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MEMORANDUM FOR: DEPUTY ASSISTANT SECRETARY OF THE ARMY
DEFENSE EXPORTS AND COOPERATION (DASA-DEC)
DEPARTMENT OF THE ARMY

DEPUTY ASSISTANT SECRETARY OF THE NAVY
INTERNATIONAL PROGRAMS (NAVIPO)
DEPARTMENT OF THE NAVY

DEPUTY UNDER SECRETARY OF THE AIR FORCE
INTERNATIONAL AFFAIRS (SAF/IA)
DEPARTMENT OF THE AIR FORCE

DEPUTY DIRECTOR FOR SECURITY ASSISTANCE,
DEFENSE FINANCE AND ACCOUNTING SERVICE -
INDIANAPOLIS CENTER

SUBJECT: Updates to Transportation Policy (DSCA 20-16) (SAMM E-Change 390)

DSCA in conjunction with the Military Departments (MILDEPs) have identified changes and new policies that will result in easier Transportation Cost estimation and better defined processes to review of FMS Transportation Cost Clearance Account.

This memorandum revises the Section C.7.12. Defense Transportation System Costs policy to clarify that non-premium one-time-only transportation costs may be used below-the-line. This language does not change the requirement that any premium one-time-only transportation must be placed above-the-line on a separate line item.

This memorandum adds Section C.9.17. Foreign Military Sales (FMS) Trust Fund Transportation Cost Clearing Account. This language defines account upper and lower controls and provides for daily, monthly and annual reviews of this account.

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J. Aaron Harding
Chief Financial Officer

Attachments:
As Stated

SAMM E-Change 390 - Updates to Transportation Policy

1. Update C7.12.1. to read as follows:

C7.12.1. Defense Transportation System (DTS) Costs. When preparing a Letter of Offer and Acceptance (LOA), standard transportation percentages are normally applied based on the Delivery Term Code (DTC). The Transportation Cost Look-up Table ([See Appendix 2](#)) is used to compute estimated actual transportation costs for the items listed. When estimated actual costs are used, a note is included in the LOA that identifies the amount, by line item, for each DTS transportation element; (e.g., CONUS inland, port loading, and ocean transportation). Estimated actual costs are, similar to standard percentages, placed below-the-line (vice as a separate line item) in an LOA, and the funds are placed in the Foreign Military Sales (FMS) Trust Fund Transportation Cost Clearing Account. When a Special Assigned Airlift Mission or some other form of dedicated premium transportation (e.g., One Time Only vessel charter) must be used to move materiel purchased under an LOA, a separate transportation service line is included in the LOA. If it is One Time Only premium transportation (i.e. booking a One Time Only vessel or SAAM), transportation costs must be above the line. If it is One Time Only non-premium transportation, where the transportation is shared with other shipments, the transportation costs may be above or below the line. When expenditures are made for actual transportation, this line is adjusted to meet the full cost of the special transportation and a Type Address Code needs to be supplied to be transferred to the Department of Defense service contract for movement of the freight. When shipments require containerization, storage in-transit, escorts, or has any other special transportation accessorial requirements; these special transportation accessories are not included in the standard transportation percentages nor in the cost provided in the transportation cost look-up table. These charges are to be placed above-the-line and adjusted as needed to capture actual cost.

2. Add the following section to Chapter 9 as C9.17.

C9.17. Foreign Military Sales (FMS) Trust Fund Transportation Cost Clearing Account.

C9.17.1. Account Lower Control.

C9.17.1.1. Lower Control General Information. The FMS Transportation Cost Clearing Account is a reserve of operating capital sufficient to maintain timely shipment of FMS & BPC business through changing business conditions and ensure account solvency. The lower control on the Transportation Accounts ensures the FMS Transportation Cost Clearing Account carries a sufficient balance of DTC Transportation collections to maintain sufficient balances to meet transportation requirements for FMS shipments containing DTC shipments. The account's lower control also allows DSCA sufficient time to react to significant changes in the account balance if necessary. The account lower control takes into account the historical account balances and expenditures of five years. The FMS Transportation Cost Clearing Account is reviewed annually.

C9.17.1.2. Methodology. DSCA will set and calculate the lower control based on five years of estimated annual account expenditures. A lower control, representing five years of historical annual expenditures and balances is necessary to cover all of the account's possible expenses. The Lower Control will be calculated, documented and approved at the start of the fiscal year and will be forwarded to the Defense Finance and Accounting Service for awareness and coordination with DSCA as needed.

C9.17.1.3. Review and Re-validation of Data Sources. The Lower Control will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS Transportation Cost Charge Account report, the final report of prior year sales.

C9.17.2. Account Upper Control.

C9.17.2.1. Account Upper Control General Information. DSCA recognizes that the agency should have an upper control for the FMS Transportation Cost Clearing Account. An established upper control would be a financial management tool to guard against over collections and ensure the agency does not collect more that it needs to support contract-related activities.

C9.17.2.2. Assumptions. The underlying assumption is that an account upper control, combined with the Lower Control, establishes a management tool for the FMS Transportation Cost Clearing Account. By setting upper and lower bounds of acceptable levels of annual surcharge collections given normal variation, a "control box" alerts the agency to a dramatic change in the operating environment that may require an agency response such as an out-of-cycle comprehensive review to address the amount of surcharge collection being deposited into the FMS Transportation Cost Clearing Account.

C9.17.2.3. Methodology. DSCA will establish the Upper Control using two years of annual expenditures plus an adjustment based on the forecasted amount of change in shipments for subsequent two years, is necessary to cover all of the account's possible expenses. The adjustment factor is determined by looking at prior year growth, OUSD(C) inflation factors, and FMS shipment trends.

C9.17.2.4. Review and Re-validation of Data Sources. The Upper Control will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS Transportation Cost Charge Account report, the final report of prior year sales.

C9.17.3. Assessments of the FMS Transportation Cost Clearing Account.

C9.17.3.1. Annual Review and Re-validation of Data Sources. The levels will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS Cost

Charge Account report, legislative proposals, geo-political environment and the established DTC rates.

For this detailed review, DSCA will analyze the following:

- DFAS Daily Financial Management Ledger balances
- DFAS Monthly Transportation Billing Reports

C9.17.3.2. Monthly Review. A monthly review of the FMS Transportation Accounts will be performed to monitor accuracy and correct allocation of transportation bills provided by DFAS and to ensure the DFAS reconciliation of funds between the accounts is in sync with the daily account balances at the end of the month.

C9.17.3.2.1. Methodology. DSCA will monitor and review the Transportation balances and all transactions monthly. DSCA will provide DFAS and the Military Departments with any corrective actions required as a result of the monthly reviews.

C9.17.3.3. Daily Review. A daily review of the FMS Transportation Accounts will be performed to examine if any abnormal transactions have occurred. The daily review is a DSCA management tool that examines daily data to detect, report and correct any abnormal transactions.

C9.17.3.3.1. Methodology. DSCA will monitor the Transportation Account collections and expenditures on a daily basis. DSCA will note any abnormal swings in the accounts and will notify the DFAS and the Military Departments for their review and possible corrections.