

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**PRICING AND BILLING OF THE F-16 FOR FOREIGN
MILITARY SALES CUSTOMERS**

Report Number 92-142

September 30, 1992

This special version of the report has been revised to omit selected information.

Department of Defense

The following acronyms are used in this report.

AFAA..... Air Force Audit Agency
AFLC..... Air Force Logistics Command
AFMC..... Air Force Materiel Command
AFR..... Air Force Regulation
AFSC..... Air Force Systems Command
ALC..... Air Logistics Center
ASC..... Aeronautical Systems Command
DCAA..... Defense Contract Audit Agency
DFAS..... Defense Finance and Accounting Service
DIFS..... Defense Integrated Financial System
DSAA..... Defense Security Assistance Agency
FMS..... Foreign Military Sales
ILC..... International Logistics Center
LOA..... Letter of Offer and Acceptance
SAMIS..... Security Assistance Management Information System



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

September 30, 1992

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Pricing and Billing of F-16
Aircraft Sold to Foreign Military Sales Customers
(Report No. 92-142)

We are providing this final report for your information and use. It addresses issues concerning the pricing and billing of F-16 aircraft and related support items. Comments on a draft of this report from the Deputy Comptroller (Management Systems), Office of the Comptroller of the Department of Defense, and the Director, Defense Security Assistance Agency, were considered in preparing the final report. Comments from the Deputy Under Secretary of the Air Force (International Affairs) were received too late for inclusion in the report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, the Deputy Comptroller (Management Systems) and the Director, Defense Security Assistance Agency, must provide comments on the final report by November 30, 1992. Comments received from the Air Force will be considered as comments on the final unless additional comments are provided. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. See the "Status of Recommendations" section at the end of each finding for the recommendations you must comment on and the specific requirements for your comments.

The courtesies and cooperation extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Alvin L. Madison at (703) 614-1681 (DSN 224-1681) or Mrs. Belinda J. Finn at (703) 693-0437 (DSN 223-0437). Appendix E lists the distribution of this report.



Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Secretary of the Air Force
Director, Defense Security Assistance Agency

Office of the Inspector General, DoD

AUDIT REPORT NO. 92-142
(Project No. 1FA-0041)

September 30, 1992

PRICING AND BILLING OF F-16 AIRCRAFT
SOLD TO FOREIGN MILITARY SALES CUSTOMERS

EXECUTIVE SUMMARY

Introduction. The audit addressed the pricing and billing of F-16 aircraft sold to foreign military sales (FMS) customers other than European Participating Governments (which coproduce F-16 aircraft). Eleven foreign customers had ordered 790 aircraft and received 437 aircraft. As of April 1991, aircraft and other articles costing \$8.5 billion had been delivered against orders totaling \$18.9 billion.

Objectives. The objectives of the audit were:

- o to determine whether DoD Components have identified, accumulated, and billed all costs of the F-16 aircraft sold to FMS customers; and

- o to evaluate internal controls that apply to the pricing and billing of the F-16 aircraft.

Audit Results. In general, the Air Force had identified, accumulated, and billed applicable costs for F-16 system sales. However, the audit found the following areas where improvements are required.

- o The Air Force did not identify or collect nonrecurring research and development costs in accordance with DoD guidance on one aircraft and seven spare engine sales. As a result, one customer was overcharged nonrecurring costs and seven customers were undercharged nonrecurring costs (**Finding A**).

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- o The Air Force Logistics Command did not change estimated costs to actual costs in a timely manner on shipments from contractors. As a result, case closures are more difficult, time-consuming, and expensive (**Finding C**).

** Information deleted.

Internal Controls. Internal control procedures had improved over the life of the F-16 aircraft cases reviewed during the audit. However, we identified material weaknesses in the identification and collection of nonrecurring research and development costs (Finding A); the accurate pricing of aircraft (Finding B); and the availability of documentation to support pricing methodology (Finding B). In addition, internal control procedures were inadequate to ensure the timely change of estimated billing costs to actual billing costs (Finding C). A description of the controls assessed is on page 2 of Part I.

Potential Benefits of Audit. The U.S. Government should recoup \$17.4 million in nonrecurring research and development costs for spare F-16 engines sold to FMS customers. Recommended improvements should result in complete documentation of aircraft prices and approval of pricing methods for F-16 FMS aircraft sales. Timely reconciliation of actual costs to estimated costs will result in more accurate FMS customer billings and more timely case closures. Benefits are summarized in Appendix C.

Summary of Recommendations. We recommended that the Comptroller of the Department of Defense establish procedures for the pricing of FMS sales before the approval of nonrecurring research and development cost recoupment rates and adjust customer accounts for overcollections of nonrecurring costs. We also recommended that the Air Force document pricing methodology and reasons for changes in estimated aircraft prices, recoup undercharged nonrecurring costs, and change estimated costs billed to customers to actual costs on a more timely basis. We recommended that the Director, Defense Security Assistance Agency, revise guidance to require that follow-up action be taken within 180 days of contractors' deliveries, in order to change estimated costs to contractors' invoiced costs. Based on managements' responses to the draft report, Recommendations B.1., C.1., C.2.a., and C.2.b. have been revised in the final report.

Management Comments. The Deputy Comptroller (Management Systems), Office of the Comptroller of the Department of Defense concurred with Recommendations A.1.a. and A.1.b. The Director, Defense Security Assistance Agency, concurred with Recommendation C.1. The Deputy Under Secretary of the Air Force (International Affairs) provided comments too late to be included in this report. Comments on the final report are required from the Deputy Comptroller (Management Systems) and Director, Defense Security Assistance Agency, by November 30, 1992. The Air Force comments will be considered as comments on the final report unless additional comments are provided. See Part II for a full discussion of management comments and Part IV for the complete texts of managements' comments.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. 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 - INTRODUCTION

Background

The Air Force began selling the F-16 aircraft in 1978 to foreign military sales (FMS) customers. European Participating Governments (Belgium, Denmark, the Netherlands, and Norway) purchase F-16 aircraft under a coproduction agreement with the United States Government. As of June 1991, 11 non-European Participating Government customers had ordered 790 aircraft and received 437. The Defense Security Assistance Agency (DSAA) is responsible for the overall coordination and implementation of all FMS agreements. The Defense Finance and Accounting Service (DFAS)-Denver is responsible for preparing customer delivery reports and billing FMS customers the full cost of delivered Defense articles plus any applicable surcharges on the sales.

Air Force management. The Deputy Under Secretary of the Air Force (International Affairs) has overall responsibility for the FMS program in the Air Force. However, each subcase, or line on an FMS case, is assigned to a specific organization for daily management and oversight. For example, the Aeronautical Systems Command (ASC), designated the Aeronautical Systems Division during the time of the audit, manages FMS case lines for the sale of aircraft. The International Logistics Center (ILC), in conjunction with the Air Logistics Centers (ALCs), manages FMS case lines of spare engines, spare parts, and other support items. During the time of our audit, ASC was part of the Air Force Systems Command (AFSC) and the ILC and ALCs were part of the Air Force Logistics Command (AFLC). In July 1992, AFSC and AFLC were consolidated into the Air Force Materiel Command (AFMC).

Laws and regulations. The Arms Export Control Act (the Act) governs the sale of Defense articles and services to eligible foreign customers to strengthen United States security. The Act requires the Department of Defense to manage the FMS program on a full cost recovery basis. DoD Manual 5105.38-M, "Security Assistance Management Manual," delegates responsibility to the Military Departments for pricing, delivering, and billing Defense articles for FMS sales. DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," establishes accounting, pricing, and reporting policies and procedures needed to implement FMS financial management requirements.

Objective

The overall objective of this audit was to determine whether DoD Components had identified, accumulated, and billed all costs of F-16 aircraft sold to FMS customers. Also, we evaluated internal controls that applied to the pricing and billing of F-16 aircraft.

Scope

We reviewed all 23 FMS cases for F-16 aircraft system sales initiated before April 1991 that were not sales to European Participating Governments. Of the 23 cases with an original total value of \$18.9 billion, we selected 178 case lines with a total value of \$16.2 billion. We found no problems on 88 case lines and limited our review to the remaining 90 lines. We reviewed case files at each activity visited. We also analyzed price and availability data supporting price estimates and determined the dollar value of reported deliveries and quantities of items shipped. Further, we identified the types of funds used to finance each FMS case and the amount of funds withdrawn from customer accounts. We also determined the dollar effect of each amendment and notice of modification (notice) on total case values. For 42 aircraft and 18 spare engine lines, we determined whether nonrecurring costs for research and development had been correctly applied and collected. For 30 case lines, we reviewed the status of customer estimated billings of F-16 support equipment.

This program audit was made from April 1991 through March 1992. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and, accordingly, included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix D.

Internal Controls

We evaluated the internal controls used by Air Force pricing officials to ensure that F-16 aircraft sold to FMS customers were accurately priced. The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38-M.

We found weaknesses at the ILC in the collection of nonrecurring research and development costs and the use of estimated costs versus actual costs for billing customers. We also identified weaknesses at ASC in documenting the reasons for significant changes in estimated prices quoted to customers on original Letters of Offer and Acceptance (LOAs). However, the ILC and ASC were making significant improvements in documenting pricing methods and reviewing contractors' cost estimates for newer F-16 cases. Details on the internal control weaknesses are discussed in Findings A, B, and C. Implementation of Recommendations A.1.a, B.1., C.1., C.2.a., and C.2.b. will correct the weaknesses. We could not determine the monetary benefits to be realized by implementing Recommendation A.1.a. to establish procedures for the collection of nonrecurring research and

development costs, because the amounts of such costs are unknown. We determined that monetary benefits of \$17.4 million would result from collections of nonrecurring research and development costs on spare engines sold to FMS customers (Recommendation A.2.)

Senior officials responsible for internal controls in the Air Force will receive a copy of this report. Potential benefits are shown for each recommendation in Appendix C.

We reviewed ASC and ILC implementation of the Federal Managers' Financial Integrity Act as it pertained to the audit objectives. Neither ILC nor ASC had identified any internal control weaknesses attributable to the pricing of F-16 aircraft for FMS customers.

Prior Audits and Other Reviews

We issued Audit Report No. 89-074, "Pricing and Billing of the F-16 Aircraft for European Participating Governments," May 1989. That report identified problems in delivery reporting of F-16 aircraft sales to European Participating Government countries and in reporting costs on FMS billing statements. The problems resulted in reported values of materiel and services delivered to customers that exceeded related disbursements by \$7.3 million for the F-16 aircraft sold. Also, disbursements exceeded delivered values by \$72.1 million for selected spare parts. We concluded that imbalances between delivery reporting values and disbursement values distorted the actual cost of the F-16 aircraft sold to customers and hindered FMS case reconciliation and closure processes. The Air Force nonconcurred with the finding, but agreed to prepare adjusted reports of delivery on the affected aircraft sales and issued additional guidance in December 1988 on delivery reporting to all program offices. We considered the findings and recommendations in formulating the audit approach for this audit. Because the scope of this audit was limited to sales made to countries other than the European Participating Governments, we could not perform follow-up audit steps.

The Air Force Audit Agency (AFAA) issued audit report "Foreign Military Sales Nonrecurring Cost Recoupment Charges," (Project 91063041), April 13, 1992. The report states the Air Force had not updated nonrecurring cost recoupment rates. Also, Air Force procedures did not provide for including nonrecurring costs in customer price estimates when rates were developed after FMS agreements were made with foreign customers. AFAA recommended changes in procedures for the development of nonrecurring research and development recoupment rates and collection of charges. AFAA also recommended recoupment of nonrecurring costs of about \$464 million on sales of F-15 aircraft and related

support equipment. The Assistant Secretary of the Air Force (Financial Management and Comptroller) concurred with the recommendations and planned corrective actions.

PART II - FINDINGS AND RECOMMENDATIONS

A. RECOUPMENT OF NONRECURRING COSTS

The Air Force did not correctly charge or recoup research and development nonrecurring costs on the sale of F-16 aircraft and spare engines to FMS customers. Aircraft and spare engine price estimates were prepared using incorrect recoupment rates or did not include charges for nonrecurring costs. Further, DoD guidance did not address procedures for recovering nonrecurring costs on sales of equipment without approved rates at the time of sale. As a result, the Aeronautical Systems Command (ASC) overcharged one customer \$7 million in nonrecurring costs on the sale of aircraft, and the International Logistics Center (ILC) undercharged customers \$17.4 million in nonrecurring costs on the sale of spare engines.

DISCUSSION OF DETAILS

Background

The Arms Export Control Act (the Act) requires that sales of Defense articles to FMS customers include appropriate charges for a proportionate amount of any nonrecurring research, development, and production costs of major defense equipment. Major defense equipment items are those with research and development investments totaling more than \$50 million or production costs in excess of \$200 million. DoD Directive 2140.2, "Recoupment of Nonrecurring Costs on Sales of U.S. Products and Technology," establishes policy and prescribed procedures for calculating, approving, and assessing appropriate recoupment rates for nonrecurring research and development costs. Upon request, Defense Security Assistance Agency (DSAA) may waive the recoupment of nonrecurring costs for particular sales that advance United States Government standardization or mutual defense goals.

Establishment of nonrecurring cost charges. The Air Force is responsible for developing nonrecurring cost charges for F-16 aircraft and engines (major defense equipment items) and for forwarding proposed rates to DSAA for review and approval. The Comptroller of the Department of Defense publishes approved rates in DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual." DoD Directive 2140.2 states that contractors should provide for the recovery of nonrecurring costs on commercial sales before the Office of the Secretary of Defense establishes approved rates. However, the Directive does not address provisions for the recovery of nonrecurring costs on FMS cases initiated before a rate was approved. The Directive states that revised rates should not be retroactively applied to any existing sales. We discussed the Directive with the Comptroller of the Department of Defense and DSAA personnel. They agreed

that the Directive does not clearly provide guidance on whether nonrecurring cost rates, developed after DoD customers' sales, should be recouped on FMS as well as on direct commercial sales by contractors. Therefore, DoD Directive 2140.2 misled case managers regarding the application of new rates on FMS sales of major defense equipment before DSAA approved nonrecurring cost rates.

Reporting of nonrecurring cost charges. DoD Directive 2140.2 requires DoD Components to record anticipated and actual nonrecurring cost collections quarterly using DSAA 1112 reports, "Recoupment of Nonrecurring Costs on Sales of U.S. Government Products and Technology," and to send the reports to the DSAA Comptroller and DFAS-Denver within 45 days. The DoD Components report delivery of items to the customer to DFAS-Denver on DD Form 1517, "FMS Detail Billing Report." DFAS-Denver then uses the information on the DD Form 1517 to bill customers and to transfer recoupments of nonrecurring costs from customers to the U.S. Treasury's miscellaneous receipts account.

Air Force implementation. Air Force Regulation (AFR) 170-3, "Financial Management and Accounting for Security Assistance and International Programs," implemented DoD Directive 2140.2 in the Air Force. The Assistant Secretary of the Air Force (Financial Management and Comptroller) is responsible for monitoring nonrecurring cost charges. Major commands that have been delegated security assistance program responsibilities accumulate costs for the development of nonrecurring cost charges.

Aircraft and Spare Engine Pricing

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Spare engine pricing. We reviewed all 18 spare engine lines on the 23 FMS cases of F-16 aircraft system sales. One line had no pricing or collection errors, and DSAA had waived recoupment of nonrecurring research and development costs from customers on five lines. Pricing errors for the PW-200 and PW-220 engines affected recoupment of nonrecurring charges on 12 lines. Five of those lines were included in the Air Force Audit Agency (AFAA) audit report, "Foreign Military Sales Nonrecurring Cost Recoupment Charges," (Project 91063041) April 13, 1992. For

** Information deleted.

seven cases, the ILC had undercharged customers \$17.4 million (see Appendix A) by not including nonrecurring costs on spare engine lines or by making incorrect charges to customers on spare engines and equivalent component parts. On five of the seven cases, case managers had calculated price estimates for spare engines and equivalent component parts before DSAA listed the engine models in DoD 7290.3-M or approved nonrecurring cost rates. DSAA did not approve rates for the PW-200 and PW-220 engines until 1 to 2 years after the applicable LOAs were signed.

DoD Directive 2140.2 does not provide guidance or procedures for collecting nonrecurring cost charges on FMS sales that occurred before DSAA developed and approved nonrecurring cost rates. If price estimates given to FMS customers had specified that engines purchased were subject to nonrecurring cost charges yet to be determined, then case managers could have initiated customer billings when DSAA approved the applicable nonrecurring charge.

Nonrecurring costs recoupment. The ILC recouped nonrecurring costs on only 2 of 13 lines for which recovery of nonrecurring costs had not been waived, even when LOAs included recoupment rates. The costs were not recouped because case managers did not report nonrecurring costs in DSAA 1112 reports. A year or more lapsed between the signing of LOAs and the actual delivery of F-16 aircraft and spare engines to FMS customers. Therefore, the DSAA 1112 reports were an internal control for monitoring billings and anticipated collections of nonrecurring charges from customers. Because those costs were not being reported to the DSAA Comptroller as required, neither DSAA nor the Air Force knew that customers were not being charged nonrecurring costs for the spare engines.

Air Force Audit Agency

After we started our audit, the AFAA announced an audit of foreign military sales of major and nonmajor defense equipment to determine whether nonrecurring cost recoupment charges for F-15 aircraft were properly updated and collected. Since some equipment was used in both the F-15 and the F-16, the AFAA audit included five spare engine lines from F-16 system sales that were included in our audit scope.

In its report, "Foreign Military Sales Nonrecurring Cost Recoupment Charges," issued April 1992, AFAA recommended improvements in Air Force procedures for including nonrecurring costs in price estimates and in monitoring collections of nonrecurring costs. AFAA also recommended that case managers monitor collections of nonrecurring cost charges totaling \$7.7 million on F-16 spare engine sales occurring before the development and approval of nonrecurring cost rates by DSAA. Therefore, we are not addressing recommendations to the Air Force on procedures for collection of nonrecurring costs, because the

AFAA recommendations should correct the conditions found during our audit. Since the AFAA reported potential collections on five of the F-16 spare engine lines included in our audit, we did not include those same lines in this report or in our calculations of potential recoupments on spare engine sales.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Comptroller of the Department of Defense:

a. Revise DoD Directive 2140.2, "Recoupment of Nonrecurring Costs on Sales of U.S. Products and Technology," to establish procedures for the recoupment of nonrecurring research and development charges on foreign military sales cases that are initiated before the Defense Security Assistance Agency approves a nonrecurring cost rate.

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2. We recommend that the Commander, Air Force Materiel Command, bill and collect nonrecurring costs of \$17.4 million from foreign military sales customers for the spare engine sales listed in Appendix A.

MANAGEMENT COMMENTS

The Deputy Comptroller (Management Systems), Office of the Comptroller of the Department of Defense, concurred with Recommendation A.1.a. and partially concurred with Recommendation A.1.b. In response to Recommendation A.1.a., DFAS has been requested to clarify policy on the recoupment of nonrecurring research and development charges in Volume 15, "Security Assistance Policy and Procedures," of DoD Regulation 7000.14-R, "DoD Financial Management Regulation." Regarding Recommendation A.1.b., the Director, DFAS, has been requested, in conjunction with the Air Force and DSAA, to determine the appropriate nonrecurring cost charges for the specific F-16 sale discussed in the finding and to make appropriate adjustments.

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The Deputy Under Secretary of the Air Force (International Affairs) provided comments too late to be included in this report.

** Information deleted.

AUDIT RESPONSE

The comments from the Deputy Comptroller (Management Systems) are fully responsive to Recommendations A.1.a. and A.1.b. We request that the Deputy Comptroller (Management Systems) provide the planned completion dates for proposed actions.

We will consider the Air Force's comments on the draft report as comments on the final report unless the Air Force provides additional comments. We redirected the recommendation to the Commander, AFMC, because there is no counterpart to the former AFLC in the new consolidated command. See the Status of Recommendations chart for the requirements for those comments.

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STATUS OF RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			<u>Related Issues*</u>
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	
A.1.a.	Comptroller, DoD	N/A	N/A	X	N/A
A.1.b.	Comptroller, DoD	N/A	N/A	X	N/A
A.2.	Commander, AFMC	X	X	X	M

* N/A - Not Applicable
M - Monetary Benefits

** Information deleted.

B. PRICE ESTIMATES FOR F-16 AIRCRAFT

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DISCUSSION OF DETAILS

Background

The Arms Export Control Act (the Act) authorizes DoD to sell Defense articles and services to eligible foreign customers. DoD guidance implementing the Act requires the Military Departments to provide price estimates that are a fair and reasonable approximation of the final price.

DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," establishes pricing policy and defines applicable cost elements. Price estimates for the sale of articles procured from contractors and delivered directly to customers should include full contract costs and DoD recurring contract support costs. Contract costs may be estimated from prior United States Government buys or from contractor estimates if purchased articles have configurations that differ from those used by U.S. Forces. Analysts preparing price estimates may make certain assumptions, but exceptions to prescribed pricing policy require approval by the Deputy Comptroller (Management Systems), Office of the Comptroller of the Department of Defense. F-16 aircraft price estimates are stated in future-year dollars that are computed using inflation indexes published annually by the Office of the Secretary of Defense.

Until March 1991, DoD Manual 5105.38-M, "Security Assistance Management Manual," required a financial analysis to accompany all Letters of Offer and Acceptance (LOAs) and any amendments and prescribed the contents of the analysis. The analysis provided information to enable the reviewer to judge the accuracy, completeness, and firmness of estimated prices. The analysis included the sources of price estimates and any information used to adjust estimates for production risks, inflation, or expected price changes. Since March 1991, the DoD Manual required the analysis only for purchases from the Special Defense Acquisition Fund, none of which were included in the audit scope. However,

** Information deleted.

AFR 170-3, "Financial Management and Accounting for Security Assistance and International Programs," did not delete the requirement for a financial analysis for any Air Force managed FMS cases.

DoD Manual 5105.38-M addressed the need for accuracy of pricing of Defense articles in the following statement:

Purchasers are concerned that the amounts they are required to pay on the DD Form 645, FMS Billing Statements, often differ significantly from the amounts estimated in the LOAs and related payment schedules. Inaccurate payment schedules hamper financial planning on the part of the purchasers and, as a result, they must obtain emergency funds from (or must return monies to) their parliamentary bodies.

Customer payments. Quarterly customer payment schedules were based on estimated F-16 aircraft prices and dictated initial customer deposits payable when customers accepted LOAs. Projected incremental customer payments due each quarter were predicated on F-16 aircraft estimated delivery prices. Customers were billed and paid for purchases on a quarterly basis in advance of expected deliveries. Customer deposits included 50 percent of the administrative charge levied by Defense Security Assistance Agency (DSAA) and a standard percentage of contract administrative costs, plus termination liability and contractor payment amounts withheld for contingencies. Customer billings represented the customers' financial requirements for that quarter. Therefore, when F-16 price estimates changed, customer payment requirements also changed.

F-16 estimated prices. The Air Force had procured the F-16 aircraft since 1978. The Air Force's Aeronautical Systems Command (ASC) developed price estimates for F-16 aircraft based on contractor data for airframes and engines and on Air Force data for Government furnished equipment, alternative mission equipment, and radar. Other cost additives for DoD recurring contract costs included estimated allowances for engineering change orders, nonrecurring cost recoupments, and reimbursements to the European Participating Governments. Miscellaneous cost additives include charges for engineering services, asset use (if applicable), and contract administration services. All cost factors were stated in future-year dollars at the expected customer delivery dates except for fixed-rate additives, such as nonrecurring cost recoupments.

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Inflation and other factors. ASC price estimate revisions did not cite differences between forecasted and actual inflation rates as reasons for adjusting F-16 aircraft estimated prices. However, we determined that inflation factors attributed to inflated price estimates of \$350 million but this element was beyond ASC's control. We could not determine reasons for price estimate reductions of \$103 million, because case files did not contain documentation required by DoD Manual 5105.38-M to support any of the price changes.

Other changes to aircraft prices. On 31 amendments and 13 notices, ASC personnel changed estimated F-16 aircraft price estimates for a net decrease of \$142 million (a \$195 million decrease offset by a \$53 million increase) and cited various reasons. Those reasons are discussed below.

Nine LOA amendments and eight notices decreased the dollar amount of F-16 aircraft case lines by \$195 million and then transferred those funds to other lines on the same case or to other cases for the same country. Transfers of funds to other lines on the same case do not require country approval; however, transfers to other cases must be requested by an FMS country official with authority to accept LOAs. Transfer requests were usually made during quarterly meetings between the Air Force and the FMS customers. While the transfers may have been warranted and approved, such transfers of funds raise uncertainties as to the firmness of prices quoted to FMS customers for F-16 aircraft.

Net increases of \$53 million in estimated F-16 aircraft prices on 22 amendments and 5 notices were due to changes in quantities, waivers of nonrecurring costs, contract administration services charges, and configuration changes requested by customers. We considered these increases in estimated prices to be valid.

Premature Collection of Funds

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Documenting Price Estimating Methodology

Customer price estimates for F-16 aircraft that are not based on current Air Force procurement prices or contractor quotes are deviations from prescribed FMS pricing policy contained in DoD Manual 7290.3-M and require approval by the Comptroller of the Department of Defense. The financial analysis described in DoD Manual 5105.38-M and AFR 170-3 would provide information to enhance oversight of aircraft pricing and to ensure the reasonableness of estimated prices given in LOAs to FMS customers. The financial analysis would provide the source of ASC price estimates, information used to adjust estimates for production risks, inflation, or other expected cost factors. Personnel in the Office of the Comptroller of the Department of Defense could use the information to review the price estimating methodology for F-16 aircraft sales and other aircraft sales to FMS customers. Therefore, ASC needs to ensure that FMS case files clearly document how FMS prices were estimated and the reasons for subsequent changes.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Commander, Aeronautical Systems Command, require foreign military sales case managers to:

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2. Document fully in foreign military sales cases all price estimating methodology for F-16 aircraft and the specific reasons for all changes in price estimates, in compliance with DoD Manual 5105.38-M, "Security Assistance Management Manual."

MANAGEMENT COMMENTS

The Air Force provided comments on the draft report too late to be included in this report. After we issued the draft report, personnel from the Office of the Deputy Under Secretary of the Air Force (International Affairs) met with the audit staff to discuss the finding and recommendations.*

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** Information deleted.

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AUDIT RESPONSE

We have revised Recommendation B.1. based on discussions with the Air Force. We will consider the Air Force's comments on the draft report as comments on the final unless additional comments are provided. See the Status of Recommendations chart for the requirements for those comments.

STATUS OF RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			<u>Related Issues*</u>
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	
B.1.	Commander, ASC	X	X	X	IC
B.2.	Commander, ASC	X	X	X	N/A

*IC - Material Internal Control Weakness
N/A - Not Applicable

** Information deleted.

C. CHANGING ESTIMATED COSTS TO ACTUAL COSTS

The Air Force's Air Logistics Centers (ALCs) did not change estimated billing costs to actual billing costs in a timely manner for contractors' deliveries of F-16 aircraft support equipment on 15 of 23 aircraft cases. DoD and Air Force guidance did not set a specific time frame for the adjustments. Since actual costs may vary significantly from estimated costs, customers may overpay or underpay for goods and services if actual billing costs are not provided. As of January 1992, customer cases included estimated costs of \$55.5 million on items delivered 7 months to 10 years earlier. Delayed changes of estimated costs to actual costs cause the case closure process to be more difficult, time-consuming, and expensive.

DISCUSSION OF DETAILS

Background

The ALCs report contractors' deliveries at estimated costs to the Defense Integrated Financial System (DIFS) within 30 days of delivery to meet the requirements of DoD Manual 5105.38-M, "Security Assistance Management Manual." DIFS then generates billings (DD Form 645) to customers at estimated costs, which are generally based on contractors' quotes at the time equipment items are placed on contracts. The ALCs change the estimated costs to the actual invoiced costs based on DD Form 250, the "Material Inspection and Receiving Report." Contractors send DD Forms 250 to the DoD entities specified in the contract to report the costs of items shipped.

Since 1989, ALCs have reported contractors' deliveries to DIFS using the Air Force's Security Assistance Management Information System (SAMIS). SAMIS produces several reports of delivery data at estimated costs. Air Force International Logistics Center Regulation 400-77, "International Logistics Case Management," recommends these reports be used to assist the ALCs and case managers at the International Logistics Center (ILC), Air Force Materiel Command (AFMC), in changing estimated costs of delivered support equipment billed to customers to actual costs. The reports are not provided automatically, but are available upon request by case managers.

DoD Manual 5105.38-M requires accounting for all disbursement and performance actions and reconciliation of DIFS accounting records with Air Force accounting records before case closures. Complete accounting and reconciliation requires that the estimated cost of contractors' deliveries be changed to reflect the actual invoiced cost of delivered items.

Estimates Versus Actual Costs

DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," states that DoD will ensure prompt and complete accounting of the FMS program transactions to purchasers. Complete accounting of transactions to customers requires accurate and timely information that FMS customers can use to make informed decisions about future purchases.

As of January 1992, for 15 of 23 F-16 aircraft cases reviewed, SAMIS contained information that 2,194 contractors' delivery transactions, totaling \$55.5 million, were recorded in SAMIS at estimated costs. The contractors' delivery transactions had not been changed to actual invoiced costs, even though 210 days or more had elapsed since delivery of the support equipment to customers. For example, on case Egypt-SPA, Line SPG, SAMIS showed 533 transactions, totaling \$19.5 million, recorded at estimated costs 570 days after AFLC reported shipments. In addition to the transactions recorded in SAMIS, the DIFS data base for the same line contained 1,584 contractors' delivery transactions, totaling \$41.8 million, recorded at estimated costs. The bulk of the transactions were entered into DIFS before SAMIS became operational and did not appear on SAMIS delivery reports. However, estimated costs in both SAMIS and DIFS case files must be changed to actual invoiced costs to close FMS cases in a timely manner.

Changing Estimated Prices

DoD and Air Force guidance does not require managers with access to cost information to change estimated costs to actual costs within a specified time frame. Air Force ILC Regulation 400-77, "International Logistics Case Management," requires ILC line managers to identify and follow up on estimated delivery costs 180 days after contractors' deliveries. However, the various ALCs had the necessary documentation to change the estimated costs to actual invoiced costs, but the ILC did not. AFLC Manual 177-27, "Foreign Military Sales and Grant Aid Delivery Reporting," requires the ALCs to provide the actual costs of items delivered to the ILC; however, it does not specify a time frame.

Delivery reporting at estimated cost affects the availability of funds to the customer and the United States Government and the time required to close FMS cases. Price differences not identified in a timely manner result in lost purchasing power to customers if they have paid more for support items than they actually cost. The Military Departments lose purchasing power if payments to contractors at the actual invoiced cost exceed customer billings for the same item at estimated cost.

Variations In Estimated Delivery Costs

Estimated costs for items procured from contractors often vary significantly from the contractors' invoiced costs, which include labor, materials, and applied overhead. By definition, the actual costs of contractors' deliveries are not determined until actual overhead rates are determined during the final audit by the Defense Contract Audit Agency (DCAA) at contract closure. The final audit can take place years after delivery of the support equipment to customers. Until then, the contractors' costs, as shown by the invoiced deliveries that include overhead at estimated rates, are the closest approximation of actual costs.

We analyzed 3,700 contractors' delivery transactions from SAMIS Report (U-W001-HBT), "Comparison of Original Requisition Prices to Delivered Prices," for four customer cases with deliveries between June 1985 and July 1991. Approximately one-half of the transactions had differences greater than 10 percent between estimated and delivered unit prices. Differences may occur because of changes in production levels, inflation, ordered quantities, and required availability. As shown by information in SAMIS, the delivered unit price was 2,800 times higher than the estimate in one instance and 280 times lower than estimates in another. Estimated costs exceeding actual invoiced costs result in significant overbillings to FMS customers until estimated costs are adjusted and funds are deobligated. When FMS customers are underbilled, the DoD loses funds until the actual invoiced costs are billed, because FMS General Administrative fees for the cost of administering the program are charged based on values of defense equipment reported to DIFS as delivered.

Case closure. Estimated costs of contractors' deliveries of F-16 aircraft equipment items must be changed to actual costs before customers' cases can be closed. The case closure process can take 5 years or more because deliveries are made over several years. Cases containing hundreds of transactions at estimated costs will require significant personnel resources and time to locate supporting documentation (such as DD Forms 250) during the case closure reconciliation process. Case managers can close FMS cases more efficiently without expending undue time if estimated prices are changed to actual invoiced costs as case transactions occur.

Process action team report. AFLC sponsored a Process Action Team that reviewed the processing of contractors' deliveries on FMS cases. Although the Team did not look specifically at changing estimated prices of contractors' deliveries to actual prices, it researched the problems involved in correcting mistakes in contractors' delivery billings. The Process Action Team's report, issued in November 1991, stated

that one ALC had a projected need for 3 years of effort to process the backlog of problem transactions resulting from FMS contractors' deliveries.

Case closure audit. OIG, DoD, Audit Report No. 90-055, "Case Closure Procedures for Foreign Military Sales," April 5, 1990, states that variations between Air Force and DFAS-Denver records caused delays in the closure of 38 AFLC managed cases valued at \$2.3 billion. The cases had been assigned to the FMS case reconciliation division of the AFLC Comptroller for up to 3 years with more than 27 months spent resolving minor variations in prices and billings to customers. Also, customers' Trust Fund account balances at the U.S. Treasury contained excess cash collections of \$3.5 million on the cases because billings to customers exceeded actual financial requirements for payments to contractors or reimbursements to Military Department appropriations.

Proposed Case Closure Procedures

The Defense Security Assistance Agency (DSAA) has proposed that the Military Departments establish an FMS customer account to facilitate case closure. Under the proposal, the Air Force would close FMS cases using that account within 12 to 24 months after all deliveries are completed. Although this initiative will speed up the closure process, the Military Departments will have significant difficulty in determining the actual costs of items delivered to the FMS customer, if documentation is not readily available to adjust estimated prices. The Military Departments will avoid these difficulties when FMS cases are closed by following up on the actual invoiced costs and documenting their actions within 6 months after the contractors' deliveries.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Director, Defense Security Assistance Agency, revise DoD Manual 5105.38-M, "Security Assistance Management Manual," to require that FMS case managers follow up on estimated costs billed to customers in order to determine the actual invoiced costs within 180 days of contractors' deliveries.

2. We recommend that the Commander, Air Force Materiel Command:

a. Revise the Air Force Logistics Command Manual 177-27, "Foreign Military Sales and Grant Aid Delivery Reporting" to require Air Logistics Centers to perform a documented review of estimated contractor costs within 180 days of contractors' deliveries of defense equipment, and take follow-up action as needed to change estimated costs to the contractors' invoiced costs in the Security Assistance Management Information System and the Defense Integrated Financial System.

b. Perform a documented review of estimated costs of contractors' shipments of Defense equipment recorded in the Security Assistance Management Information System and the Defense Integrated Financial System if more than 180 days have elapsed since delivery, and take documented follow-up action to determine the actual invoiced costs of those items until implementation of Recommendation C.2.a.

MANAGEMENT COMMENTS

The Director, DSAA, concurred with the intent of Recommendation C.1., but stated that it was not always possible to identify the final cost of a contract item within 180 days of contractor delivery, because the final contract price is not determined until DCAA performs the final audit at contract closeout. DSAA stated it will recommend to DFAS that a statement be included in DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Assistance Policy and Procedures," that DoD Components make every effort to obtain the final price for contract provided items within 180 days of reported delivery.

We received comments from the Air Force too late to be included in this report. We met with personnel from the Office of the Deputy Under Secretary of the Air Force (International Affairs) after the issuance of the draft report. The Air Force stated that a firm requirement to change estimated prices to actual within 180 days of delivery was too stringent, but agreed that follow-up actions to determine the actual invoiced costs of items delivered by contractors is appropriate within that time and that reviews of estimated prices should be documented.

AUDIT RESPONSE

Actual costs of items are not determined until contract closure and the final overhead audit by DCAA. However, during the contract performance period, contractor invoices will include actual labor, actual materials, and applied overhead costs. Those costs should not change except for adjustments to actual overhead, as determined by DCAA. Based on DSAA's response to Recommendation C.1. and the Air Force's verbal comments on Recommendation C.2.a., we have revised the recommendation in the final report. Therefore, we request that DSAA provide comments on the revised recommendation in response to the final report.

Based on discussions with the Office of the Deputy Under Secretary of the Air Force (International Affairs) personnel, we have revised Recommendations C.2.a. and C.2.b. to recommend that the Air Force Materiel Command follow up on actual invoiced costs within 180 days after contractor deliveries. We will consider the Air Force's comments on the draft report as comments on the

final report unless additional comments are provided. See the Status of Recommendations chart for the requirements for those comments.

STATUS OF RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			<u>Related Issues*</u>
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	
C.1.	Director, DSAA	X	X	X	IC
C.2.a.	Commander, AFMC	X	X	X	IC
C.2.b.	Commander, AFMC	X	X	X	IC

*IC - Material Internal Control Weakness

PART III - ADDITIONAL INFORMATION

APPENDIX A - Potential Recoupments of Nonrecurring Research and Development Costs on Spare Engine Sales

APPENDIX B - Changes in Estimated F-16 Aircraft Prices

APPENDIX C - Summary of Potential Benefits Resulting from Audit

APPENDIX D - Activities Visited or Contacted

APPENDIX E - Report Distribution

APPENDIX A: POTENTIAL RECOUPMENTS OF NONRECURRING RESEARCH AND DEVELOPMENT COSTS ON SPARE ENGINE SALES

Information deleted.

APPENDIX B: CHANGES IN ESTIMATED F-16 AIRCRAFT PRICES

Information deleted.

APPENDIX C: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
A.1.a.	Internal Controls. Establishes procedures to provide for recoupment of nonrecurring costs on FMS cases initiated before nonrecurring cost rates are established.	Undeterminable*
A.1.b.	Compliance with Regulations. Adjusts FMS trust fund account to reflect correct nonrecurring cost recoupments.	Nonmonetary
A.2.	Economy and Efficiency. Recoup correct nonrecurring costs from FMS customers.	Funds put to better use of \$17.4 million
B.1.	Internal Controls. Ensures that pricing methods for F-16 aircraft are properly approved by the Comptroller of the Department of Defense.	Nonmonetary
B.2.	Compliance with Regulations. Ensures that pricing methods for F-16 aircraft and reasons for changes in estimated aircraft prices are properly documented in compliance with DoD Manual 5105.38-M.	Nonmonetary
C.1.	Internal Controls. Incorporates a specific time frame for follow-up action to determine the actual costs on shipments of Defense articles from contractors to FMS customers.	Nonmonetary

APPENDIX C: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT
(cont'd)

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
C.2.a.	Internal Controls. Requires documented follow-up action to determine the actual costs of items billed to the customer at estimated costs within 180 days of contractor shipments.	Nonmonetary
C.2.b.	Internal Controls. Requires follow-up action to determine the actual price of all outstanding contractor shipments billed at estimated cost for more than 180 days.	Nonmonetary

* Monetary benefits attainable from establishing policy and procedures on collection of nonrecurring costs were undeterminable because the number of programs affected and potential recoupment for each is unknown.

APPENDIX D: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Air Force

Deputy Under Secretary (International Affairs), Washington, DC

Assistant Secretary of the Air Force (Financial Management and
Comptroller), Washington, DC

Headquarters, Air Force Systems Command, Washington, DC

Aeronautical Systems Division, Wright-Patterson Air Force Base,
OH

Air Force Logistics Command, Wright-Patterson Air Force Base, OH

Kelly Air Logistics Center, San Antonio, TX

Ogden Air Logistics Center, Ogden, UT

Oklahoma City Air Logistics Center, Oklahoma City, OK

Warner-Robins Air Logistics Center, Robins Air Force Base, GA

Defense Agencies

Defense Security Assistance Agency, Washington, DC

Defense Finance and Accounting Service, Denver Center, Denver, CO

APPENDIX E: REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (International Security Affairs)
Comptroller of the Department of Defense

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and
Comptroller)
Deputy Under Secretary (International Affairs)
Headquarters, Air Force Materiel Command
Auditor General, Air Force Audit Agency

Defense Activities

Director, Defense Security Assistance Agency
Director, Defense Finance and Accounting Service

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information
Center

Chairman and Ranking Minority Members of the following
Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
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

PART IV: MANAGEMENT COMMENTS

Comptroller of the Department of Defense
Defense Security Assistance Agency

Comptroller of the Department of Defense Comments



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JUL 3 | 1992

(Management Systems)

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DODIG

SUBJECT: Draft Audit Report on Pricing and Billing of F-16
Aircraft Sold to Foreign Military Sales Customers
(Project No. 1FA-0041)

This memorandum is in response to the subject memorandum
dated June 23, 1992.

DoD Comptroller comments are attached.

We appreciate the opportunity to comment on this report.
Should you desire to discuss these comments further, please
contact Mr. Robert Florence at (703) 697-0585.


Alvin Tucker
Deputy Comptroller
(Management Systems)

Attachment

Final Report
Reference

DoD Comptroller Comments on
Draft Audit Report on Pricing and Billing of F-16 Aircraft
Sold to Foreign Military Sales Customers
(Project No. 1FA-0041)

PART II - FINDINGS AND RECOMMENDATIONS

page 5

A. RECOUPMENT OF NONRECURRING COSTS, Page 7, Line 5: DoD guidance does not address procedures for recovering nonrecurring costs on sales of equipment without approved rates at the time of sale.

DoD Comptroller Comments: Although the then current version of DoD Directive 2140.2 explicitly did not address the referenced situation, charges for nonrecurring costs should be included in applicable Letters of Offer and Acceptance. DoD 7290.3-M, "Foreign Military Sales Financial Management Manual," page D-11, contains a note requiring DoD Components to "...contact DSAA to obtain the required charge." A similar note is contained on page 700-29 of DoD 5105.38-M, "Security Assistance Management Manual."

page 6

Reporting of nonrecurring cost charges, Page 9, Paragraph 2, Line 1: DoD Directive 2140.2 requires DoD Components to record anticipated and actual non-recurring cost collections quarterly using DSAA 1112 reports, ...DFAS Denver uses the information to bill customers and to transfer recoupments to the Department of Treasury general fund (miscellaneous receipts) account.

DoD Comptroller Comments: The DFAS Denver uses the payment schedule prepared by the DoD Component and incorporated in the Letter of Offer and Acceptance, rather than the DSAA 1112 report, to bill customers for nonrecurring costs. DoD Components, rather than the DFAS Denver Center, make the deposits to the Treasury miscellaneous receipts account.

page 6

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DoD Comptroller Comments: The finding indicated that the rate in DoD 7290.3-M was the correct approved rate. The finding should have indicated that the rate approved by the Defense Security Assistance Agency at the time the Letter of Offer and Acceptance (LOA) was signed, or the initial rate approved after the LOA was signed, was the correct approved rate. Rates in DoD 7290.3-M may not always be the current approved rate since the DSAA may approve rate changes between published changes to DoD 7290.3-M.

** Information deleted.

RECOMMENDATIONS

1. We recommend that the Comptroller of the Department of Defense:

a. Revise DoD Directive 2140.2, "Recoupment of Nonrecurring Costs on Sales of U.S. Products and Technology," to establish procedures for the recoupment of nonrecurring research and development charges on foreign military sales cases that are initiated before the Defense Security Assistance Agency approves a nonrecurring cost rate.

DoD Comptroller Response: Concur. Procedural aspects of DoD Directive 2140.2 are being transferred to a soon to be released Volume 15, "Security Assistance Policy and Procedures," of DoD 7000.14-R, "DoD Financial Management Regulation." The DoD Comptroller has requested that the Defense Finance and Accounting Service include appropriate clarifying language in Volume 15.

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DoD Comptroller Response. Partially Concur. The draft report does not indicate which F-16 model is at issue, or the date the applicable LOA was signed. Without this information, it cannot be ascertained if an overcharge actually did occur. The DoD Comptroller has requested that the Director, Defense Finance and Accounting Service, in conjunction with the Air Force and the Defense Security Assistance Agency, determine whether the nonrecurring cost charges were appropriate, and if not, to make proper adjustments.

** Information deleted.

Defense Security Assistance Agency Comments



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

24 JUL 1992

In reply refer to:
I- 003665/92

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

Subject: Draft Audit Report on Pricing and Billing of F-16
Aircraft Sold to Foreign Military Sales Customers
(Project No. 1FA-0041)

The following comments are provided regarding the
subject Draft Audit:

PART II - FINDINGS AND RECOMMENDATION

Reporting of nonrecurring cost charges. DFAS-DE does not use the information contained in the DSAA 1112 Report to transfer recoupments of nonrecurring costs to the miscellaneous receipts account of the U.S. Treasury nor to bill the FMS customers. The quarterly billing to the FMS customer is driven by the payment schedule and any transfers by DFAS-DE to the U.S. Treasury are driven by coding within the performance/delivery reports (DD COMP(M) 1517) submitted by the DoD Components to DFAS-DE.

RECOMMENDATIONS FOR CORRECTIVE ACTION

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B. PRICE ESTIMATES FOR F-16 AIRCRAFT

Customer payments. The Deputy of Security Assistance, DFAS-Denver, does not prepare customer payment schedules. Payment schedules are prepared by the DoD component that prepares and manages the FMS case. The Deputy of Security Assistance, DFAS-Denver, does use the customer payment schedule as the basis for the quarterly billing statement to the customer.

C. CHANGING ESTIMATED COSTS TO ACTUAL COSTS

Proposed Case Closure Procedures

The Defense Security Assistance Agency has established a Case Closure Suspense Account with the Security Assistance Accounting Center (SAAC), DFAS-DE to be used with the accelerated case closure procedures. The Account is maintained at customer level.

** Information deleted.

RECOMMENDATIONS FOR CORRECTIVE ACTION

Concur with the intent of Recommendation C.1. However it is not always possible to identify the final cost of a contract item within 180 days of the contractor's delivery of the contracted for item. In most instances the final contract price is not known until after the last contract item is delivered, a final audit performed by the Defense Contract audit Agency, and the final price negotiated with the contractor.

DSAA will recommend to the Defense Finance and Accounting Service that a statement be included in DoD 7000.XX-R, Volume 15, that "the DoD Components make every effort to obtain the final price for contract provided items within 180 days of reported delivery."


James R. Woods
Comptroller

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