOTAL |
| Assets | N/A |
| Liabilities | N/A |
| Equity | N/A |
| Assets to Liabilities Ratio | N/A |

This account was established during FY 1992. This measure indicates that the fund is financially sound. Equity consists of unobligated appropriated cash.

## FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT, 4122

**Title: FINANCIAL CONDITION:** Asset and Liability Accounts Balances and Ratio

| | (THOUSANDS) |
|---|---|
| FY 1992 YEAR END POSITION | TOTAL |
| ASSETS | |
| Cash / Fund Balance with Treasury | $50,148 |
| Inventory | 0 |
| Advances and Prepayments | 0 |
| Accounts Receivable, Federal-Intragovernmental | 294,898 |
| Loans Receivable | 0 |
| TOTAL ASSETS | $345,046 |
| LIABILITIES | |
| Accounts Payable, Non-Federal | $0 |
| Other Liabilites | 0 |
| Accounts Payable, Federal | 345,000 |
| TOTAL LIABILITIES | $345,000 |
| CURRENT RATIO | 1 : 1 |
| FY 1991 YEAR END POSITION | TOTAL |
| ASSETS | |
| Cash / Fund Balance with Treasury | $0 |
| Inventory | 0 |
| Advances and Prepayments | 0 |
| Accounts Receivable, Non-Federal | 0 |
| Loans Receivable | 0 |
| TOTAL ASSETS | $0 |
| LIABILITIES | |
| Accounts Payable, Non-Federal | $0 |
| Other Liabilites | 0 |
| Accounts Payable, Federal | 0 |
| TOTAL LIABILITIES | $0 |
| CURRENT RATIO | N/A |

This account was established during FY 1992. The ratio indicates that the fund is sound.

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### FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT, 4122

**Title: OPERATING COSTS** (THOUSANDS)

| FY 1992 End of Year Position | TOTAL |
|---|---|
| Net Operating Costs | |
| Revenues and Reimbursements | $50,102 |
| Less: Total Expenses and Losses | 50,102 |
| Cost of Operating a Program (Profit) | $0 |

| FY 1991 End of Year Position | TOTAL |
|---|---|
| Net Operating Costs | |
| Revenues and Reimbursements | $0 |
| Less: Total Expenses and Losses | 0 |
| Cost of Operating a Program (Profit) | $0 |

This account was established during FY 1992 Due to inactivity within the account, there was no cost of operating the program under this definition.

**Title: REIMBURSEMENT OF DoD FOR ARTICLES AND SERVICES**

(THOUSANDS)

| FY 1992 ACTIVITY, END OF YEAR POSITION | TOTAL |
|---|---|
| COLLECTIONS | $0 |

| FY 1991 ACTIVITY, END OF YEAR POSITION | TOTAL |
|---|---|
| COLLECTIONS | $0 |

This account was established during FY 1992. There was no activity as of September 30, 1992.

## FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: New Sales Cases Accepted and Amendments Processed**

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NEW FY 92 SALES CASES | 906 | 658 | 605 | 271 | 2,440 |
| CASE AMENDMENTS-ALL YRS | 174 | 135 | 97 | 8 | 414 |
| TOTAL | 1,080 | 793 | 702 | 279 | 2,854 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NEW FY 91 SALES CASES | 1,156 | 695 | 667 | 310 | 2,828 |
| CASE AMENDMENTS-ALL YRS | 223 | 121 | 112 | 9 | 465 |
| TOTAL | 1,379 | 816 | 779 | 319 | 3,293 |

This performance indicator shows the number of new sales cases implemented and the number of case amendments processed to existing cases during each fiscal year. While amendments are identified to the original case, they are not identified to the fiscal year of the original case/sale Several amendments during the multiple-year life of any case is considered reasonable. The statistical decline during FY 1992 is normal following the increase caused by the Desert Shield/Desert Storm military operation of FY 1991.

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### FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: Ordered Value of New & Amended Sales Cases by Major Category**

(THOUSANDS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| Aircraft | 732,837 | 2,914,386 | 4,334,059 | 318 | 7,981,600 |
| Missiles | 509,257 | 339,723 | 292,064 | 120,732 | 1,261,776 |
| Ships | 0 | 178,628 | 0 | 104 | 178,732 |
| Vehicles & Weapons | 391,774 | 94,383 | 179,629 | 8,432 | 674,218 |
| Ammunition | 60,134 | 104,309 | 70,508 | 13,995 | 248,946 |
| Training | 151,929 | 141,588 | 410,188 | 112 | 703,817 |
| Miscellaneous/Other | 1,457,313 | 1,215,381 | 1,377,703 | 72,261 | 4,122,658 |
| TOTAL | 3,303,244 | 4,988,398 | 6,664,151 | 215,954 | 15,171,747 |

(THOUSANDS)

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| Aircraft | 510,015 | 555,799 | 3,530,599 | 199 | 4,596,612 |
| Missiles | 1,070,180 | 490,928 | 85,111 | 21,214 | 1,667,433 |
| Ships | 42,650 | 239,898 | 0 | 0 | 282,548 |
| Vehicles & Weapons | 4,408,670 | 341,034 | 6,487 | 149 | 4,756,340 |
| Ammunition | 544,847 | 61,058 | 152,953 | 17,864 | 776,722 |
| Training | 178,331 | 458,891 | 283,506 | 181 | 920,909 |
| Miscellaneous/Other | 4,637,680 | 1,848,478 | 4,073,332 | 227,531 | 10,787,021 |
| TOTAL | 11,392,373 | 3,996,086 | 8,131,988 | 267,138 | 23,787,585 |

This indicator classifies the various kinds of execution activities and shows the distribution of major weapon sales cases among the implementing agencies.

**Title: Sales Cases Closed**

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| CASES CLOSED FOR ALL YRS | 1,140 | 576 | 660 | 360 | 2,736 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| CASES CLOSED FOR ALL YRS | 1,099 | 507 | 679 | 358 | 2,643 |

This indicator demonstrates the number of Sales Cases "Closed" during the fiscal year. The "closure" of a sales case, like the completion of a legal contract occurs when all the terms have been met Sales Cases must be legally, logistically and financially "complete" prior to closure

## FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: Aged Number of Sales Cases Closed**

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| AGE: 0-5 Years | 575 | 208 | 304 | 206 | 1,293 |
| AGE: 6-10 Years | 494 | 291 | 246 | 126 | 1,157 |
| AGE: 11-15 Years | 62 | 69 | 90 | 27 | 248 |
| AGE: 16-20 Years | 9 | 8 | 19 | 1 | 37 |
| AGE: 20+ Years | 0 | 0 | 1 | 0 | 1 |
| TOTAL | 1,140 | 576 | 660 | 360 | 2,736 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| AGE: 0-5 Years | 550 | 196 | 305 | 220 | 1,271 |
| AGE: 6-10 Years | 445 | 236 | 278 | 127 | 1,086 |
| AGE: 11-15 Years | 86 | 69 | 81 | 11 | 247 |
| AGE: 16-20 Years | 18 | 6 | 13 | 0 | 37 |
| AGE: 20+ Years | 0 | 0 | 2 | 0 | 2 |
| TOTAL | 1,099 | 507 | 679 | 358 | 2,643 |

This performance indicator reveals the age or "life cycle" of the sales cases closed. The average 6+ year life of a case is directly attributable to its complexity. Major Weapon Systems Procurements, such as aircraft and construction cases, require more time to execute and complete financial closeout than does logistics and training cases.

**Title: Number of Open Cases as of Fiscal Year End**

| SEPTEMBER 30, 1992 POSITION | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NUMBER OF CASES OPEN | 8,245 | 6,344 | 5,684 | 1,366 | 21,639 |

| SEPTEMBER 30, 1991 POSITION | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NUMBER OF CASES OPEN | 8,479 | 6,262 | 5,739 | 1,455 | 21,935 |

This performance indicator shows the number of active FMS Sales Cases at the end of each fiscal year. The September 30, 1991 position was restated to reconcile and correct current FY 1992 activity as of September 30, 1992.

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### FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: OPERATING RESULTS** (THOUSANDS)

| FY 1992 ACTIVITY | TOTAL |
|---|---|
| Funds Appropriated: Total Revenues and Financing Sources | $0 |
| Less: Net Operating Costs: Total Expenses | 0 |
| Operating Results: Net Position, Ending Balance | $0 |

| FY 1991 ACTIVITY | TOTAL |
|---|---|
| Funds Appropriated: Total Revenues and Financing Sources | $0 |
| Less: Net Operating Costs: Total Expenses | 0 |
| Operating Results: Net Position, Ending Balance | $0 |

The FMS Trust Fund accounts only for amounts on a cash basis in a fiduciary capacity on behalf of its clients.

**Title: FINANCIAL OBLIGATIONS, RATIO OF ASSETS TO LIABILITIES**

(THOUSANDS)

| FY 1992 END OF YEAR POSITION | TOTAL |
|---|---|
| Assets | 21,790,089 |
| Liabilities | 21,790,089 |
| Ratio | 1 : 1 |

| FY 1991 END OF YEAR POSITION | TOTAL |
|---|---|
| Assets | 19,976,907 |
| Liabilities | 19,976,907 |
| Ratio | 1 : 1 |

## FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: FINANCIAL SOLVENCY CONDITION: Trust Fund and Interest Bearing Account Balances**

| BALANCES AS OF SEPTEMBER 30, 1992 | (THOUSANDS) SAAC |
|---|---|
| Treasury Cash Balance for Account 8242 | $6,516.9 |
| Interest Bearing Accounts | 6,669.8 |
| Accounts Receivable | 8,603.2 |
| Accounts Payable | -182.0 |
| TOTAL | $21,608.0 |

| BALANCES AS OF SEPTEMBER 30, 1991 | SAAC |
|---|---|
| Treasury Cash Balance for Account 8242 | $6,776.7 |
| Interest Bearing Accounts | 5,187.0 |
| Accounts Receivable | 8,013.3 |
| Accounts Payable | -181.7 |
| TOTAL | $19,795.3 |

Foreign Military Sales (FMS) Trust Fund Accounting is managed by the Security Assistance Accounting Center (SAAC) to ensure sufficient customer funds are on hand to meet the daily cash requirements on the military departments

During FY 1992, approximately $12,439.8 Million was distributed to implement customers' orders. This requirement, compared to the cash and interest bearing account balances, yields a "quick cash ratio" of 1.06 : 1 for the fund (cash to requirements). The liquidity ratio was 1 73 : 1 and was calculated as total cash available, plus receivables, minus payables, compared to FY 1992 cash disbursement requirements.

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### FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

| | (THOUSANDS) |
|---|---|
| **Title: OPERATING COSTS** | |
| FY 1992 End of Year Position | TOTAL |
| Net Operating Costs | |
| Revenues and Reimbursements | $0 |
| Less: Total Expenses and Losses | 0 |
| Cost of Operating a Program | $0 |
| FY 1991 ACTIVITY | TOTAL |
| Net Operating Costs | |
| Revenues and Reimbursements | $0 |
| Less: Total Expenses and Losses | 0 |
| Cost of Operating a Program | $0 |

**Title: REIMBURSEMENT OF DoD FOR ARTICLES AND SERVICES**

| | (MILLIONS) |
|---|---|
| FY 1992 ACTIVITY | TOTAL |
| COLLECTIONS IN U.S. DOLLARS | $12,182.0 |
| FY 1991 ACTIVITY | TOTAL |
| COLLECTIONS IN U.S DOLLARS | $11,697.4 |

Collections into the Trust Fund during FY 1992 were greater than anticipated due to an increase in the number and amount of Foreign Military Sales cases and their required initial cash deposits. Arrearages for FY 1992 were $950,267.00, or 0.008% of collections. During FY 1991, arrearages were $519,655.00, or 0 004% of collections.

# *FY 1992 ANNUAL FINANCIAL STATEMENTS DEFENSE SECURITY ASSISTANCE AGENCY*

## PRINCIPAL STATEMENTS - PART II

PART II

PRINCIPAL STATEMENT

(1) STATEMENT OF FINANCIAL POSITION

(2) STATEMENT OF OPERATIONS
(AND CHANGES IN NET POSITION)

(3) STATEMENT OF CASH FLOWS

(4) STATEMENT OF BUDGET AND ACTUAL EXPENSES

**Department/Agency: Defense Security Assistance Agency**
**Reporting Entity: Principal Statements**
**Statement of Financial Position**
**as of September 30, 1992**
**(Thousands)**

| ASSETS | 1992 |
|---|---|
| **1 Financial Resources:** | |
| a Fund Balances with Treasury (Note 2) | $8,775,587 |
| b Cash (Note 2) | 6,676,847 |
| c Foreign Currency (Note 2) | |
| d Other Monetary Assets (Note 3) | |
| e Investments, Non-Federal (Note 4) | |
| f. Accounts Receivable, Net - Non-Federal | 8,971,509 |
| g Inventories Held for Sale, Net (Note 5) | 179,387 |
| h Loans Receivable, Net - Non-Federal (Note 6) | 9,219,738 |
| i Advances and Prepayments, Non-Federal | |
| j Property Held for Sale (Note 7) | |
| k Other, Non-Federal (Note 8) | |
| l Intragovernmental Items: | |
| (1) Accounts Receivable, Federal | 25,932 |
| (2) Loans Receivable, Federal | |
| (3) Investments, Federal (Note 4) | |
| (4) Other, Federal | 294,898 |
| m **Total Financial Resources** | $34,143,898 |
| **2 Non-Financial Resources:** | |
| a Resources Transferable to Treasury | |
| b Inventories Not Held for Sale (Note 5) | |
| c Property, Plant and Equipment, Net (Note 9) | |
| d Other (Note 10) | |
| e **Total Non-Financial Resources** | $-0- |
| **3 Total Assets** | $34,143,898 |
| **LIABILITIES** | |
| **4. Funded Liabilities** | |
| a Accounts Payable, Non-Federal | 134,867 |
| b. Accrued Interest Payable | |
| c Accrued Payroll and Benefits | |
| d Accrued Entilement Benefits | |
| e. Lease Liabilities (Note 11) | |
| f. Debt (Note 12) | |
| g Guarantees Payable (Note 6) | |
| h Other Funded Liabilities, Non-Federal (Note 13) | 21,615,361 |

The accompanying notes are an integral part of these statements.

## 32 Principal Statements

**Department/Agency: Defense Security Assistance Agency**
**Reporting Entity: Principal Statements**
**Statement of Financial Position**
**as of September 30, 1992**
**(Thousands)**

| LIABILITIES Continued | 1992 |
|---|---|
| i. Intragovernmental Liabilities | |
| (1) Accounts Payable, Federal | $58,261 |
| (2) Debt (Note 12) | 4,344,273 |
| (3) Deferred Revenue | |
| (4) Other Funded Liabilities, Federal (Note 13) | 413,937 |
| j. Total Funded Liabilities | $26,566,699 |
| 5 Unfunded Liabilities: | |
| a Accrued Leave | |
| b Lease Liabilities (Note 11) | |
| c. Pensions and Other Actuarial Liabilities (Note 14) | |
| d Other Unfunded Liabilities (Note 15) | |
| e Total Unfunded Liabilities | $-0- |
| 6. TOTAL LIABILITIES | $26,566,699 |
| NET POSITION | |
| 7. Fund Balances: (Note 16) | |
| a. Revolving Fund Balances | 6,507,153 |
| b. Trust Fund Balances | |
| c. Appropriated Fund Balances | 1,070,046 |
| d. Total Fund Balances | $7,577,199 |
| 8 Less Future Funding Requirements (Note 17) | -0- |
| 9. Net Position (Note 16) | $7,577,199 |
| 10 Total Liabilities and Net Position | $34,143,898 |

The accompanying notes are an integral part of these statements

**Department/Agency: Defense Security Assistance Agency**
**Reporting Entity: Principal Statements**
**Statement of Operations (and Changes in Net Position)**
**for Period Ended September 30, 1992**
**(Thousands)**

| | 1992 |
|---|---|
| REVENUES AND FINANCING SOURCES (See notes 1E and 1R) | |
| 1. Appropriations Expensed | $50,102 |
| 2 Revenues from Sales of Goods | |
| a To the Public | 142,007 |
| b. Intragovernmental | 0 |
| 3. Interest and Penalties, Non-Federal | 732,620 |
| 4 Interest, Federal | 0 |
| 5 Taxes (Note 18) | 0 |
| 6 Other Revenues and Financing Sources (Note 19) | 0 |
| 7 Less: Taxes and Receipts Returned to the Treasury | (653,840) |
| 8 **Total Revenues and Financing Sources** | $270,889 |
| EXPENSES | |
| 9 Cost of Goods or Services Sold | |
| a To the Public | 132,052 |
| b Intragovernmental | 0 |
| 10 Program or Operation Expenses (Note 20) | 50,102 |
| 11 Depreciation | 0 |
| 12 Bad Debts and Write-offs | 8,091 |
| 13 Interest | |
| a Federal Financing Bank/Treasury Borrowing | 387,090 |
| b. Federal Securities | |
| c. Other | |
| 14 Other Expenses (Note 21) | |
| 15 **Total Expenses** | $577,335 |
| 16 **Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments** | (306,446) |
| 17 Plus (Minus) Adjustments: | |
| a. Extraordinary Items (Note 22) | |
| b. Prior Period Adjustments (Note 22) | |
| 18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses | $(306,446) |
| 19 Plus: Unfunded Expenses | |
| 20 **Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses** | $(306,446) |

The accompanying notes are an integral part of these statements

## 34 Principal Statements

**Department/Agency: Defense Security Assistance Agency**
**Reporting Entity: Principal Statements**
**Statement of Operations (and Changes in Net Position)**
**for Period Ended September 30, 1992**
**(Thousands)**

| EXPENSES Continued | 1992 |
|---|---|
| 21. Net Position, Beginning Balance | $6,857,588 |
| 22 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | (306,446) |
| 23 Plus (Minus) Equity Transfers | (43,943) |
| 24. Net Position, Ending Balance | $6,507,199 |

The accompanying notes are an integral part of these statements

**Department/Agency: Defense Security Assistance Agency**
**Reporting Entity: Principal Statements**
**Statement of Cash Flows (Indirect)**
**for the Period Ended September 30, 1992**
**(Thousands)**

| | 1992 |
|---|---|
| **Cash Flows from Operating Activities:** | |
| 1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | $(306,446) |
| **Adjustments affecting Cash Flow:** | |
| 2 Appropriations Expensed | (340,985) |
| 3 Decrease (Increase) in Accounts Receivable | (657,763) |
| 4 Decrease (Increase) in Loans Receivable | 56,778 |
| 5 Decrease (Increase) in Other Assets | (294,898) |
| 6 Increase (Decrease) in Accounts Payable | (4,160) |
| 7 Increase (Decrease) in Debt | 0 |
| 8 Increase (Decrease) in Other Liabilities | 2,413,686 |
| 9 Depreciation and Amortization | 0 |
| 10 Other Unfunded Expenses | 0 |
| 11 Other Adjustments | 387,090 |
| 12. **Total Adjustments** | $1,172,658 |
| 13. **Net Cash Provided (Used) by Operating Activities** | $866,212 |
| **Cash Flows from Non-Operating Activities:** | |
| 14 Proceeds from Sales of Investments | |
| 15 Proceeds from Sales of Property, Plant and Equipment | |
| 16 Purchases of Investments | |
| 17 Purchases of Property, Plant and Equipment | 0 |
| 18. **Net Cash Provided (Used) by Non-Operating Activities** | $0 |
| **CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES** | |
| 19 Appropriations (Current Warrants) | 50,148 |
| 20 Add: | |
| a. Restorations | 0 |
| b Transfers of Cash from Others | 0 |
| 21. Deduct: | |
| a. Withdrawals | 43,989 |
| b Transfers of Cash to Others | 1,864 |
| 22. Net Appropriations | 4,295 |

The accompanying notes are an integral part of these statements.

## 36 Principal Statements

**Department/Agency: Defense Security Assistance Agency**
**Reporting Entity: Principal Statements**
**Statement of Cash Flows (Indirect)**
**for the Period Ended September 30, 1992**
**(Thousands)**

| CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES Continued | 1992 |
|---|---|
| 23. Borrowing from the Public | |
| 24. Repayments on Loans | |
| 25. Borrowing from the Treasury and the Federal Financing Bank | |
| 26. Repayments on Loans from the Treasury and the Federal Financing Bank | (255,697) |
| 27. Other Borrowings and Repayments | 0 |
| 28. Net Cash Provided (Used) by Financing Activities | $(251,402) |
| 29 Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities | 614,810 |
| 30. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning | 14,837,624 |
| 31. Fund Balance with Treasury, Cash, and Foreign Currency, Ending | $15,452,434 |

The accompanying notes are an integral part of these statements

**Department/Agency: Defense Security Assistance Agency**
**Reporting Entity: Principal Statements**
**Statement of Budget and Actual Expenses**
**for the Period Ended September 30, 1992**
**(Thousands)**

| Program Name (s) | BUDGET Total Resources | BUDGET Obligations Direct | BUDGET Obligations Reimbursed | ACTUAL (See notes 1E and 1R) Expenses |
|---|---|---|---|---|
| 11X4116 | $884,853 | $274,333 | $0 | $140,143 |
| 11X4121 | 755,682 | 0 | 124,779 | 387,090 |
| 11X4122 | 345,000 | 0 | 345,000 | 50,102 |
| 11X8242 | 14,354,894 | 14,327,000 | 0 | 0 |
| Totals | $16,340,429 | $14,602,033 | $469,779 | $577,335 |

**Budget Reconciliation**

| | |
|---|---|
| A. Total Expenses | $577,335 |
| B Add: | |
| (1) Capital Acquisitions | 0 |
| (2) Loans Disbursed | 627,129 |
| (3) Other Expended Budget Authority | 329,975 |
| C. Less: | |
| (1) Depreciation and Amortization | 0 |
| (2) Unfunded Annual Leave Expense | 0 |
| (3) Other Unfunded Expenses | 141,813 |
| D. Expended Appropriations | $1,392,626 |
| E. Less Reimbursements | 1,002,850 |
| F. Expended Appropriations, Direct | $389,776 |

The accompanying notes are an integral part of these statements.

# *FOOTNOTES TO THE PRINCIPAL STATEMENTS PART III*

# NOTES TO THE PRINCIPAL STATEMENTS

## Note 1. Significant Accounting Policies:

### A. REPORTING ENTITY

**DEFENSE SECURITY ASSISTANCE AGENCY (DSAA).** The DSAA was established as a separate agency of the Department of Defense (DoD) to administer the nation's Security Assistance Programs. In fulfilling this mission, DSAA has administrative responsibility for the Foreign Military Sales (FMS) Trust Fund, the Special Defense Acquisition Fund (SDAF), the Foreign Military Loan Liquidating Account (FMLLA), and the Foreign Military Financing Direct Loan Financing Account (FMFDLFA). Also, there are other financial accounts that comprise the remainder of the military components of Security Assistance.

**FMS TRUST FUND, TREASURY SYMBOL CODE 8242.** The FMS Trust Fund was established as a means of facilitating the purchases of U.S defense articles and services by foreign countries, as authorized in the Arms Export Control Act (AECA). The Trust Fund provides a vehicle through which the United States Government processes foreign country funds required for FMS case payments to U.S. contractors for new procurement, and to components for sales from DoD stocks.

**SPECIAL DEFENSE ACQUISITION FUND (SDAF), TREASURY SYMBOL CODE 4116.** The SDAF was authorized by the International Security and Development Cooperation Act of 1981. The SDAF is to be used as a revolving fund under the control of the DoD to finance the acquisition of defense articles and services in anticipation of their transfer (pursuant to the AECA, the Foreign Assistance Act (FAA), or other legislation) to eligible foreign nations and international organizations. The SDAF account is reimbursed through sales and transfers of items carried in the account.

**FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (FMFPA), TREASURY SYMBOL CODE 1085.** The Credit Reform Act establishment of this appropriated fund account is to provide the funding necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the Foreign Military Financing Direct Loan Financing Account (4122) to make required loan disbursements for approved FMS or commercial sales. For the purpose of this report, FMFPA accounting transactions, to the extent they are relevant to the 4122 account, are included in the data reported for the 4122 account.

## 42 Footnotes

**FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (FMLLA), TREASURY SYMBOL CODE 4121.** The Credit Reform Act consolidated into this symbol: all assets, liabilities, and equities for loan balances previously recorded in accounts 11*1082, 11M1083, 11M1084, and 11X4121. This account disburses funds previously made available and accounted via the above referenced accounts.

**FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA), TREASURY SYMBOL CODE 4122.** The Credit Reform Act resulted in the establishment of this account to provide the vehicle for making disbursements of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans. The account uses permanent borrowing authority from the Treasury combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury.

### B. ACCOUNTING STANDARDS

These financial statements are presented in accordance with the DoD Accounting Manual, which prescribes the accrual basis as the basis of accounting,to be used by DoD Components.

### C. BUDGETARY ACCOUNTING PRACTICES

The FMS program operates using contract authority. Contract authority is statutory authority to incur obligations prior to an appropriation (or the realization of revenues) for the future payment of such obligations. For the FMS program, 82 Statute 1323 (22 U S C. 2762) establishes its permanent indefinite authority. The total value of implemented cases is the only limiting factor in the total amount of obligations that can be incurred

The SDAF is a revolving budget account Congress enacts an annual program authority amount that is available for obligation for a three year period Money to finance the approved annual program comes from sales and transfers of items purchased by the fund.

### D. BASIS OF ACCOUNTING

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

## E. REVENUES AND OTHER FINANCING SOURCES

While the Congress appropriates some funds to finance portions of the Security Assistance Program via the Foreign Military Financing appropriation, the majority of sales are funded from customers' funds.

In accordance with the DoD Acting Chief Financial Officer's memorandum of August 31, 1992, the FMS Trust Fund does not recognize nor report revenue. Funds collected into the Trust Fund are in advance of the performance of services or sale of goods. Since various DoD components actually perform the services and sell the goods, recognition of revenue and expense occurs in the financial statements of the applicable DoD components. The financing source for both FMLLA and FMFDLFA are Congressional appropriations.

## F. ACCOUNTING FOR INTRA-GOVERNMENTAL ACTIVITIES

The Security Assistance Program, as an activity of DoD, interacts with, and is dependent upon, other financial activities of the government as a whole. In FY 1992, the Department or its Components sold assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Customers are required to make payments, in advance, to the FMS Trust Fund The Trust Fund then reimburses, directly or indirectly, the Military Services for the cost of administering and executing the sales program The indirect reimbursement is in the form of allowing the Military Services to cite the Trust Fund on appropriate budgetary and expenditure documents. During fiscal year 1992, the Trust Fund reimbursed the Military Services in the amount of $12,439,844 thousand for assets and services sold under the FMS Program.

## G. FUNDS WITH U.S. TREASURY AND CASH

There are several banking relationships involved in administering, and fiduciary responsibilities associated with, the accounting for security assistance funds. Some funds are held in treasury accounts, others are with the Federal Reserve Bank, and still others are with commercial banks. As of September 30, 1992, the Security Assistance Program has a balance of $8,775,587 thousand in the U.S. Treasury, and $6,676,847 thousand on deposit with the Federal Reserve Bank and other commercial banks.

## H. FOREIGN CURRENCY

All payments and collections involved in the Security Assistance Program are accounted for in U.S Dollars

## 44 Footnotes

### I. ACCOUNTS RECEIVABLE

As presented in the consolidated statement of financial position, accounts receivable includes accounts, claims, and refunds receivable. The Security Assistance Program, as of September 30, 1992, has a net accounts receivable as follows:

(Thousands)

| Accounts Receivable | Amount | Allowance | Total Net |
|---|---|---|---|
| Government | $25,932 | $0 | $25,932 |
| Public | 8,971,509 | 0 | 8,971,509 |
| Refunds | 0 | 0 | 0 |
| Claims | 0 | 0 | 0 |
| Total | $8,997,441 | 0 | $8,997,441 |

The FMS Trust Fund's $8,602,243 thousand portion of the public receivable is based upon its requirement to bill in advance of providing goods and services as established in the Arms Export Control Act of 1976. The amount billed to customers on DD Form 645, adjusted for both special bill arrangements and individual cases that have collections in excess of financial requirements, is the basis for the trust fund's accounts receivable value

### J. LOANS RECEIVABLE

Loans are accounted for as receivable after funds have been disbursed The amount of loans obligated but not disbursed are disclosed in Note 6.

### K. INVENTORIES

The FMS Trust Fund has no inventory Items are either delivered directly to the FMS customer from the contractor, or in the case of FMS sales from U.S. stocks, they are retained as inventory in the procurement or stock fund accounts of the military departments until transferred to the ownership of the foreign customer.

Inventory in SDAF is controlled and managed by the various military departments. The SDAF inventory value is acquisition cost as reported to the DSAA by the military department. See Note 5 for specific information.

### L. INVESTMENTS IN U.S. GOVERNMENT SECURITIES

The Security Assistance Program does not invest in U.S. government securities.

## M. PROPERTY AND EQUIPMENT

The funds and accounts that make up the Security Assistance Program have no property or equipment values For the FMS trust fund, this policy was established by the DoD Acting Chief Financial Officer memorandum of August 31, 1992.

## N. PREPAID AND DEFERRED CHARGES

The prepayment for SDAF represents payments made to contractors where inventory has not yet been delivered All payments are posted as a pre-paid asset. FMS trust fund 'progress payments to contractors' are accounted by for using the constructive delivery method and, accordingly, are identified as an expenditure at the time of payment.

## O. BORROWINGS PAYABLE TO TREASURY

The FMLLA portion of the Security Assistance Program has borrowed funds from the Treasury for disbursement under a valid loan program. Detailed information concerning borrowing is identified in Note 16.

## P. CONTINGENCIES

The Security Assistance Program is obligated for goods and services, which have been ordered but not yet received (i.e., undelivered orders) as of September 30, 1992, in the amount of $23,083,293 thousand Within that total, $22,676,383 thousand is attributable to the FMS trust fund and $406,910 thousand is attributable to SDAF.

Neither the FMS Trust Fund nor the SDAF is a party to any administrative proceedings, legal actions, or any other types of claims

## Q. ACCRUED LEAVE

No fund included in these statements records any accrual of unpaid leave.

## R. EQUITY

The FMS Trust Fund has no net position. In his memorandum of August 31, 1992, the DoD Acting Chief Financial Officer stated that the FMS Trust Fund is a trust fund requiring DoD to act in a fiduciary capacity on behalf of its customers All revenue, expense, and operational reporting for the program is the responsibility of the Military Departments. Accordingly, the FMS Trust Fund accounts only for dollars in and dollars out on a cash basis and has no net position.

## 46 Footnotes

Equity in SDAF is not to exceed the capitalized amount of $1,070,000 thousand. Any excess resulting from operation of the fund is transferred to the miscellaneous receipts account.

The FMFDLFA equity position consists of unexpended appropriations. The FMLLA and SDAF equity positions consist of invested capital. All equity information is contained in Note 16.

### S. COMPARATIVE DATA

Comparative data for the prior year has not been presented because this is the first year for which financial statements are prepared using the Office of Management and Budget format and would require a complete recasting of prior year's data. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the Department's reporting activities.

## Note 2. Fund Balances with Treasury, Cash and Foreign Currency:

| A. Fund Balances with Treasury: | | (Thousands) |
|---|---|---|
| (1) | Trust Funds | $6,516,948 |
| (2) | Revolving Funds | 2,208,491 |
| (3) | Appropriated Funds | 50,148 |
| (4) | Other Fund Types | |
| | Total | $8,775,587 |

| B. Cash: | | |
|---|---|---|
| (1) | Restricted Cash | $7,000 |
| (2) | Unrestricted Cash | 6,669,847 |
| | Total | $6,676,847 |

| | |
|---|---|
| C. Foreign Currency | $0 |

D. Other Information:

$1,324,359 thousand of A(2) is attributable to 11X4121. Account 11X4121 is not a revolving fund, but it is a liquidating fund. Treasury instructed DSAA to classify 11X4121 as a revolving fund.

The $50,148 thousand on A(3) is included in the 1121085 account and is applicable to 11X4122. DSAA was instructed by Treasury to classify these funds as appropriated.

The value stated in B(2) is for the FMS Trust Fund. There are several banking relationships involved in administering, and fiduciary responsibility, of security assistance funds Some funds are held in treasury accounts, others are held by the Federal Reserve Bank, and still others are held by commercial banks. Cash balances are in agreement with the September 30, 1992, Treasury, Federal Reserve Bank, and commercial bank balances.

## Note 3. Other Monetary Assets:

The Security Assistance Program has no other monetary assets.

## Note 4. Investments: NONE

## Note 5. Inventories:

(Thousands)

| A. Inventory Categories: | Inventory Amount | Allowance for Losses | Inventory Net | Valuation Method |
|---|---|---|---|---|
| (1) Inventory Held for Sale | $179,387 | $0 | $179,387 | e |
| (2) Inventory Not Held for Sale | | | | |
| (a) Material and Goods for Own Use | | | | |
| (b) Stockpile Materials | | | | |
| (c) Other | | | | |
| Subtotal | | | | |
| Total | $179,387 | $0 | $179,387 | |

B. Restrictions on Inventory Use, Sale, or Disposition:

SDAF inventory must be used for transfers in security assistance programs unless approved by SECDEF for sale to Military Departments.

C. Other Information:

All inventory belongs to SDAF. The valuation, as reported by the military departments, is the acquisition cost of items on hand at installation level not identified to a specific sale to a foreign customer.

## Note 6. Loans and Loan Guarantees, Non Federal:

A. The entity operates the following loan and/or loan guarantee programs:

(1) Pre-1992 Direct Loan Obligations - DSAA Direct Loans
(2) Pre-1992 Direct Loan Obligations - DSAA Rescheduled Loans (Direct Portion)
(3) Pre-1992 Direct Loan Obligations - DSAA Rescheduled Loans (Gauranty Portion)
(4) Pre-1992 Direct Loan Obligations - FFB Loans
(5) Pre-1992 Direct Loan Obligations - Subrogated Defaulted FFB Loans
(6) Pre-1992 Direct Loan Obligations - Subrogated Defaulted Refinanced Loans
(7) Pre-1992 Loan Guarantees - Refinanced Loans
(8) Pre-1992 Loan Guarantees - Commercial Bank Loans

B. Direct Loans Obligated Prior to FY 1992:

| Loan Programs | Loan Receivable, Gross | (Thousands) Allowance For Estimated Uncollectible Loans | Loan Receivable Net |
|---|---|---|---|
| (1) See Para A (1) | $4,123,549 | 0 | $4,123,549 |
| (2) See Para A (2) | 215,594 | 0 | 215,594 |
| (3) See Para A (3) | 497,522 | 0 | 497,522 |
| (4) See Para A (4) | 4,344,273 | 0 | 4,344,273 |
| (5)See Para A (5) | 38,800 | 0 | 38,800 |
| (6) See Para A (6) | 0 | 0 | 0 |
| Total | $9,219,738 | $0 | $9,219,738 |

C. Direct Loans Obligated after FY 1991: NONE

D. Defaults on Pre-1992 Loan Guarantees: NONE

NOTE: FFB loans are considered Direct Loans; however, $38,800 thousand of loan principal was defaulted to FFB by various countries and DSAA paid FFB the defaulted principal.

E. Defaults on Post-1991 Loan Guarantees: NONE

F. Liability for Loan Guarantees: NONE

NOTE: DSAA expects to collect 100% of its defaulted guaranty loans.

G. Subsidy Expense for Post-1991 Loans and Loan Guarantees:

(1) Current Year's Direct Loans

| Loan Programs | Interest Differential | (Thousands) Defaults | Fees | Other | Total |
|---|---|---|---|---|---|
| (a) FY 1992 - FMFDLFA | $25,985 | $24,117 | | | $50,102 |

(2) Prior Year's Direct Loans: NONE

(3) Total Direct Loan Subsidy Expenses:

| Loan Programs | Total |
|---|---|
| (a) FY 1992 - FMFDLFA | $50,102 |

(4) Current Year's Loan Guarantees: NONE

(5) Prior Year's Loan Guarantees: NONE

(6) Total Loan Guarantees Subsidy Expense: NONE

H Administrative Expense: NONE

I. Other Information:

(1) Other Disclosures: Of the $9.2 billion of Loans Receivable reported in Note 6.B., a portion is currently in default and is primarily attributable to a few foreign borrowers that, for the foreseeable future, lack the ability to repay. These borrowers account for 98 percent of principal and interest defaults in excess of three years and 99 percent of defaults

## 50 Footnotes

in excess of one year. The debts related to these foreign govenments have and will continue to accrue interest (Accounts Receivable) until such time as they are repaid, officially rescheduled, or legislation is enacted to forgive the debt. A table of pertinent information related to the status of Loans and Accounts Receivable follows:

| | (Thousands) | |
|---|---|---|
| Description | Loans Receivable (Principal) | Accounts Receivable (Interest) |
| Total Loans/Accounts Receivable | $9,219,738.5 | $369,265.9 |
| Problem Borrowers | $435,323.4 | $255,086.3 |
| Other Borrowers | $8,784,415.1 | $114,179.6 |
| Total Payments in Default | $112,583.3 | $253,616.5 |
| Problem Borrowers | $108,184.7 | $246,359.1 |
| Other Borrowers | $4,398.6 | $7,257.4 |
| Defaults - Three Yrs or More | $12,120.4 | $89,041.6 |
| Problem Borrowers | $12,120.4 | $87,488.8 |
| Other Borrowers | $0.0 | $1,552.8 |

(2) Accounting Changes: During FY 1992, new accounting procedures prescribed by the Credit Reform Act of 1990 were implemented. These changes included the transfer of $1,900 million of obligated and unobligated balances and $8,897 million of loans and accounts receivable from the Foreign Military Financing Grant Account (11*1082) to the Foreign Military Loan Liquidating Account (11X4121). In addition, two new accounts, the Foreign Military Financing Program Account (11*1085) and the Foreign Military Financing Direct Loan Financing Account (11X4122) were established.

(3) Guaranteed Loans: Following is the status of DSAA Guaranteed Loans:

| | (Thousands) |
|---|---|
| Description | Amount |
| Face Value of Gauranteed Refinanced Loans | $8,173,192 |
| DSAA Gauranteed Portion of Refinanced Loans (90% of Face Value) | $7,355,873 |
| Portion of Refinanced Loans Secured by Country Deposits in the Financing Bank (10% Face Value) | $817,319 |
| Face Value of Gauranteed Commercial Bank Loans | $40,000 |
| DSAA Gauranteed Portion of Commercial Bank Loans (100%) Face Value) | $40,000 |

(4) Undisbursed Direct Loans: The undisbursed balance available for new Direct Loans Receivable is $1,324,359,027.

**Note 7. Property Held For Sale:** NONE

**Note 8. Other Financial Resources — Non-Federal:** NONE

**Note 9. Property, Plant, and Equipment, Net:** NONE

**Note 10. Other Non-Financial Resources:** NONE

**Note 11. Leases:** NONE

**Note 12. Debt:**

(Thousands)

| | Beginning Balance | New Borrowing | Repayments | Ending Balance | Refin-ance |
|---|---|---|---|---|---|
| A Gross Fed Debt | | | | | |
| B. Intergovernmental Debt | | | | | |
| (1) Borrowing from the Treasury | | | | | |
| (2) Borrowing from the Federal Financing Bank | $4,599,970 | | $255,697 | $4,344,273 | |
| (3) Borrowing from Other Federal Agencies | | | | | |
| Total | $4,599,970 | $0 | $255,697 | $4,344,273 | $0 |
| C. Total Debt | $4,599,970 | $0 | $255,697 | $4,344,273 | $0 |

**Note 13. Other Funded Liabilities:**

(Thousands)

| A. Other Funded Liabilities | Non-Federal | Federal | Total |
|---|---|---|---|
| (1) FMS Trust Fund | $21,608,001 | | $21,608,001 |
| (2) SDAF | 7,360 | | 7,360 |
| (3) FMLLA | | $68,937 | 68,937 |
| (4) FMFDLFA – Estimated Liability From Borrowings To Be Made | | 294,898 | 294,898 |
| (5) FMFDLFA – Liability for Subsidy Related To Undisbursed Loans | | 50,102 | 50,102 |
| Total | $21,615,361 | $413,937 | $22,029,298 |

## 52 Footnotes

B. Other Information:

(1) The FMS Trust Fund value represents the net amount billed to and unpaid by the foreign customer. This practice is based upon the Arms Export Control Act of 1976 requirement to bill in advance of performance of services and issuance of goods. Amount is value expected to be expended by U.S. government on behalf of foreign customer.

(2) The SDAF value represents excess collections from customers over disbursements.

(3) The FMFDLFA value represents future repayments of borrowings from Treasury for credit reform loans.

**Note 14. Pensions and Other Actuarial Liabilities:** NONE

**Note 15. Other Unfunded Liabilities:** NONE

**Note 16. Fund Balances:**

(Thousands)

| Description | Revolving Funds | Trust Funds | Appropriated Funds | Total |
|---|---|---|---|---|
| A. Unexpended Appropriations | $1,324,359 | | | $1,324,359 |
| B. Invested Capital | 6,252,794 | | $46 | 6,252,840 |
| C Cumulative Results of Operations | | | | |
| D. Donations | | | | |
| E. Transfers | | | | |
| F. Total | $7,577,153 | $0 | $46 | $7,577,199 |

G. Other Information:

(1) $1,070,000 thousand of B. is attributable to SDAF. Any excess generated from the operation of the fund is returned to the Treasury miscellaneous receipts account. In FY 1992, $1,864 thousand was returned to Treasury.

(2) FMLLA is not considered a revolving fund. It is a liquidating fund. It is being classified as a revolving fund since the Treasury is classifying it as a revolving fund for the SF 220 reports. All of A. and $5,182,794 thousand of B. are attributable to FMLLA.

Note 17. Future Funding Requirements: NONE

Note 18. Taxes: NONE

Note 19. Other Revenue and Financing Sources: NONE

Note 20. Program and Operating Expenses:

All expenses ($50,102 thousand) are other subsidy expenses incurred by the FMFDLFA.

Note 21. Other Expenses: NONE

Note 22. Extraordinary Items and Prior Period Adjustments: NONE

Note 23. Transfers (and Donations): NONE

Note 24. Intrafund Eliminations: NONE

Note 25. Other Disclosures: NONE

# FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

## SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION - PART IV

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

(1) ADDITIONAL PERFORMANCE INDICATORS

(A) SDAF ACCOUNT: 4116

- New Purchase Orders Issued
- Number of Purchase Orders Issued, New & Revised
- Value of Purchase Orders Issued
- Number of Purchase Orders Closed
- Value of Purchase Orders Closed
- Value of Sales
- Value of New Obligations
- Value of Obligations Liquidated, Fiscal Year End Position
- Value of Unsold Purchases (Material/Inventory) as of Fiscal Year End
- Ratio of Unsold Purchases to Total Fund Authority as of Fiscal Year End
- Gain or Loss on Cases Closed During the Fiscal Year

(B) FMS TRUST FUND ACCOUNT: 8242

- New Sales Cases Accepted and Amendments Processed
- Ordered Value of New Sales Cases Accepted and Amendments Processed
- Ordered Value of New & Amended Sales Cases by Major Category
- Sales Cases Closed
- Ordered Value of Sales Cases Closed
- Aged Number of Sales Cases Closed
- Aged Value of Sales Cases Closed
- Value of Defense Articles and Services Delivered
- Ratio of Deliveries to Ending Undelivered Balance
- Value of New Obligations
- Value of Obligations Liquidated - All Years
- Ratio of Unliquidated Obligations to Open Case Value as of Fiscal Year End

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## FY 1992 ANNUAL FINANCIAL STATEMENT
## DEFENSE SECURITY ASSISTANCE AGENCY

## SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION - PART IV (CONT.)

(B) FMS TRUST FUND ACCOUNT: 8242 (cont.)

Trust Fund and Interest Bearing Account Balances as of Fiscal Year End

Cumulative Value of Unreconciled Accounts as of Fiscal Year End

Number of Open Cases as of Fiscal Year End

Value of Country Accounts in Arrearage Status as of Fiscal Year End

Net Outlays to Plan, End of Fiscal Year

Work Years (WY) Used for Administration of Security Assistance Program During the Fiscal Year

Cost of Work Years Used for Administration of the Security Assistance Program

| | |
|---|---|
| (2) SUPPLEMENTAL SCHEDULES | N/A |
| (3) REVALUATION OF INVENTORIES | N/A |
| (4) VALUATION OF PROPERTY | N/A |

## FOREIGN MILITARY SALES TRUST FUND ACCOUNT 8242

**Title: New Sales Cases Accepted and Amendments Processed**

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NEW FY 1992 SALES CASES | 906 | 658 | 605 | 271 | 2,440 |
| CASE AMEND-ALL YRS | 174 | 135 | 97 | 8 | 414 |
| TOTAL | 1,080 | 793 | 702 | 279 | 2,854 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NEW FY 1991 SALES CASES | 1,156 | 695 | 667 | 310 | 2,828 |
| CASE AMEND-ALL YRS | 223 | 121 | 112 | 9 | 465 |
| TOTAL | 1,379 | 816 | 779 | 319 | 3,293 |

This performance indicator shows the number of new sales cases implemented and the number of case amendments processed to existing cases during each fiscal year. Wile amendments are identified to the original case, they are not identified to the fiscal year of the original case/sale. Several amendments during the multiple-year life of any case is considered reasonable. The statistical decline during FY 1992 is normal following the increase caused by the Desert Shield/Desert Storm military operation of FY 1991.

**Title: Ordered Value of New Sales Cases Accepted and Amendments Processed**

(THOUSANDS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NEW CASES AND AMEND | 3,303,244 | 4,988,398 | 6,664,151 | 215,954 | 15,171,747 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NEW CASES AND AMEND | 11,392,373 | 3,996,086 | 8,131,988 | 267,138 | 23,787,585 |

This performance indicator describes the dollar value for new Sales Cases and Amendments to existing Sales Cases. This dollar value, taken with the level of activity in the indicator, "New Sales Cases Accepted and Amendments Processed," provides an appreciation of the relative amounts of activity among the implementing agencies.

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### FOREIGN MILITARY SALES TRUST FUND ACCOUNT 8242

**Title: Ordered Value of New & Amended Sales Cases by Major Category**

(THOUSANDS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| Aircraft | 732,837 | 2,914,386 | 4,334,059 | 318 | 7,981,600 |
| Missiles | 509,257 | 339,723 | 292,064 | 120,732 | 1,261,776 |
| Ships | 0 | 178,628 | 0 | 104 | 178,732 |
| Vehicles & Weapons | 391,774 | 94,383 | 179,629 | 8,432 | 674,218 |
| Ammunition | 60,134 | 104,309 | 70,508 | 13,995 | 248,946 |
| Training | 151,929 | 141,588 | 410,188 | 112 | 703,817 |
| Miscellaneous/Other | 1,457,313 | 1,215,381 | 1,377,703 | 72,261 | 4,122,658 |
| TOTAL | 3,303,244 | 4,988,398 | 6,664,151 | 215,954 | 15,171,747 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| Aircraft | 510,015 | 555,799 | 3,530,599 | 199 | 4,596,612 |
| Missiles | 1,070,180 | 490,928 | 85,111 | 21,214 | 1,667,433 |
| Ships | 42,650 | 239,898 | 0 | 0 | 282,548 |
| Vehicles & Weapons | 4,408,670 | 341,034 | 6,487 | 149 | 4,756,340 |
| Ammunition | 544,847 | 61,058 | 152,953 | 17,864 | 776,722 |
| Training | 178,331 | 458,891 | 283,506 | 181 | 920,909 |
| Miscellaneous/Other | 4,637,680 | 1,848,478 | 4,073,332 | 227,531 | 10,787,021 |
| TOTAL | 11,392,373 | 3,996,086 | 8,131,988 | 267,138 | 23,787,585 |

This indicator classifies the various kinds of execution activities and shows the distribution of major weapon sales cases among the implementing agencies.

**Title: Sales Cases Closed**

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| CASES CLOSED-ALL YRS | 1,140 | 576 | 660 | 360 | 2,736 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| CASES CLOSED-ALL YRS | 1,099 | 507 | 679 | 358 | 2,643 |

This indicator demonstrates the number of Sales Cases "Closed" during the fiscal year. The "closure" of a sales case, like the completion of a legal contract, occurs when all the terms have been met. Sales Cases must be legally, logically, and financially "complete" prior to closure.

## FOREIGN MILITARY SALES TRUST FUND ACCOUNT 8242

**Title: Ordered Value of Sales Cases Closed**

(THOUSANDS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| CLOSED CASES-ALL YRS | 835,782 | 400,249 | | 156,798 | 2,662,271 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| CLOSED CASES-ALL YRS | | 285,821 | | 85,766 | 3,831,688 |

This indicator shows the dollar value of all sales cases closed during each fiscal year. These dollar values, taken with the level of activity in the previous indicator "Sales Cases Closed," demonstrate one of several complexities in comparing numbers of cases with their dollar values and by implementing agency.

**Title: Aged Number of Sales Cases Closed**

(THOUSANDS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| AGE: 0-5 Years | 575 | 208 | 304 | 206 | 1,293 |
| AGE: 6-10 Years | 494 | 291 | 246 | 126 | 1,157 |
| AGE: 11-15 Years | 62 | 69 | 90 | 27 | 248 |
| AGE: 16-20 Years | 9 | 8 | 19 | 1 | 37 |
| AGE: 20+ Years | 0 | 0 | 1 | 0 | 1 |
| TOTAL | 1,140 | 576 | 660 | 360 | 2,736 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| AGE: 0-5 Years | 550 | 196 | 305 | 220 | 1,271 |
| AGE: 6-10 Years | 445 | 236 | 278 | 127 | 1,086 |
| AGE: 11-15 Years | 86 | 69 | 81 | 11 | 247 |
| AGE: 16-20 Years | 18 | 6 | 13 | 0 | 37 |
| AGE: 20+ Years | 0 | 0 | 2 | 0 | 2 |
| TOTAL | 1,099 | 507 | 679 | 358 | 2,643 |

This performance indicator reveals the age or "life cycle" of the sales cases closed. The average 6+ year life of a case is directly attributable to its complexity. Major Weapon Systems Procurements such as aircraft and construction cases, require more time to execute and complete financial closeout than does logistics and training cases.

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### FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: Aged Value of Sales Cases Closed**

(THOUSANDS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| AGE: 0-5 Years | 141,347 | 45,730 | 58,824 | 44,552 | 290,453 |
| AGE: 6-10 Years | 341,216 | 147,936 | 126,252 | 103,661 | 719,065 |
| AGE: 11-15 Years | 283,614 | 171,297 | 281,616 | 8,538 | 745,065 |
| AGE: 16-20 Years | 69,605 | 35,286 | 657,309 | 47 | 762,247 |
| AGE: 20+ Years | 0 | 0 | 145,441 | 0 | 145,441 |
| TOTAL | 835,782 | 400,249 | 1,269,442 | 156,798 | 2,662,271 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| AGE: 0-5 Years | 109,632 | 40,439 | 69,499 | 50,299 | 269,869 |
| AGE: 6-10 Years | 511,166 | 70,542 | 252,545 | 31,527 | 865,780 |
| AGE: 11-15 Years | 474,583 | 76,394 | 477,785 | 3,941 | 1,032,703 |
| AGE: 16-20 Years | 727,929 | 98,445 | 551,261 | 0 | 1,377,635 |
| AGE: 20+ Years | 0 | 0 | 285,702 | 0 | 285,702 |
| TOTAL | 1,823,310 | 285,821 | 1,636,792 | 85,766 | 3,831,688 |

This performance indicator shows the age and value of cases closed by implementing agency. The higher valued procurement and construction cases require more time to close, have a greater procurement and construction lead time requirement, and have a higher price due to the required complexities and the amount of labor involved.

**Title: Value of Defense Articles and Services Delivered**

(MILLIONS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| DELIVERED VALUE | 3,154.2 | 1,855.6 | 4,845.1 | 161.4 | 10,016.4 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| DELIVERED VALUE | 2,834.0 | 1,462.0 | 4,864.0 | 99.0 | 9,259.0 |

This performance indicator shows the value of articles and services provided to customer countries during the year. These transactions are generated by the DoD Form 250. "Delivered Value" includes case activities for all years and cases.

## FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: Ratio of Deliveries to Ending Undelivered Balance**

(MILLIONS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| BEGINNING UNDEL BAL | 24,565.0 | 23,739.0 | 27,242.0 | 933.0 | 76,479.0 |
| NEW ORDERS - FY 1992 | 3,303.2 | 4,988.4 | 6,664.1 | 216.0 | 15,171.7 |
| TOTAL UNDEL ORDERS | 27,868.2 | 28,727.4 | 33,906.1 | 1,149.0 | 91,650.7 |
| LESS: DEL IN FY 92 | 3,154.2 | 1,855.6 | 4,845.1 | 161.4 | 10,016.4 |
| ENDING UNDEL BAL | 24,714.0 | 26,871.8 | 29,061.0 | 987.5 | 81,634.4 |
| RATIOS BY IA AND TOT | 12.76% | 6.91% | 16.67% | 16.35% | 12.27% |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| BEGINNING UNDEL BAL | 16,007.0 | 21,205.0 | 23,974.0 | 765.0 | 61,951.0 |
| NEW ORDERS - FY 1991 | 11,392.0 | 3,996.0 | 8,132.0 | 267.0 | 23,787.0 |
| TOTAL UNDEL ORDERS | 27,399.0 | 25,201.0 | 32,106.0 | 1,032.0 | 85,738.0 |
| LESS: DEL IN FY 91 | 2,834.0 | 1,462.0 | 4,864.0 | 99.0 | 9,259.0 |
| ENDING UNDEL BAL | 24,565.0 | 23,739.0 | 27,242.0 | 933.0 | 76,479.0 |
| RATIOS BY IA AND TOT | 11.54% | 6.16% | 17.85% | 10.61% | 12.11% |

This ratio indicates that FY 92 deliveries (execution) were 12.3% of the ending balance of undelivered orders. Additional comparisons reveal FY 92 deliveries were 13.1% of the beginning balance, 66.0% of the new orders placed, and 10.9% of the total undelivered orders for the year. The obvious increase in FY 92 undelivered orders is directly attributable to the increased FY 91 and FY 92 sales related to the Desert Shield/Desert Storm military operation.

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### FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: Value of New Obligations**

(MILLIONS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| VALUE | 3,607.7 | 5,378.3 | 4,914.9 | 426.8 | 14,327.7 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| VALUE | 5,815.6 | 2,842.1 | 5,284.0 | 482.8 | 14,424.5 |

This performance indicator demonstrates the value of contracts awarded and/or orders placed during each of the fiscal years. These values represent new orders of goods and services which the prroduction and delivery may require considerable logistical and financial planning and several years to fully execute.

**Title: Value of Obligations Liquidated - All Years**

(MILLIONS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| VALUE | 4,149.7 | 3,431.5 | 4,727.5 | 131.1 | 12,439.8 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| VALUE | 3,081.3 | 2,754.3 | 5,593.5 | 42.4 | 11,471.6 |

Values represent all disbursements paid to contractors for work performed and reimbursements paid to the Military Departments for articles and services provided.

## FOREIGN MILITARY SALES TRUST FUND ACCOUNT 8242

**Title: Ratio of Unliquidated Obligations to Open Case Values as of Fiscal Year-End**

(MILLIONS)

| September 30, 1992 | ARMY | NAVY | USAF | OTHER | SAAC | TOTAL |
|---|---|---|---|---|---|---|
| VALUE OF OPEN CASES | 58,819.0 | 52,817.8 | 82,882.5 | 1,740.0 | | 196,259.3 |
| UNLIQUIDATED OBLIGATIONS | | | | | 22,858.5 | 22,858.5 |
| RATIO OF UNLIQUIDATED OBLIGATIONS TO OPEN CASES | | | | | | 11.6% |

| September 30, 1991 | ARMY | NAVY | USAF | OTHER | SAAC | TOTAL |
|---|---|---|---|---|---|---|
| VALUE OF OPEN CASES | 56,351.5 | 48,229.7 | 77,487.8 | 1,681.2 | | 183,750.2 |
| UNLIQUIDATED OBLIGATIONS | | | | | 21,051.2 | 21,051.2 |
| RATIO OF UNLIQUIDATED OBLIGATIONS TO OPEN CASES | | | | | | 11.5% |

This compares the value of unliquidated obligations to the value of the open cases at fiscal year-end. No adjustment has been made for previous execution or prior obligations liquidated. The September 30, 1991 position was restated to reconcile and correct current FY 92 activity as of September 30, 1992. Note: SAAC case values are included in "Other "

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### FOREIGN MILITARY SALES TRUST FUND ACCOUNT 8242

**Title: Trust Fund and Interest Bearing Account Balaces as of Fiscal Year-End**

| | (MILLIONS) |
|---|---|
| BALANCES AS OF SEPTEMBER 30, 1992 | SAAC |
| Treasury Cash Balance for Account 8242 | $6,516.9 |
| Interest Bearing Accounts | 6,669.8 |
| Accounts Receivable | 8,603.3 |
| Accounts Payable | (182.1) |
| TOTAL | $21,608.0 |

| | |
|---|---|
| BALANCES AS OF SEPTEMBER 30, 1991 | SAAC |
| Treasury Cash Balance for Account 8242 | $6,776.7 |
| Interest Bearing Accounts | 5,187.0 |
| Accounts Receivable | 8,013.3 |
| Accounts Payable | (181.7) |
| TOTAL | $19,795.3 |

Foreign Military Sales (FMS) Trust Fund Accounting is managed by the Security Assistance Accounting Center (SAAC) to ensure sufficient customer funds on hand to meet the daily cash requirements of the military departments.

During FY 92, approximately $12,439.8 Million was distributed to implement customers' orders. This requirement, compared to the cash and interest bearing account balances, yeilds a "quick cash ratio" of 1.06 : 1 for the fund (cash to requirements). The liquidity ratio was calculated as total cash available, plus receivables, minus payables, compared to FY 92 cash disbursement requirements.

**Title: Cumulative Value of Unreconciled Accounts as of Fiscal Year End**

| September 30, 1992 Values | SAAC |
|---|---|
| UNRECONCILED ACCOUNTS | 0 |

| September 30, 1991 Values | SAAC |
|---|---|
| UNRECONCILED ACCOUNTS | 0 |

As of September 30, 1992, there were no unreconciled accounts for any country.

## FOREIGN MILITARY SALES TRUST FUND ACCOUNT 8242

**Title: Number of Open Cases as of Fiscal Year End**

| SEPTEMBER 30, 1992 POS | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NUMBER OF CASES OPEN | 8,245 | 6,344 | 5,684 | 1,366 | 21,639 |

| SEPTEMBER 30, 1991 POS | ARMY | NAVY | USAF | OTHER | TOTAL |
|---|---|---|---|---|---|
| NUMBER OF CASES OPEN | 8,479 | 6,262 | 5,739 | 1,455 | 21,935 |

This performance indicator shows the number of active FMS Cases at the end of each fiscal year. The September 30, 1991 position was restated to reconcile and correct current FY 92 activity as of September 30, 1992.

**Title: Value of Country Accounts in Arrearage Status as of Fiscal Year End**

(WHOLE DOLLARS)

| COUNTRY AND VALUE, SEPTEMBER 30, 1992 | ARREARAGE |
|---|---|
| Nicaragua | $25,844 |
| Uganda | 17,421 |
| Uruguay | 369,694 |
| Organization of American States (OAS) | 537,308 |
| TOTAL | $950,267 |

| COUNTRY AND VALUE, SEPTEMBER 30, 1991 | ARREARAGE |
|---|---|
| Malta | $35,364 |
| Nicaragua | 11,131 |
| Nigeria | 159,134 |
| Organization of American States (OAS) | 314,026 |
| TOTAL | $519,655 |

Four country accounts were placed in an arrearage status due to non-payment, as of fiscal year-end

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### FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: Net Outlays to Plan, End of Fiscal Year**

(MILLIONS)

| FY 1992 ACTIVITY | Presidents Budget | FY 1992 Actual | Ratio |
|---|---|---|---|
| DISBURSEMENTS | $11,307.0 | $12,439.8 | 110.0% |
| COLLECTIONS | (11,419.0) | (12,182.0) | 106.7% |
| NET OUTLAYS | ($112.0) | $257.8 | (230.2%) |

| FY 1991 ACTIVITY | Presidents Budget | FY 1991 Actual | Ratio |
|---|---|---|---|
| DISBURSEMENTS | $10,055.0 | $11,471.6 | 114.1% |
| COLLECTIONS | (10,300.0) | (11,697.4) | 113.6% |
| NET OUTLAYS | ($245.0) | ($225.9) | 92.2% |

Disbursement outlay estimates are based on prior unliquidated balances as carried forward from previous years, plus an estimate for the new year's obligations, and are adjusted by a historical experience (spend out rate) factor. Disbursements were higher than estimated due to two reasons: (1) New obligations were greater than estimated by $2.8 billion due to unanticipated sales, accelerated procurements, and diversions from inventories; and (2) the spendout rate was higher than estimated.

Collections were also greater than anticipated due to an increase in the number and amount of FMS sales cases and their required initial cash deposits.

## FOREIGN MILITARY SALES TRUST FUND ACCOUNT 8242

**Title: Work Years (WY) Used for Administration of Security Assistance Program During the Fiscal Year**

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | DFAS-DE | DSAA & OTHER | TOTAL |
|---|---|---|---|---|---|---|
| CONUS MILITARY WY | 40 | 51 | 92 | 2 | 40 | 225 |
| CONUS CIVILIAN WY | 1,703 | 1,066 | 1,415 | 297 | 169 | 4,650 |
| TOTAL CONUS WY | 1,743 | 1,117 | 1,507 | 299 | 209 | 4,875 |

| | MILITARY | CIVILIAN | LOCALS | TOTAL |
|---|---|---|---|---|
| CONUS WY | 225 | 4,650 | 0 | 4,875 |
| OVERSEAS WY | 252 | 219 | 146 | 617 |
| TOTAL WY | 477 | 4,869 | 146 | 5,492 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | SAAC | DSAA & OTHER | TOTAL |
|---|---|---|---|---|---|---|
| CONUS MILITARY WY | 31 | 59 | 101 | 2 | 38 | 231 |
| CONUS CIVILIAN WY | 1,680 | 1,127 | 1,781 | 354 | 171 | 5,113 |
| TOTAL CONUS WY | 1,711 | 1,186 | 1,882 | 356 | 209 | 5,344 |

| | MILITARY | CIVILIAN | LOCALS | TOTAL |
|---|---|---|---|---|
| CONUS WY | 231 | 5,113 | 0 | 5,344 |
| OVERSEAS WY | 260 | 222 | 160 | 642 |
| TOTAL WY | 491 | 5,335 | 160 | 5,986 |

Work years are an estimated obtained from budget data. No specific manpower accounting system exists for Security Assistance workyears.

CONUS:
The civilian and military work years are assigned to provide logistical, financial, training, and other types of administrative support to the Foreign Military Sales Program. Civilain pay is funded from FMS administrative funds. Military pay is financed from the Military Pay Appropriations.

OVERSEAS:
There are FMS administrative work years at overseas Security Assistance Offices (SAO's) that are in support of FMS activities. U.S. Military and Civilians are stationed in foreign countries to provide administrative support for Security Assistance Program implementation. Local nationals are also hired to provide administrative support.

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### FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

**Title: Cost of Work Years Used for Administration of the Security Assistance Program**

(THOUSANDS)

| FY 1992 ACTIVITY | ARMY | NAVY | USAF | DFAS | DSAA & OTHER | TOTAL |
|---|---|---|---|---|---|---|
| ACTUAL COST | $90.1 | $60.9 | $76.0 | $22.6 | $36.2 | $285.8 |
| BUDGET | $90.0 | $67.5 | $83.1 | $19.1 | $19.3 | $279.0 |

| FY 1991 ACTIVITY | ARMY | NAVY | USAF | SAAC | DSAA & OTHER | TOTAL |
|---|---|---|---|---|---|---|
| ACTUAL COST | $87.2 | $61.1 | $91.3 | $15.2 | $17.4 | $272.2 |
| BUDGET | FY 1991 ACTIVITY IS NOT AVAILABLE | | | | | |

Costs include direct payroll costs, benefits, moving costs, automatic data processing, other services and etc..

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# Part VI - Other Issuances Related to this Audit

# Audit Reports Issued

Inspector General, Department of Defense, Report No. 93-123, "Consolidating Financial Statements of the Foreign Military Sales Trust Fund - FY 1992," June 24, 1993

Inspector General, Department of Defense, Report No. 93-106, "Foreign Military Loan Liquidating Account Financial Statements for FY 1992," June 11, 1993

Inspector General, Department of Defense, Report No. 93-121, "Special Defense Acquisition Fund Financial Statements for FY 1992," June 21, 1993

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON VIRGINIA 22202 2884

AUG 0 6 1992

MEMORANDUM FOR DEPUTY COMPTROLLER OF THE DEPARTMENT OF DEFENSE (MANAGEMENT SYSTEMS)
DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Management Advisory Memorandum Regarding Preparation of the FY 1992 Financial Statements for the Foreign Military Sales Trust Fund

In preparation for our Audit of the Foreign Military Sales (FMS) Trust Fund's Financial Statements for FY 1992, we have reviewed the FMS Trust Fund's financial statements for FY 1991, prepared according to the Chief Financial Officers (CFO) Act. Our review disclosed deficiencies and material misstatements that, if uncorrected, could cause us to issue an adverse opinion on the FY 1992 statements. Problems with the 1991 statements were as follows.

o The Statement of Financial Position did not include an equity account, and the Statement of Operations was prepared using budgetary accounts instead of revenue and expense accounts. As a result, any accrued equities or cumulative net operating losses were not disclosed, and revenues and expenses were not reported on an accrual basis as required by the DoD Accounting Manual and Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies" (Title 2). Recent guidance from the Office of Accounting Policy of the Comptroller, DoD, prohibited the use of an equity account in the authorized chart of accounts for the FMS Trust Fund. We have discussed this issue with the Director of Accounting Policy, and we disagree with the Director. We believe the reporting entity for the FMS statements should be the FMS Program, while the Director believes that the reporting entity should be the Treasury account (a holding account for the FMS Program). We believe that the intent of the Chief Financial Officers Act will not be met unless the financial statements report on the FMS Program. We also believe that statements focusing on the Treasury account would not be useful to management or other interested parties. A discussion of this matter is presented in the Enclosure.

o The Statement of Financial Position omitted three categories of assets owned by the FMS Trust Fund. These were: equipment and software purchases, amounts invested by foreign customers in DoD inventories, and work-in-process inventories at contractor plants. In addition, depreciation and amortization

2

expenses should have been included in the Statement of Operations.

o Accounts receivable were not aged as required by the DoD Accounting Manual, and the currency of the accounts may have been misstated. A footnote stated that there were no material arrearages. However, DFAS - Denver reported to DSAA that as of September 30, 1991, $6.5 billion of billed amounts had not been collected by the due date. Under Title 2, these amounts were past due, and the condition should have been disclosed. While the statements were not required to be in accordance with Title 2, any departures from Title 2 and the effects of the departures must be disclosed in footnotes to the statements.

o The authorized chart of accounts did not include provisions for uncollectible accounts and bad debts. This departure from Title 2 should have been explained. In addition, uncollectible accounts that are carried on the books year after year will result in an overstatement of accounts receivable.

We have observed these problems in our preliminary work; other problems may exist. We recognize that you may not be able to correct all of these problems immediately. However, we suggest that before you prepare the FY 1992 financial statements, you take all possible actions to correct these deficiencies. Please inform us in writing within 15 days of the date of this memorandum of your planned actions. If you have any questions or need any additional information, please contact Mr. Brice Harbert of the Denver Field Office at (303) 676-7405 (DSN 926-7405).

SIGNED

Nancy L. Hendricks
Director
Financial Management Directorate

HENDRICKS/FUNK/41479/CMN

Distribution

Chron
Project
PD
AIG

The Need for Equity, Expense, and Revenue Accounts in the Financial Statements of the FMS Trust Fund

The Arms Export Control Act requires that the Foreign Military Sales (FMS) program be operated at no cost to the U.S. Government. However, such a large program cannot be operated so that the equity is always at zero. The presence of an equity, which may be positive or negative, results from surcharges applied and assets acquired. If the use of an equity account is not permitted, the financial statements will not disclose the equity that exists. Since the purpose of financial statements is to present fairly the financial position, results of operations, and changes in financial position of the reporting entity, statements that do not disclose equity and accurately report revenues and expenses will not accomplish this purpose.

An equity account is also needed to make fund managers aware of any need to adjust surcharge rates so that the fund can operate at no cost to the Government. Revenue and expense accounts, which must be closed to equity accounts, give management the results of operations for the period. Revenue and expense accounts are also necessary in order to account for transactions on the accrual basis. The accrual basis of accounting is required by the DoD Accounting Manual and Title 2. In addition, the Statement of Operations, required by the CFO Act and the Office of Management and Budget, cannot be properly prepared without revenue and expense accounts.

The Office of Accounting Policy has determined that the reporting entity for the FMS Trust Fund is the Treasury account (a holding account for the FMS Program), and that the Treasury account is only a means of transferring funds. The Treasury account does not employ personnel or contract for goods and services. Consequently, the Treasury account does not have equity, revenues, or expenses. The DoD Components execute the FMS Program and employ personnel whose salaries are paid by the FMS Trust Fund. The DoD Components also contract for goods and services (paid for by the FMS Trust Fund) that are sold to FMS customers. Consequently, any assets, revenues, expenses, and equities apply to the DoD Components, and should be included in their financial statements rather than in the financial statements of the FMS Trust Fund.

The Office of Accounting Policy's view does not address the FMS program. This approach would limit the financial visibility of FMS operations. Management would not receive important information on revenue, expenses, and accrued equities; this information is needed to ensure that the program is operated at

no cost to the U.S. Government. In our opinion, the resulting financial statements would not be useful to management or interested outside parties.

The CFO Act requires departments and agencies to provide financial statements of their revolving funds, trust funds, and commercial-type activities. The Office of Accounting Policy's concept might satisfy the requirement for trust fund statements, but would not satisfy the requirment for statements of commercial-type activities. FMS is a significant commercial-type activity that uses a trust fund to administer the program. We believe that financial statements for the FMS Program are clearly required by the CFO Act. While separate statements could be prepared for the Treasury account and the FMS Program, this would require additional work, would serve no useful purpose, and could result in duplicate reporting of overlapping areas. Consequently, we believe the financial statements of the FMS Trust Fund should account for the FMS Program, not for the Treasury account.

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

AUG 31 1992

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE OF THE DOD INSPECTOR GENERAL

SUBJECT: Management Advisory Memorandum Regarding Preparation of the FY 1992 Financial Statements for the Foreign Military Sales Trust Fund

A Management Advisory Memorandum, dated August 6, 1992, subject as above, addressed a few concerns regarding the preparation of audited financial statements for the Foreign Military Sales Trust Fund for FY 1992. The memorandum indicated that if these concerns were not satisfactorily resolved, the DODIG might be precluded from issuing an unqualified opinion on the FY 1992 financial statements.

This office fully concurs with some of the recommended actions addressed in the above referenced memorandum.

Accounts receivable balances should be aged. As you are aware, the DoD Accounting Manual currently requires the aging of accounts receivable. This office will reemphasize, to both the Defense Finance and Accounting Service and the Defense Security Assistance Agency, the need to comply with this requirement for financial statements of the Foreign Military Sales Trust Fund.

Additionally, uncollectible accounts should be written off in accordance with current Department of Defense guidance. This office will advise the Defense Finance and Accounting Service and the Defense Security Assistance Agency of need to provide for general ledger accounts to account for uncollectible accounts and bad debts. However, a determination that amounts are uncollectible, and therefore should be written off, is subject to confirmation and approval by the State Department.

This office does not concur with other recommended actions addressed in the above referenced memorandum.

One of the major issues addressed in the subject memorandum, is which organizational activity should be the reporting entity for the Foreign Military Sales Program. While the proposed financial statements encompass the Foreign Military Sales Trust Fund, it should be recognized that the Foreign Military Sales Program extends beyond the Foreign Military Sales Trust Fund and encompasses many activities, and transactions, in the Military Departments and Defense Agencies. In fact, on reimbursable Foreign Military Sales transactions, it is these other DoD Components, and not the Foreign Military Sales Trust Fund, that

generate revenue and incur expenses associated with Foreign Military Sales cases.

Thus, the DODIG statement that "We believe the reporting entity for the FMS statements should be the FMS program, while the Director believes that the reporting entity should be the Treasury account . . ." addresses two different parameters. The Foreign Military Sales Trust Fund is, as its name implies, a Trust Fund requiring the Department to act in a fiduciary capacity on behalf of the Department's Foreign Military Sales customers. Conversely, the Military Departments are responsible for the performance of the Foreign Military Sales Program, including reporting on the status of specific Foreign Military Sales cases and operations.

Additionally, the DODIG statement that focusing on the Treasury account would not be useful to management or other parties implies that the fund's managers do not receive useful information from the current Foreign Military Sales structure. This is not the case. For example, useful management reports on the status of various cases are reported through the Defense Integrated Financial System and provided to the Defense Security Assistance Agency management. More importantly, the DODIG's statement tacitly recognizes that the Foreign Military Sales Program does extend beyond the Foreign Military Sales Trust Fund. Thus, an audit of the Foreign Military Sales Trust Fund cannot, and should not be expected to, encompass the entire Foreign Military Sales Program. To encompass the entire Foreign Military Sales Program, additional information contained in various DoD Component systems must also be reported and examined.

Further, the comment that the Statement of Financial Position omits three categories of assets owned by the Foreign Military Sales Trust Fund is incorrect. These assets--equipment and related software, amounts invested in inventories, and work-in-process at contractor's plants--are controlled by, and should be reported on the financial statements of, the Military Departments or Defense Agencies and not by the Foreign Military Sales Trust Fund.

Consistent with our discussion on August 24, 1992, the Department's FY 1992 financial statements for the Foreign Military Sales Trust Fund will continue to limit the scope of the reporting entity to the trust fund, rather than to the entire Foreign Military Sales Program. Additionally, the Foreign Military Sales Trust Fund financial statements will not include equity, revenue, or expense accounts.

Alvin Tucker
Acting Chief Financial Officer

cc: Director, DFAS
Comptroller, DSAA

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# Part VII - Management Comments

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

MAY 17 1993

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE OF THE DOD INSPECTOR GENERAL

SUBJECT: Draft Reports on Internal Controls and Compliance with Laws and Regulations for the Foreign Military Loan Liquidating Account Financial Statements for FY 1992 (Project No. 2FA-2012)

A DoDIG memorandum, dated May 14, 1993, forwarded the subject draft reports and requested comment on the facts presented therein.

This office has reviewed the draft reports and offers no objection to the material presented in the subject draft reports.

Mr. Oscar Covell is my staff contact for audited financial statements. He may be contacted at (703) 697-6149.

Alvin Tucker
Acting Chief Financial Officer

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

JUN - 4 1993

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, ODODIG

SUBJECT: Draft Reports on Internal Controls and Compliance with Laws and Regulations for the Special Defense Acquisition Fund for FY 1992 (Project No. 2FA-2013) and the Foreign Military Sales Trust Fund's Financial Statements for FY 1992 (Project No. 2FD-2005)

Two DoDIG memorandums, dated May 17, 1993, forwarded the subject draft reports to the DoD Chief Financial Officer; the Director, Defense Security Assistance Agency; and the Director, Defense Finance and Accounting Service.

Attached are the Department's comments on the subject draft reports.

- Attachment 1 contains comments on the draft report on the Special Defense Acquisition Fund (Project No. 2FA-2013).

- Attachment 2 contains comments on the draft report on the Foreign Military Sales Trust Fund (Project No. 2FD-2005).

Mr. Oscar Covell is the staff contact for this office. He may be reached at 697-6149.

for Alvin Tucker
Acting Chief Financial Officer

Attachments

cc: DSAA
DFAS

CHIEF FINANCIAL OFFICER COMMENTS ON
DRAFT REPORTS ON INTERNAL CONTROLS AND COMPLIANCE WITH LAWS AND REGULATIONS FOR THE SPECIAL DEFENSE ACQUISITION FUND FOR FY 1992
(PROJECT NO. 2FA-2013)

* * * * *

Recognition of Profit. Concur. The Special Defense Acquisition Fund (SDAF) uses the completed contract method of accounting. This method, which is not in compliance with the DoD Accounting Manual, requires that revenues, cost of sales, and profits be recognized at the time the applicable Foreign Military Sales (FMS) case is closed rather than when goods are delivered to the ordering activity.

It must be recognized that the SDAF is in the process of being permanently disestablished. Effective with FY 1994, SDAF receipts, up to $266 million, are to be deposited in the Miscellaneous Receipts Account of the Treasury. Also effective with FY 1994, obligational authority for the SDAF is not expected to be provided by OMB--obligational authority was not requested by DSAA for FY 1994. Since the fund is being disestablished, it would appear prudent, and cost beneficial, that changes to the accounting system be limited to those that are absolutely necessary, or cost effective. A change from the completed contract method, to one that recognizes revenues, cost of sales, and profits at the time goods are delivered to the ordering activity does not appear to meet that criteria.

Account Offsets. Concur that the balances in the "Advances to Contractors" account and the balances in the "Unearned Revenue account" were inappropriately offset. DFAS will take action to separately disclose, via footnote, both the amount advanced to contractors and the amount of unearned revenues in the financial statements. This action is targeted for completion by June 15, 1993.

Concur that SDAF financial statements should disclose the value of the work-in-process. DFAS will footnote the FY 1992 financial statements on or before June 15, 1993, to disclose the value of the work-in-process.

Accounting System. Concur that the SDAF system is not a double-entry accounting system and does not compute major account balances. The accounting system changes implemented in August 1992, referenced in the draft report, were considered initial improvements to the general ledger. Further system changes to properly classify all accounts are planned, and, to the extent cost beneficial or cost effective, are expected to be staffed, by the Defense Finance and Accounting Service (DFAS) prior to September 30, 1993.

1 Attachment 1

Additionally, concur that expenditures identified by the auditors as representing assets to the Fund were not reported in the financial statements. DFAS will footnote the FY 1992 financial statements to correct this condition.

Standard Operating Procedures. Concur that written standard operating procedures do not exist for (1) recording accounts receivable, (2) valuing fiscal year-end inventory, (3) recognizing revenues and expenses in the proper accounting period, and (4) ensuring computer user manuals and system descriptions were available. DFAS will take action to establish written procedures for these items by November 1, 1993.

Concur that the fund records do not show the amounts that are due to the Fund from the Military Departments, and from customers under sales cases with deferred collection schedules. However, the DSAA is not aware of any receivables due from the Military Departments. DFAS will revise the FY 1992 financial statements to reflect proper recordation of receivables from customers under sales cases with deferred collection schedules.

Nonconcur with the DoDIG's assertion that the accuracy of the end-of-year inventory value of $179.0 million is questionable. The auditors have not offered any evidence that the value of the inventory is other than that reported by the Military Departments.

As previously stated in the response to the "Recognition of Profit" finding, the SDAF uses the completed contract method for accounting. Under that method, revenues and expenses are recognized at the time an FMS case is closed. The adoption of a different method of accounting for the SDAF for the sole purpose of establishing cut-off dates for income and expense recognition--as would be required if revenues and expenses were recognized when goods are delivered to an ordering activity--would serve little useful purpose since the fund is being disestablished.

CHIEF FINANCIAL OFFICER COMMENTS ON
DRAFT REPORTS ON INTERNAL CONTROLS AND COMPLIANCE WITH LAWS
AND REGULATIONS FOR THE FOREIGN MILITARY SALES TRUST FUND'S
FINANCIAL STATEMENTS FOR FY 1992
(PROJECT NO. 2FD-2005)

* * * * *

Lack of Overall Management of Foreign Military Sales (FMS). Nonconcur with the DoDIG position that the FMS Trust Fund does not have a fund manager. The FMS Trust Fund does have a manager--it is the Director of the Defense Security Assistance Agency (DSAA). In accordance with paragraph E.3., of DoDD 5132.3, "DoD Policies and Responsibilities Relating to Security Assistance," the DSAA shall perform fund management functions in accordance with DoD 5105.38-M, Security Assistance Management Manual, that authorizes DSAA to publish and direct Security Assistance operations. In recognition of the DSAA's role as fund manager, the DSAA Comptroller has provided a management representation letter to the DoDIG in conjunction with the DSAA response to the draft report. Additionally, while DoDD 5132.3 designates DSAA as being responsible for overseeing security assistance programs and administering Foreign Military Sales Trust Fund, execution of DoD security assistance programs is decentralized within the Department and remains a responsibility of individual DoD Components.

There is no reason to treat the FMS Trust Fund any differently than other funds; or the FMS program differently from any other DoD program. For example, while there are functional proponents responsible for overall policy and oversight of various program areas such as depot maintenance, supply operations, and transportation, the functional proponent is not the day-to-day manager for such programs. Instead, each DoD Component provides the day-to-day management. Applicable financial transactions for such programs are included in the various customer accounts and the applicable performing fund or account. This is also true of the FMS program. There is no reason to view the role of the DoD functional proponent for the FMS program any differently than the role of the DoD functional proponent for depot maintenance, supply operations, and transportation, or a host of other areas. Conversely, there is a need to distinguish between the FMS Trust Fund and the FMS program. The DSAA is the manager of the FMS Trust Fund and the functional proponent for the FMS program, but does not, and should not, manage day-to-day DoD-wide efforts of the performing activities that provide the requested goods and services purchased by the FMS Trust Fund.

Inadequate Audit Trails for Disbursements. Nonconcur that an inadequate audit trail exists to verify payments. General ledger disbursement balances in the FMS Trust Fund can be traced to source documentation at a performing installation. For example, Defense Finance and Accounting Service (DFAS)-Columbus Center keeps records of payments. If any loss of payment records occurred, it should be an isolated occurrence.

No Accounting for Revenues, Expenses, or Net Position. Nonconcur with the DoDIG position that revenues, expenses and a net position for the FMS program (which extends beyond the FMS Trust Fund) must be accounted for, and presented, in the financial statements of the FMS Trust Fund. The FMS Trust Fund is, as its name implies, a trust fund requiring the Department to act in a fiduciary capacity on behalf of the Department's FMS customers. As such, the FMS Trust Fund accounting system bills customer countries for efforts performed by private contractors and various DoD Components, accepts and records the receipt of foreign customer funds, reimburses private contractors and DoD Components for efforts performed in support of FMS cases, and reports on the status of efforts performed. While DoD Components perform work on a reimbursable basis for the FMS Trust Fund, and consequently, generate revenue and incur expenses associated with such work, the revenues and expenses resulting from such work are, and should be, transactions recorded by the DoD Components and not by the FMS Trust Fund. (As indicated above, the FMS Trust Fund should, and does, record the cash payment of such amounts to the performing activity.) Including, in the FMS Trust Fund, revenue and expenses that have been earned and incurred, respectively, by DoD Components supplying goods or services to the FMS Program, would appear to be as inappropriate as including revenue and expense amounts earned and incurred, respectively, by private contractors supplying goods or services to the FMS Program.

FMS Costs Not Determined. Nonconcur. The performing DoD Components and private contractors, and not the FMS Trust Fund, generate revenue and incur expenses as they provide requested goods and services for the FMS program. Additionally, the DoD Components should charge actual expenses associated with FMS cases. In order to determine if the Department is in compliance with the Arms Export Control Act, it would be necessary to examine the performing activity's records to ascertain if it probably charged the FMS Trust Fund. Such a determination cannot, and should not be expected to, be made through an examination of the paying customer account--the FMS Trust Fund.

Further, it should be noted that accrual accounting, and the recording of revenues and expenses in Departmental-level (Trust Fund/country level) accounts would not, and should not be expected to, ensure that expenses do not exceed revenues at the

installation-level. Additionally, such accounting and recording practices, even if implemented, would not ensure the recovery of full costs in accordance with the Arms Export Control Act. To assure that costs are fully recovered would require an examination of the performing activity's accounts. An audit of the FMS Trust Fund cannot, and should not be expected to, encompass the entire FMS Program.

Inadequate Internal Control Reviews. Nonconcur that internal control reviews did not adequately assess FMS systems and processes. The evaluation of internal controls of the FMS Trust Fund is conducted in a manner consistent with the way the FMS Trust Fund is managed. This enables the Department to have confidence in the effectiveness of the internal controls. An evaluation of controls, which is inconsistent with the way that the FMS Trust Fund is managed, would be dysfunctional.

There is little reason to treat the FMS Trust Fund any differently than other DoD funds, or to treat the FMS program any differently than other DoD programs. There is not an overall DoD-wide Federal Managers' Financial Integrity Act (FMFIA) review of programs such as depot maintenance, supply operations and transportation. Instead, each DoD Component performs its own FMFIA review of activities and systems that support many different programs, including depot maintenance, supply operations, transportation, and the FMS program.

DSAA and DFAS conduct internal reviews of their operations. DFAS' review encompasses each of its centers. This review includes the FMS Trust Fund and its feeder systems. For example, the reviews include the Planning, Budgeting and Accounting Systems at the Indianapolis Center; the Case Management Control System at the Denver Center; and the Management Information System for International Logistics at the Philadelphia Defense Accounting Office. Those reviews are conducted in accordance with a DoD Chief Financial Officer memorandum of August 31, 1992, subject: "Management Advisory Memorandum of the FY 1992 Financial Statements for the Foreign Military Sales Trust Fund."

Accounts Payable Not Included in the Financial Statements. Concur in principle that valid accounts payables should be included on appropriate financial statements. However, the draft report does not provide sufficient detail to fully assess the extent to which the referenced accounts payable are payables of the Military Departments or payables of the FMS Trust Fund. To the extent that any of the referenced Air Force accounts payable amounts are payables of the Air Force, rather than the FMS Trust Fund, they should have been excluded from the "Statement of Financial Position for the FMS Trust Fund." Conversely, to the extent that any of the referenced Army and Navy accounts payable amounts are payables of the FMS Trust Fund, rather than

the Army and the Navy, they should have been included from the "Statement of Financial Position for the FMS Trust Fund." This office will work with the DFAS to ensure proper accounting and reporting of accounts payable amounts for the FMS Trust Fund.

Defense Business Operations Fund Absorbed Interest Penalties Paid to Contractors. Partially concur. Interest penalties paid by the Defense Finance and Accounting Service are included in general and administrative amounts billed to the Military Departments. In turn, the FMS Trust Fund reimburses the Military Departments for contract administration efforts, which include the cost of disbursing functions (including interest penalties) performed by the Defense Finance and Accounting Service. Therefore, interest penalties are not being absorbed by the Defense Business Operations Fund, and are, in fact, ultimately being paid by the FMS Trust Fund. Nevertheless, DFAS has initiated action to bill FMS customers directly, rather than indirectly, for interest penalties. An example of when FMS customers would be billed directly would be when expenditure authority could not be provided due to insufficient funds in the FMS customer account.

DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

24 MAY 1993

In reply refer to:
I-002163/93

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE OF THE DoD INSPECTOR GENERAL

SUBJECT: Revisions to DSAA's CFO Report for 1992

REFERENCES: (a) DoDIG Memorandum of May 6, 1993, Subject: Audit of the Foreign Military Loan Liquidating Account FY 1992 Financial Statements (Project No. 2FA-2012)
(b) DoD Deputy Comptroller (Management Systems) Memorandum of May 21, 1993, Same Subject as Ref. (a)
(c) DoDIG Memorandum of May 14, 1993, Subject: Draft Reports on Internal Controls and Compliance with Laws and Regulations for the Foreign Military Loan Liquidating Account Financial Statements for FY 1992 (Project No. 2FA-2012)

As you requested, enclosed are three copies of Change 1, dated March 93, and Change 2, dated May 93, to the DSAA FY 1992 Annual Financial Statement. The pages in the original document should be replaced using the enclosed pages. For your information, Change 1, Page ii indicates the distribution of all copies and changes.

Reference (b) incorporates DSAA's response to Reference (a). As agreed in Reference (b), DSAA has forwarded all known changes to the DoD CFO printer at DFAS-IN-AF. We are now proofreading the final DSAA FY 92 CFO Report to the current DoD Deputy Comptroller (Management Systems) draft.

Reference (c) found no internal control deficiencies or instances of noncompliance with laws and regulations that would materially affect the financial statements. Therefore, and in accordance with your request, DSAA has no further comments. The DSAA Comptroller POC is Mr. Joe Irwin, (703) 614-1173.

James R. Woods
Comptroller

Enclosures: As stated

DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

03 JUN 1993

In reply refer to:
I-002920/93

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, DEPARTMENT OF DEFENSE, INSPECTOR GENERAL

SUBJECT: Draft Reports on Internal Controls and Compliance with Laws and Regulations for the Special Defense Acquisition Fund for FY 1992 (Project No. 2FA-2013)

Reference: Inspector General, Financial Management Directorate, Memorandum of 17 May 93, same subject

DSAA understands that the audit was required by the Chief Financial Officers Act of 1990 to report on the adequacy of internal controls, internal control weakness, and compliance with laws and regulations. We note that you made no recommendations in either Part II or Part III of the reference above.

The referenced memorandum requested comments on Parts II and III of the draft audit report. Our comments are in three categories: (1) agree with specific audit findings, (2) disagree with specific audit findings, and (3) unable to comment on specific audit findings due to a lack of sufficient data in the draft report. Also included are comments and discussion of issues that may be answered by the Department of Defense Chief Financial Officer (DoD CFO) or the Director, Defense Finance and Accounting Service (DFAS).

DSAA disagrees with your decision not to render an opinion on the compliance of the Fund's equity with the capitalization limit. While differing from your preferred technique in the timing of recognition of revenue and gain/loss, the accounting system accurately represents the financial condition of the Fund. Fund balances were available, and you could render an opinion concerning the adherence to implemented policies.

PART II - INTERNAL CONTROLS:

ACCOUNTING SYSTEM. Disagree. DSAA determined that the completed contract method of accounting most accurately represented the financial status of the SDAF, as Congress defined and codified it in Section 51 of the Arms Export Control Act. The SDAF is a revolving fund, separate from other accounts, for the procurement of long lead military articles and services. Unlike other revolving funds which replenish 3-4 times per year, the SDAF replenishes itself only every 4-6 years and, because of that, may experience extreme variances in yearly revenue and gain/loss, which could be dependent on our timing of their recognition. Therefore, we believe that the completed contract accounting

methodology, accruing at the point of FMS case closure, is most reflective of the true financial status of the fund at any point in time.

Management determined that case closure is the point at which sufficient accounting data are available to reasonably recognize revenue and gain/loss, consistent with the completed contract method of accounting. Even at that time, actual cost of goods sold is not finalized if the buy-in contract is incomplete or waiting a DCAA audit. Many SDAF procurements are lines on DoD contracts and these contracts may not be closed for up to 15 years. The offsetting or netting of disbursements is recognized in this accounting method.

The DoD Accounting Manual does not address a method of accounting that specifically fits the purpose of the fund as created by Congress, but does permit the use of a differing accounting system if the standard system cannot produce the desired data display. The completed contract method is a generally accepted method of accounting used in commercial accounting, and was recognized in resolution of the last audit of the SDAF. However, midway in FY 1992 (Jan 21, 1992), DoD issued accounting guidance for revolving funds, with DBOF as its example, directing accrual accounting at time of performance or inventory. DBOF, however, has not satisfied the Congress or the DODIG as to the successful implementation of these policies and procedures. The SDAF accounting has not adjusted to that guidance, nor at this time is a change in accounting methodology advantageous to the financial management of the fund. With the Administration's decision to eliminate obligation authority for FY 1994 and beyond, and to withdraw the FY 1994 collections, a major change in the accounting methodology is neither warranted nor prudent. Footnotes will, however, be provided for inclusion in the financial statements to reflect the values for advances to contractors and unearned revenue accounts, and a computed work in process value.

END OF YEAR INVENTORY VALUATION. Disagree. DSAA issued a message (Tab A) with specific directions on the valuation and reporting of year end inventory to the military departments in August 1992. Those directions were to report all "inventory on hand completed, unsold (not on implemented cases), with unit acquisition cost, extended acquisition cost per line of materiel, and total acquisition cost...Included as on hand are those unsold completed goods which a contractor may be storing for the SDAF." These directions are quite clear as to inventory valuation and what items should be counted.

DSAA did review the input from the Military Departments, as evidenced by the Air Force and NSA listings which included items that had been written off as unsalable at the end of FY 1992. These items were removed by DSAA from the totals prior to transmitting the data to DFAS-DE for inclusion in the CFO reports.

With regard to inventory valuation, DSAA did not need to perform physical inventory counts or sampling. Per the DoD 5105.38-M, the Military Departments have custodial responsibility for maintaining the inventory - SDAF materiel is under the same inventory control system as the rest of DoD, with significant numbers of SDAF items co-mingled with DoD stock. This is advantageous for turnover of stock and shelf life considerations, as well as from both operational and management control aspects. As the Military Departments perform physical counts, SDAF items are included in the sampling. Procedures are documented in DoD 5105.38-M, chapter 14, for investigating and reporting missing major items in accordance with DoD 7200.10-M. During the past 10 years the Military Departments have shipped equipment at our direction without reporting any missing major items. In stock issuance of non-major items, if an SDAF item is temporarily short due to inventory loss, the Military Departments have replaced the item or paid the SDAF via a reverse MIPR. Since there has never been a loss, there is no cost benefit to DSAA in requiring additional inventory accountability than currently exists.

The end of year inventory valuation intentionally did not include items allocated to implemented cases that were not delivered as of 30 Sep 92. Per DoD 5105.38-M, those items, if on hand, would have as part of the case acceptance, deposits in the total amount of the SDAF investment. Therefore, the CFO reports reflects this value within cash revenues. With the implementation of the case and the deposit, the item becomes part of the 8242 account vice the 4116 account.

DIVERSION TO MILITARY DEPARTMENTS. Disagree due to insufficient data. DoD 5105.38-M requires Military Departments to have written loan agreements for use of SDAF materiel with signatures from both the Military Department and DSAA. At the end of FY 1992, no items were in a loan status with any Military Department, so no accounts receivable were required. If the SDAF assets were being used, it was without authorization; any instance should be specifically documented in the audit for follow-up and institution of the accounts payable. Without the specific incidences of this documented in the draft audit report, materiality of the DoDIG's finding cannot be ascertained.

DEFERMENT OF COLLECTIONS. Disagree due to insufficient data. DSAA did not authorize the deferment of any collections beyond the anticipated disbursement rate. Specific documentation should be provided in the audit to substantiate this allegation.

REVERSE MIPRS. Agree. In the August - September 1992 timeframe an internal DSAA review found that over 400 reverse MIPRs had not been closed, with associated profits not returned to Treasury as excess capitalization. Database input and testing was initiated immediately to add this category of sale to the computations for the return to Treasury. Testing was completed and 15 reverse MIPRs were closed with $1M returned to Treasury, however, the

time remaining before the end of the fiscal year was insufficient to complete more than the test MIPRs. Subsequently, all totally collected reverse MIPRs have been closed in the database, and any excess collections will be recomputed at the end of FY 1993 for return to Treasury. This finding, however, has no economic impact since the funds for these transactions were already deposited in a separate U.S. Treasury account available for its use.

TIMING OF CLOSURE CUT-OFF. Agree. Cases which were closed in September 1992 by DFAS were not included in the database universe used in computation of year-end excess capitalization due to the timing of computer update cycles at DSAA and DFAS-DE. DSAA concurs with your views, but no materiel loss occurred since the funds were still available in the Treasury for use by the U.S. Government. The net of cases closed in September 1991 (used in computation of year end excess capitalization) and those closed in September 1992 (not used in the year end computation), was 12 cases representing $1.77M of excess capitalization, which will be returned as part of the transfer to Treasury at the end of FY 93. For the end of FY 1993 we will manually update the database to reflect cases closed during September 1993, enabling the computation of any year end excess capitalization for cases closed by DFAS-DE during FY 1993 only.

STANDARD OPERATING PROCEDURES. Partially agree. Standard operating procedures will be prepared and issued to supplement guidance in the DoD 5105.38-M on inventory reporting and recognition of revenue consistent with the accounting system in place.

PART III - COMPLIANCE WITH LAWS AND REGULATIONS:

Refer to the third paragraph of this memorandum, above, which contains comments on the audit as a whole, and to comments included in Part II - Internal Controls for a discussion of compliance with laws and regulations presented in the draft report.

James R. Woods
Comptroller

Attachment:
As stated

DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

03 JUN 1993

In reply refer to:
I-002926/93

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, DEPARTMENT OF DEFENSE, INSPECTOR GENERAL

SUBJECT: Draft Reports on Internal Controls and Compliance with Laws and Regulations for the Foreign Military Sales Trust Fund's Financial Statements for FY 1992 (Project No. 2FD-2005)

REFERENCE: Inspector General, Financial Management Directorate, Memorandum of May 17, 1993, Same subject.

DSAA understands subject audit was required by the Chief Financial Officers Act of 1990, which requires you to report on the adequacy of internal controls, internal control weakness, and compliance with laws and regulations. We note that you made no recommendations in either Part II or III of above reference.

Referenced memorandum requested comments on Parts II and III of the draft audit report. Our comments are in three categories: (1) agree with specific audit findings; (2) disagree with specific audit findings; and (3) unable to comment with specific audit findings due to a lack of sufficient data in the draft report. Also included are comments and discussion of issues which may be answered by the Department of Defense Chief Financial Officer (DoD CFO) or the Director, Defense Finance and Accounting Service (DFAS).

**PART II INTERNAL CONTROLS:**

LACK OF OVERALL MANAGEMENT OF FMS. Disagree. Department of Defense Directive 5105.38, "Defense Security Assistance Agency (DSAA)," dated August 10, 1978, clearly identifies DSAA's mission, organization and management relationships, responsibilities and functions, authority, and relationships. Therefore, the fourth sentence in this section should be deleted. We agree that no single DoD official or organization exercised management authority over the day-to-day operations of the Foreign Military Sales (FMS) program. However, DSAA is charged with supervision of the program with decentralized management and operational responsibilities for day-to-day operations residing with the military departments. This is analogous to many other DoD programs that are comparable in size and complexity to the Foreign Military Sales Program. Your viewpoint that a centralized or decentralized operation, in and of itself, might have a bearing on risk and, therefore, provide a resultant "high risk that FMS transactions may not be executed in

accordance with established policies and that the financial statements may be materially misstated" is not justified by evidentiary audit results. The mere size of most complex governmental programs precludes total centralization of operations.

Also, DoD Directive 5132.3 establishes the policy that Security Assistance requirements shall be integrated with other DoD requirements and implemented through the same DoD systems, facilities, and procedures. This long-standing policy has been practiced by the DoD for at least four decades.

INADEQUATE AUDIT TRAILS FOR DISBURSEMENTS. Disagree. DSAA has been advised by DFAS-Headquarters that DFAS-Columbus does keep records on FMS contractor payments. Without specific audit examples to the contrary, we disagree with audit conclusions. DSAA disagrees with DoDIG's statement: "When a disbursement report contained errors, it was entered into the DFAS - Denver accounting records at least three times." Any accounting system that perpetuates sound accounting principles, including voucher or transaction level control and transaction audit trails, would be required to record all three transactions - since three distinctly separate transactions occurred. Without this posting technique, reconciliation would be impossible and accounting control would not exist.

**PART III COMPLIANCE WITH LAWS AND REGULATIONS**

NO ACCOUNTING FOR REVENUES, EXPENSES, OR NET POSITION. DSAA followed the policy provided by the Department of Defense Chief Financial Officer's memorandum of August 31, 1992.

FMS COSTS NOT DETERMINED. Partially agree. DSAA agrees with the DoDIG's statement "DoD did not account for FMS revenues, expenses, and net position," however, the DoD CFO's policy of August 31, 1992 precluded such action. DSAA notes that the DoDIG's statement "Accrual accounting in accordance with DoD 7220.9-M, the 'DoD Accounting Manual,' October 1983, is essential to determining whether DoD is fully recovering all costs of the FMS program" is not entirely accurate. DSAA has instituted several management controls, including extensive case reconciliation and closure procedures, that clearly demonstrate the recovery of all costs. The accounting technique of "accruing costs" cannot guarantee that any or all costs are accurately calculated or properly entered into accounting or billing systems.

INADEQUATE INTERNAL CONTROL REVIEWS. Agree. DoD has developed policy and implemented internal control reviews on an organizational basis and not on a program basis that would necessarily involve many different organizations. As stated

previously, DoD policy is to execute FMS transactions through existing DoD systems. Inherent internal controls of those executive systems are assumed to be valid for FMS also.

ACCOUNTS PAYABLE NOT INCLUDED IN THE FINANCIAL STATEMENTS. Agree. No footnote was included for accounts payable and therefore, the statement may not have adequately disclosed the material value, limitations, or nature of the accounts payable balance. Research indicates that the accounts payable balance represents Air Force administered contract obligations unpaid, i.e., FMS deliveries received but unpaid. DFAS reported the value in error, since implementation of DoD CFO memorandum of August 31, 1992, would have precluded the reporting of this value.

DBOF ABSORBED INTEREST PENALTIES PAID TO CONTRACTORS. Agree. Interest penalties are properly paid from the Defense Business Operations Fund (DBOF) surcharge. A standard operating procedure to demonstrate allocation and billing of these costs is being coordinated and approved by DFAS-HQ for DoD implementation. FMS customers will pay their share of penalties through the surcharge.

James R. Woods
Comptroller

# Audit Team Members

| | |
|---|---|
| Nancy L. Hendricks | Director, Financial Management |
| David C. Funk | Program Director |
| Alvin L. Madison | Program Director |
| Byron B. Harbert | Project Manager |
| Robert W. Otten | Project Manager |
| Belinda J. Finn | Project Manager |
| Samuel R. Mensch | Team Leader |
| Harold J. Simmons | Team Leader |
| John J. Dzik | Team Leader |
| Debie E. Alford | Team Leader |
| Maureen F. Hollingsworth | Team Leader |
| Rebecca A. Lowery | Auditor |
| Shannon M. Whelan | Auditor |
| Arlillian Coleman | Auditor |
| Louise M. Merdinian | Auditor |
| Kevin T. Bobowski | Auditor |
| John G. Labelle | Auditor |
| Carolyn B. Jones | Auditor |
| Sherry C. Hoda | Auditor |
| Tonya M. Dean | Auditor |
| Andrew J. Filer | Auditor |
| Susanne B. Allen | Editor |

# INTERNET DOCUMENT INFORMATION FORM

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**B. DATE Report Downloaded From the Internet: 04/24/99**

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** **OAIG-AUD (ATTN: AFTS Audit Suggestions)**
**Inspector General, Department of Defense**
**400 Army Navy Drive (Room 801)**
**Arlington, VA 22202-2884**

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**DTIC-OCA, Initials**: __VM__ **Preparation Date 04/24/99**

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