Audit Report

OFFICE OF THE INSPECTOR GENERAL

SELECTED ASPECTS OF THE SAUDI ARABIAN NATIONAL GUARD SECURITY ASSISTANCE PROGRAM

Report No. 95-253

June 26, 1995

Department of Defense

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Acronyms

CLSSA	Cooperative Logistics Supply Support Arrangement
FMS	Foreign Military Sales
FMR	Financial Management Regulation
LOA	Letter of Offer and Acceptance
SANG	Saudi Arabian National Guard
TACOM	U.S. Army Tank-Automotive and Armaments Command
USASAC	U.S. Army Security Assistance Command-New Cumberland

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June 26, 1995

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Selected Aspects of the Saudi Arabian National Guard Security Assistance Program (Report No. 95-253)

We are providing this final report for review and comment. Management comments on a draft of this report were considered in preparing the final report.

Army comments were not fully responsive to our recommendations, and we ask that the Army provide additional comments in response to the final report. As a result of management comments, we revised Recommendation A.1.d. to clarify our intention. We redirected Recommendation B.1.c. to the Office of the Program Manager, Saudi Arabian National Guard. DoD Directive 7650.3 requires that all recommendations and potential monetary benefits be resolved promptly. Therefore, we request that the Army provide comments on the unresolved recommendations and potential monetary benefits by August 25, 1995. Specific requirements for those comments are in a table at the end of each finding. Recommendations are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment.

We appreciate the courtesies extended to the audit staff. If you have any questions, please contact Ms. Evelyn R. Klemstine, Audit Program Director, at (703) 604-9172 (DSN 664-9172). Copies of the final report will be distributed to the organizations listed in Appendix E. The audit team members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-253
(Project No. 4FA-0032)

June 26, 1995

Selected Aspects of the Saudi Arabian National Guard Security Assistance Program

Executive Summary

Introduction. In 1973, the United States Government agreed to assist the Saudi Arabian government in a program to modernize and expand the Saudi Arabian National Guard. As of December 31, 1994, foreign military sales to the Saudi Arabian National Guard were estimated at about $5.6 billion. The largest element of the Saudi Arabian National Guard Modernization Program (Modernization Program) was the light armored vehicle acquisition and sustainment program, estimated at about $1.8 billion. The Office of the Program Manager, Saudi Arabian National Guard, is the U.S. Army component responsible for the Modernization Program.

Audit Objectives. The audit objective was to evaluate the acquisition and financial management of elements of the Modernization Program. Specifically, we reviewed the light armored vehicle, management, and training cases included in the Modernization Program. Additionally, we evaluated the management control program for those elements of the Modernization Program.

Audit Results. Overall management of the light armored vehicle, management, and training elements of the Modernization Program was effective. However, improvements were needed in the financial management and follow-on logistical support of those Modernization Program elements.

o The Office of the Program Manager, Saudi Arabian National Guard (the Program Office), and implementing agencies did not have accurate financial data for the light armored vehicle, management, and training elements of the Modernization Program. As a result, nonrecurring costs for the Modernization Program were understated by about $1.5 million. Additionally, cash requirements and payments due that were reported to the Saudi Arabian National Guard were inaccurate for those Modernization Program elements (Finding A).

o The Program Office had not required the Marine Corps Logistics Bases to initiate augmentation of DoD supply stocks to provide follow-on logistical support for the Saudi Arabian National Guard light armored vehicle. As a result, follow-on spare parts may not be available when needed (Finding B).

We identified material internal control weaknesses that were not detected by the management control program (see Appendix A).

Implementation of the recommendations will result in more effective and efficient execution of the light armored vehicle, management, and training elements of the Modernization Program, and additional nonrecurring cost collections. See Appendix C for details.

Summary of Recommendations. We recommend that the U.S. Army Tank-Automotive and Armaments Command correct the nonrecurring cost reported in the

Letter of Offer and Acceptance for the light armored vehicle. We also recommend that the Program Office amend the umbrella case Letter of Offer and Acceptance to bring payment schedules in line with actual disbursements, establish standard operating procedures for forecasting cash requirements, and initiate action to augment DoD supply stocks for follow-on support of the light armored vehicle.

Management Comments. The Army concurred with the audit recommendations regarding modification of Letter of Offer and Acceptance payment schedules, forecasting cash requirements, and allocating cash to Modernization Program foreign military sales cases. The Army has completed action to modify the payment schedules; initiated development of standard operating procedures for forecasting cash requirements and allocating cash; and has initiated action to realign cash allocations on foreign military sales cases. The Army nonconcurred with the recommendation to correct the nonrecurring cost reported in the Letter of Offer and Acceptance for the light armored vehicle, stating that it has requested the Defense Security Assistance Agency to review that rate and establish an approved rate for the command and control armored vehicle. The Army also nonconcurred with establishing procedures for conducting in-depth reviews of the Letter of Offer and Acceptance amendments and modifications and initiating action to augment DoD supply stocks for follow-on support of the light armored vehicle. The Army also did not agree with the $1.5 million potential monetary benefits reported for the light armored vehicle nonrecurring cost. See Part I for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. As a result of management comments, we revised the draft recommendation to clarify the actions needed in conducting financial reviews of Letter of Offer and Acceptance amendments and modifications by validating the nonrecurring cost rate. We also renumbered and redirected the recommendation to the Program Office to develop procedures for follow-on support.

Although the Army nonconcurred with the recommendation to correct the nonrecurring cost reported in the Letter of Offer and Acceptance for the light armored vehicle and the $1.5 million potential monetary benefits, we considered its actions to request the Defense Security Assistance Agency review the nonrecurring cost rate and establish an approved rate for the command and control armored vehicle to be responsive. We do not consider the Army comments to be responsive to the recommendation requiring the Office of the Program Manager, Light Armored Vehicle, to advise the Program Office of changes to the Letter of Offer and Acceptance values affecting payment schedules. The Army had informally monitored the status of the modification to the Letter of Offer and Acceptance values and did not initiate any formal action to ensure that the implementation of the modification was not delayed.

We consider the Army comments to be partially responsive to the recommendation to update the equity list for the Cooperative Logistics Supply Support Arrangement case, although the Army had nonconcurred with the recommendation. The Army is currently reviewing the lines of spare parts shipped to the Saudi Arabian National Guard. We request the Army use the results of that review to revise the equity list to reflect the current support requirements. We do not consider the Army comments to be responsive to the recommendation to initiate augmentation of DoD supply stocks for the Cooperative Logistics Supply Support Arrangement case. Additionally, the Army did not indicate the action it would take to initiate augmentation of DoD supply stocks or specify a date by which the action would be complete although the Army is exploring alternative methods for repair parts support. We request the Army comment on this report by August 25, 1995. See the table at the end of each finding for the specific requirements for those comments.

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Part I - Audit Results

Audit Background

The Saudi Arabian Military Structure. The Saudi Arabian government has two military organizations:

o The Ministry of Defense and Aviation consists of four military forces whose mission was to provide an effective combat force able to defend the country against potential enemies.

o The Saudi Arabian National Guard (SANG) is a military force whose mission was to provide security, defend the border, and maintain stability within the country.

Security Assistance Program to Modernize the SANG. In 1973, the United States agreed to assist the Saudi Arabian government in a program to modernize the SANG. The Saudi Arabian National Guard Modernization Program (the Modernization Program) consisted of:

o purchases of defense equipment and services;

o design and construction of facilities; and

o development, installation, and initial operation of training, communications, logistics, and maintenance systems.

Changes in the SANG Security Assistance Program. In October 1990, as part of the continuing modernization effort and in conjunction with Operations Desert Shield and Desert Storm, the Saudi Arabian government approved total foreign military sales (FMS) expenditures of $14.2 billion over 10 years. As of December 1994, the total implemented SANG FMS cases were estimated at $5.6 billion. The largest element of the Modernization Program was the light armored vehicle (armored vehicle) acquisition and sustainment program, estimated at about $1.8 billion.

Cash Constraints on the Saudi Arabian Government. In 1994, the SANG discontinued making scheduled payments on its FMS cases to the United States. The Saudi Arabian government experienced cash flow problems. The Defense Security Assistance Agency directed a temporary transfer of money from the SANG FMS Trust Fund account to the Saudi Arabian Ministry of Defense and Aviation FMS Trust Fund account. The interruptions in SANG payments depleted the historic excess in the SANG FMS Trust Fund account and raised concerns regarding the continuation of the Modernization Program.

The Office of the Program Manager, Saudi Arabian National Guard. The Office of the Program Manager, Saudi Arabian National Guard (the Program Office), a component of the U.S. Army Security Assistance Command, was responsible for the centralized management of the United States efforts to assist in the Modernization Program.

Mission for the Modernization Program. The Program Office mission was to assist the SANG in modernizing its management, organization, maintenance, supply procurement, medical care, and facilities commensurate with the standards of the U.S. Army. The ultimate goal of the Program Office was to help the SANG become completely capable of unilaterally initiating, sustaining, and operating modern military organizations and systems.

Responsibilities. Under the "Program Manager Charter, Saudi Arabian National Guard Modernization Program," July 20, 1990, the Program Office is responsible for:

o monitoring all FMS cases in the SANG modernization program;

o monitoring the preparation of and approving required technical documentation;

o authorizing the reprogramming of funds for FMS cases, monitoring the preparation of and approving program change requests, and ensuring return or realignment of excess program authority and funds;

o compiling the program budget and submitting it to the Saudi Arabian government for final approval and funding; and

o controlling the release of funds to support commands, agencies, and activities.

Audit Objectives

Announced Audit Objectives. The announced objectives for this audit were to determine whether management of the SANG Security Assistance Program was adequate to ensure that the SANG was provided defense articles and services at fair and reasonable prices. The audit was also to evaluate management controls over the SANG Security Assistance Program.

Because the Defense Federal Acquisition Regulation Supplement 215.804-3 exempts the Canadian Commercial Corporation[1] and its subcontractors from submission and certification of cost or pricing data on all acquisitions, we revised our audit objectives.

Revised Audit Objectives. The revised audit objective was to evaluate the acquisition and financial management of elements of the SANG Modernization Program. Specifically, we reviewed the armored vehicle, management, and training cases included in the Modernization Program. We also evaluated the

[1]The Canadian Commercial Corporation is the prime contractor for the SANG armored vehicle.

management control program for those Modernization Program elements. See Appendix A for a discussion of the review of the scope, methodology, and management control program. See Finding A for a discussion of the material management control weaknesses.

Finding A. Cash Requirements for the Modernization of the Saudi Arabian National Guard

The Program Office and the implementing agencies[2] did not develop accurate and reliable financial data for the armored vehicle, management, and training elements of the Modernization Program. The Program Office and the implementing agencies had not followed DoD Financial Management Regulation (FMR) 7000.14-R, Volume 15, "Security Assistance Policy and Procedures," March 18, 1993, in managing those Modernization Program elements resulting in the use of an incorrect nonrecurring cost charge for an armored vehicle variant. Additionally, the Program Office had not utilized available financial management data in forecasting actual cash requirements for the armored vehicle element of the Modernization Program. As a result, nonrecurring costs for the armored vehicle were understated by about $1.5 million (19.5 percent). Additionally, cash requirements and payments due that were reported to the SANG for the armored vehicle, management, and training elements of the Modernization Program were inaccurate. For example, calendar year 1995 cash requirements for the armored vehicle training aids case were understated by $1.5 million (14.7 percent), and the payment due in September 1994 for the management and training cases was overstated by $770 million (92.0 percent).

Financial and Cash Management Policies and Procedures

Changes to Policies and Procedures. Before March 1993, DoD 7290.3-M, "Foreign Military Sales Financial Management Manual," September 18, 1986, established the procedures for the financial management and administration of FMS. That manual was incorporated into DoD FMR 7000.14-R; since March 1993, DoD FMR 7000.14-R is the governing regulation for establishing the accounting, financing, billing, pricing, and costing criteria for FMS sales of defense articles and services. Our audit did not identify significant changes between the procedures required under DoD 7290.3-M and the current procedures in DoD FMR 7000.14-R.

Cash Deposits of FMS Customers. DoD FMR 7000.14-R requires a customer to deposit cash into the FMS Trust Fund before delivery of defense articles, performance of services, or progress payments to a contractor. A payment

[2]For the purposes of this report, the implementing agencies are the U.S. Army Tank-Automotive and Armaments Command, the Marine Corps Logistics Bases, and the U.S. Army Security Assistance Command-New Cumberland.

schedule is developed for each Letter of Offer and Acceptance (LOA)[3] that reflects the amount the customer is required to deposit in the FMS Trust Fund to ensure that cash will be available to make the next 3 months' required disbursements. The LOA payment schedule is one key source of the data used in computing the amount reported as due from the customer. Disbursements are not to exceed a customer's cash deposits. Cash deposits are requested from the customer on an FMS billing statement. The billing statement is based on payments calculated under a supporting LOA payment schedule and provides the details of deliveries, payments received, and payments scheduled for each FMS case. DoD FMR 7000.14-R also specifies the per unit nonrecurring cost[4] for each variant of the armored vehicle.

Funding the Modernization Program. The cost of the total Modernization Program is funded through a master "umbrella" FMS case and underlying cases. The umbrella FMS case is managed outside the normal FMS process and maintains a separate LOA payment schedule that supports the entire cost of the Modernization Program. However, the actual procurements of goods and services required for the Modernization Program are initiated under the underlying cases with separate LOAs, each maintaining a separate payment schedule. The separate LOAs are managed within the normal FMS process but are financially dependent upon the umbrella case. To ensure the funding of existing and future Modernization Program requirements, the SANG makes deposits into the FMS Trust Fund according to the umbrella case payment schedule.

Responsibilities of Commands and Activities Involved in the Financial Management of the Modernization Program. The Program Office is responsible for calculating the anticipated cash requirements for the Modernization Program and allocating the SANG payments on the umbrella case to the underlying Modernization Program cases. This procedure is a departure from the normal FMS procedures whereby the customer makes payments according to the LOA payment schedule or special billing arrangement.

The Defense Finance and Accounting Service provides the financial and accounting services to include:

- o reporting deliveries and progress payments,
- o monitoring the FMS trust fund cash balances,

[3]The agreement used by the U.S. Government to document a sale of defense articles and services to a foreign customer.

[4]Purchasers of major defense equipment pay an additive charge for nonrecurring cost to reimburse the U.S. Government a proportionate amount of funds for what was expended on research, development, and production.

o providing accounting and management data to the Program Office, and

o compiling the official billing statement for the SANG.

Implementing Agencies for the Modernization Program. DoD FMR 7000.14-R establishes the financial management responsibilities that the DoD Components are required to perform for each FMS case. For the Modernization Program, the U.S. Army Tank-Automotive and Armaments Command (TACOM) is responsible for preparing the LOA for the armored vehicle procurement case and the U.S. Marine Corps Systems Command is responsible for preparing and controlling all facets of the armored vehicle follow-on logistics support case. The U.S. Army Security Assistance Command-New Cumberland (USASAC) is responsible for preparing the LOA for the Modernization Program cases involving management and training. The implementing agencies' responsibilities include:

o estimating the prices of the defense articles and services, including the amounts needed for recouping nonrecurring costs;

o preparing and ensuring that the LOA payment schedules are accurate and meet DoD requirements;

o reviewing the LOA payment schedule at least annually to determine whether the payment schedule needs revision; and

o issuing a revised payment schedule, through an LOA modification, if the payment schedule overstated actual cash requirements.

Letter of Offer and Acceptance Values and Payment Schedules

The LOA values and payment schedules that the Program Office and the implementing agencies managed contained inaccurate and unreliable financial data for the armored vehicle, management, and training cases of the Modernization Program. The LOA data used in computing the nonrecurring cost was inaccurate for the armored vehicle case. Payment schedules established for the umbrella case exceeded the actual cash required for the procurement of goods and services on the armored vehicle, management, and training cases. The armored vehicle case payment schedule was unreliable and the payment schedules for the management and training portions of the Modernization Program were not revised as modifications were made to the LOA.

Nonrecurring Cost. In accordance with the DoD FMR 7000.14-R, the TACOM used the correct per unit nonrecurring cost for developing the LOA price for 9 of the 10 armored vehicle variants. However, an incorrect nonrecurring cost of $8,350 was used for the command and control armored

vehicle variant instead of the DoD FMR 7000.14-R rate of $16,723. The incorrect nonrecurring cost in the LOA remained undetected from April 1991, when the LOA was implemented, until September 1994, when the audit identified the error. The TACOM did not adequately review the payment schedules by validating the nonrecurring cost when processing three LOA modifications or performing quarterly case financial reviews. As a result, the TACOM understated the value of the LOA and accompanying payment schedules by about $1.5 million.

Umbrella Case Payment Schedules. DoD FMR 7000.14-R requires the customer to deposit cash into the FMS Trust Fund to pay the costs of the defense articles and services before delivery, performance, or progress payments to a contractor. However, the SANG requested payment schedules under the umbrella case to fund the total current and anticipated value of the Modernization Program. The LOA value of the umbrella case represented the actual and anticipated procurements of goods and services for the entire Modernization Program, whereas the LOA values of the underlying cases reflected the value of those procurements actually initiated. As of June 1994, the umbrella case was valued at $6.5 billion, which exceeded the total procurement values by $1.4 billion. As a result, the actual cumulative LOA cash payments required under the umbrella case exceeded the cash requirements for the underlying cases by $134.4 million. The excessive cash requirements contributed to the SANG being $930.9 million delinquent in meeting the umbrella case payment schedule in February 1994.

Armored Vehicle Payment Schedules. In June 1993, the Office of the Program Manager, Light Armored Vehicles, U.S. Marine Corps Systems Command (the armored vehicle manager), decreased the armored vehicle procurement lines of the LOA by about $44.9 million and transferred that money to a new correction of deficiency line on the LOA. The money was to be used to fund an anticipated correction of deficiency line item on the armored vehicle contract. The armored vehicle manager requested that the TACOM establish the funding for the correction of deficiency on one LOA line to facilitate the management of the case lines and the anticipated correction of deficiency. However, the TACOM delayed the implementation of the modification from June 1993 through July 1994 because the TACOM was awaiting additional cost data regarding communications equipment for another line on the LOA. Because the armored vehicle manager and the TACOM had not initiated changes to the payment schedules and the armored vehicle manager did not monitor the status of the LOA modification, the $44.9 million correction of deficiency transfer was not reflected in the payment schedule until July 1994. As a result, the armored vehicle procurement lines remained overstated by $44.9 million for 12 months. In addition to adding the correction of deficiency line on the LOA, the revised payment schedule reflected changes in both the periods of performance and the value of the remaining lines in the LOA. The September 1994 cumulative value of the LOA payment schedule was decreased by $389.6 million.

Revising the LOA Payment Schedules to Reflect Modifications. The LOA payment schedules did not reflect the actual anticipated cash requirements for the management and training elements of the Modernization Program.

DoD FMR 7000.14-R requires the USASAC, as the implementing agency, to review the payment schedule each time an amendment or modification is issued affecting the case or line values. The Program Manager Charter for the Modernization Program requires the Program Office to monitor the preparation of and to approve the technical documentation pertinent to the program. However, the Program Office and the USASAC did not revise the payment schedule when the two cases supporting the management and training elements of the Modernization Program were modified.

Case Value Increases. In October 1993, the Program Office advised the case managers at the USASAC to increase the total case values of the management and training elements of the Modernization Program by $350 million and $420 million, respectively, and extend the period of performance an additional 5 years through December 1998. The USASAC modified the LOAs for those two cases in February 1994. However, the USASAC did not revise the case payment schedules to spread the $770 million increase in the LOA values over the extended period of performance because the USASAC believed the umbrella case covered the funding for the modifications and payment schedules specifically for the management and training cases were unnecessary.

Revisions to Payment Schedules. On March 1, 1994, the Program Office, as a result of the funding constraints the SANG experienced, asked the implementing agencies to review and recommend revisions to the case payment schedules supporting the Modernization Program. The Program Office requested the review because the SANG's ability to meet the umbrella case payment schedules could be enhanced by adjusting the underlying case payment schedules to fit projected outlays and by identifying ways to reduce or postpone cash outlays. On March 17, 1994, in response to that request, the USASAC informed the Program Office that valid and accurate payment schedules for the underlying cases would reduce cash requirements "with minimum performance impact." However, the Program Office did not advise the USASAC to establish those payment schedules because the Program Office had not had an opportunity to review the modifications until after those modifications were implemented and the SANG had considered the umbrella case payment schedule to be the official payment schedule.

Because the Program Office and the USASAC had not revised the payment schedules, the Defense Integrated Financial System, which generates the FMS billing statement, automatically established the total increases in the modified case values as one payment on the LOA payment schedules and included those payments in the FMS Billing Statement as part of the payment due from the SANG. As a result, the FMS Billing Statement for the period ended June 30, 1994, erroneously reported $366.2 million and $471.2 million as due and payable for the management and training cases, respectively. Because the $770 million increase in the LOA values was to pay the management and training costs during the 5-year extension, the amounts reported to the SANG as due and payable far exceeded the estimated disbursements for the cases for the quarter after the billing statement.

Forecasting Cash Requirements

The Program Office forecasted cash requirements due from the SANG because the Saudi Arabian government could not meet the payment schedule established in the umbrella case for calendar years 1994 and 1995. The Program Office intended the forecast to reflect actual anticipated cash requirements. However, the Program Office did not accurately forecast cash requirements because standard operating procedures were not in place for forecasting those requirements.

Program Office Oversight. The Program Office only had direct visibility of cash requirements for the management and training cases. For the other cases, the Program Office relied upon the payment schedules established for the cases or the Program Office's estimates of future cash requirements. As a result, the Program Office did not utilize available financial management data in forecasting actual cash requirements for 1995. For example, the Program Office forecasted the 1994 cash requirements for the armored vehicle based on expected deliveries, whereas the 1995 forecast was based on LOA payment schedules.

Forecasting for the Training Aids Case. The Program Office arbitrarily calculated the cash requirements for the armored vehicle training aids case at $8.7 million (half of the total LOA value) and did not contact the implementing agency to verify the actual cash requirements. The LOA payment schedule required payments of about $10.2 million by September 1995. As a result, the cash requirement provided to the SANG was understated by $1.5 million and sufficient funding may not be available to meet actual cash requirements for the training aids case.

Cash Allocations

The financial management data used by the Program Office and reported to the SANG on the FMS Billing Statement inaccurately reported the cash collections and the amount due and payable from the SANG for the armored vehicle follow-on logistics support and the armored vehicle procurement. DoD FMR 7000.14-R allows the deficit cash position of one case to be funded by the customer's cash advances on other cases. When the SANG provides a cash payment to the Program Office, the SANG does not specify which cases should receive the funds. As a result, the Program Office arbitrarily allocates the SANG cash deposits to the cases without considering the anticipated disbursement for each case.

SANG Payable Amounts. Historically, the Program Office was not concerned with the distribution of funds against each case because the availability of funds was determined at a country level and not at a case level. Additionally, in the past, the SANG had maintained a sufficient cash balance in the FMS Trust Fund to meet disbursements even though the SANG had not met the umbrella case

payment schedule. However, as a result of the cash constraints experienced by the SANG, the Program Office was attempting to deposit cash on those cases where the reported billing exceeded the case level cash balance so that sufficient funds would be deposited on each case to cover actual deliveries. However, the reported cash balances of several of the cases still remained distorted. As a result of the arbitrary cash deposits applied to the various cases, the amount reported to the SANG as due and payable on the FMS Billing Statement was distorted.

Cash Deposits to the SANG Cases. For a case supporting the armored vehicle element of the Modernization Program, the financial management data was unreliable for an extended time and cash deposits actually exceeded the cash required to execute the case. In August 1991, the Program Office arbitrarily directed deposits to the armored vehicle follow-on logistics support case. Directing the deposits to that case exceeded the actual cash requirements by $15 million. In January 1994, the Defense Finance and Accounting Service advised the Program Office to transfer the excess funds to the SANG holding account or another case. As of October 1994, the funds remained on the follow-on logistics support case.

Cases Reporting Funds Available. The FMS Trust Fund account did not have sufficient funds to pay disbursements against the follow-on logistics support and training device cases that were reported as fully funded. On the August 1, 1994, Defense Finance and Accounting Service summary report for the Modernization Program, the total cash collections exceeded the accrued costs for the follow-on logistics support case by $25.8 million and the training devices case by $16.2 million. Therefore, $42 million appears to remain in the FMS Trust Fund account to pay for additional disbursements against those cases. However, as of August 9, 1994, $9.8 million in cash was available for disbursements from the FMS Trust Fund account for all SANG cases. The funds shown as deposits on those cases paid disbursements for other SANG cases, such as the armored vehicle case.

Armored Vehicle Case Financial Position. As of August 1, 1994, the Defense Finance and Accounting Service reported that cash deposits on the armored vehicle case were $387.9 million and progress payments to contractors were valued at $431.9 million. Therefore, payments to contractors exceeded cash deposits by $44.0 million. Although the armored vehicle case appeared to be in a deficit cash position, in fact, funds deposited against other cases paid for costs accrued on the armored vehicle case. As a result, the $44 million understatement of cash collections on the armored vehicle case caused the amount due and payable from the SANG to be overstated by that same amount.

Conclusion

The financial data developed by the Program Office and the implementing agencies for the armored vehicle, management, and training elements of the Modernization Program were not in accordance with the DoD FMR 7000.14-R.

The Program Office and the implementing agencies must follow established financial and cash management procedures regarding LOA values and payment schedules, forecasting cash requirements, and cash allocations to ensure the accuracy of the cash requirements and billing data reported to the SANG for those elements of the Modernization Program. Additionally, to ensure the correct collection of nonrecurring costs associated with the program, improved coordination is needed between the Program Office and the U.S. Marine Corps Systems Command armored vehicle manager.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised draft Recommendation A.1.d. to clarify the actions needed in conducting financial reviews of LOA amendments and modifications.

A.1. We recommend that the Commander, U.S. Army Tank-Automotive and Armaments Command:

a. Correct the nonrecurring cost reported in the armored vehicle Letter of Offer and Acceptance pricing data and supporting payment schedules to that rate specified in DoD Financial Management Regulation 7000.14-R.

b. Modify the Letter of Offer and Acceptance for the armored vehicle case to specify the new rate.

c. Assess the additional nonrecurring cost applicable to the armored vehicles that have already been reported as delivered.

Management Comments. The Army nonconcurred with Recommendations A.1.a., A.1.b., and A.1.c., stating that the Army has requested the Defense Security Assistance Agency to review the rate currently stated in the DoD FMR 7000.14-R for the command and control armored vehicle and establish an approved recoupment rate for that vehicle based on equipment and configuration differences between the SANG and Marine Corps versions of the vehicle. The Army expects to receive the Defense Security Assistance Agency position and an approved recoupment rate by August 15, 1995.

Audit Response. Although the Army nonconcurred with the recommendations, its comments are responsive. We agree that it is inappropriate to increase the nonrecurring cost rate by modifying the LOA until the Defense Security Assistance Agency has concluded its review, scheduled to be done by August 15, 1995. We request the Army provide comments on this audit report based on the conclusion reached by the Defense Security Assistance Agency.

d. Establish procedures to comply with the DoD Financial Management Regulation 7000.14-R to conduct in-depth financial reviews of Letter of Offer and Acceptance amendments and modifications.

Management Comments. The Army nonconcurred, stating that the procedures required by DoD FMR 7000.14-R were established and implemented prior to this audit. Financial reviews for Army FMS Case SI-B-JBP are performed on a cyclic basis, and the results were filed in the case folder provided to the audit team.

Audit Response. The Army comments are not responsive. We revised the recommendation to clarify our intent that the armored vehicle manager establish procedures to comply with the DoD FMR 7000.14-R by validating the nonrecurring cost rate when reviewing LOA amendments and modifications. We request that the Army provide comments on the revised recommendation in its response to the final report.

A.2. We recommend that the Office of the Program Manager, Saudi Arabian National Guard:

a. Request the Saudi Arabian National Guard authorize an amendment to the umbrella case Letter of Offer and Acceptance to align the Letter of Offer and Acceptance payment schedule with the payment requirements for ordered articles and services.

Management Comments. The Army concurred stating that, during the audit, action was underway to realign the 1994 and 1995 umbrella case payment schedules with payment requirements for article and services on order. The modification to the umbrella case was completed November 2, 1994.

b. Request the implementing agency establish payment schedules for all Letters of Offer and Acceptance modifications that accurately reflect the actual anticipated disbursements to the contractors and the DoD.

Management Comments. The Army concurred, stating that the Program Office completed action to align the payment schedule on the training case in August 1994. The Program Office has initiated the same action on the management case and the recommended action for that case will be completed by June 30, 1995.

c. Establish standard operating procedures that specify the data and methodology used to forecast cash requirements and require the implementing agencies review and verify the reasonableness of the forecasted cash requirements.

Management Comments. The Army concurred, stating that a local standing operating procedure will be completed by June 30, 1995. Additionally, actions regarding the review and verification of the reasonableness of the forecasted cash requirements were ongoing during the audit that resulted in the amendment or modification of payment schedules on several cases.

d. Establish standard operating procedures for allocating the cash deposits on all Saudi Arabian National Guard cases to ensure accurate reporting of the cash position.

Management Comments. The Army concurred, stating that procedures for allocating cash deposits to subcases exist, but will be documented more fully. The Program Office will publish a local standing operating procedure for this action by June 30, 1995.

e. Review and correct the cash collections reported on the foreign military sales cases to more accurately reflect the actual cash status of those cases.

Management Comments. The Army concurred, stating that action was completed during November 1994 to move $15 million of excess cash from the armored vehicle logistics support case to the armored vehicle case.

A.3. We recommend that the Program Manager, Light Armored Vehicles, U.S. Marine Corps Systems Command, advise Office of the Program Manager, Saudi Arabian National Guard, of changes to the Letter of Offer and Acceptance values that could affect the payment schedules and request authorization to modify those values and the supporting payment schedules.

Management Comments. The Army nonconcurred, stating that the Army did brief the Program Office regarding the proposed changes (including appropriate payment schedule revisions) to the LOA and received Program Office approval prior to initiating Modification 3.

Audit Response. The Army comments are not responsive. The Army did not initiate a modification to the LOA in December 1992, although the case program value was changed for the definitization of the armored vehicle procurement contract. The Army did not initiate any action to implement a modification to the armored vehicle LOA until June 1993 and Modification 3 was not implemented until July 1994. Additionally, the Army only informally monitored the status of the modification and did not initiate any formal action to ensure that implementation of the modification was not delayed. Our recommendation would establish procedures to ensure the Program Office is notified of potential changes to the LOA values and that the Program Office reviews and determines whether the modification to those values and supporting payment schedules should be implemented. We request the Army to reconsider its comments to Recommendation A.3. and to provide additional comments in its response to the final report.

Management Comments Required

Management is requested to comment on the items indicated with an X in Table 1.

Table 1. Management Comments Required on Finding A

Recommendation Number	Organization	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues
A.1.a.	Army	X	X	X	Monetary Benefits
A.1.b.	Army	X	X	X	Monetary Benefits
A.1.c.	Army	X	X	X	Monetary Benefits
A.1.d.	Army	X	X	X	Management Controls
A.3.	Army	X	X	X	Program Results

Management Comments on the Potential Monetary Benefits and Audit Response

Management Comments. The Army nonconcurred with the $1.5 million potential monetary benefits reported for Finding A, stating that the $16,723 nonrecurring cost rate stated in DoD FMR 7000.14-R for the command and control armored vehicle variant is inappropriate and should not be used for the SANG variant of that vehicle. The Army has requested that the Defense Security Assistance Agency review the command and control armored vehicle nonrecurring cost issue and consider the substantial configuration differences between the SANG and Marine Corps versions of that vehicle. The Army currently has no basis for projecting monetary benefits. The Army expects to receive the Defense Security Assistance Agency position and an approved recoupment rate by August 15, 1995.

Audit Response. Although the Army nonconcurred with the potential monetary benefits, we consider its comments responsive. We agree that it is inappropriate to determine the amount of potential monetary benefits until the Defense Security Assistance Agency has concluded its review of whether the nonrecurring cost rate stated in DoD FMR 7000.14-R for the command and control armored vehicle variant applies to the SANG version of that vehicle.

We request the Army provide us the results of the Defense Security Assistance Agency review and the corrected potential monetary benefits value in its comments to this audit report.

Finding B. Follow-on Logistical Support Agreement for the Armored Vehicle

The Program Office had not ensured that the Marine Corps Logistics Bases initiated augmentation of DoD supply stocks to provide follow-on logistical support for the SANG armored vehicle. The equity list prepared by the Marine Corps Logistics Bases and approved by the Program Office did not accurately reflect SANG armored vehicle logistical support requirements. As a result, the SANG may not have follow-on spare parts when needed, and the U.S. Marine Corps may incur higher spare parts prices by not combining procurement actions.

Logistical Support Policies and Procedures

DoD Directive 2000.8, "Cooperative Logistic Supply Support Arrangements," February 12, 1981, provides guidance for defining and implementing cooperative logistics supply support arrangements (CLSSA). DoD FMR 7000.14-R governs the financial management of a CLSSA. The DoD Directive 2000.8 and DoD FMR 7000.14-R require the Military Departments to use the funds the customer provides under the CLSSA to augment DoD supply stocks in anticipation of the customer's requisitions for spare parts.

CLSSA Requirements. A CLSSA is an agreement between a Military Department and an FMS customer and contains terms and conditions for supply support to be provided on DoD common weapon systems bought by the FMS customer. Under a CLSSA, the customer provides funds (equity investment) to purchase equity in DoD supply stocks. In exchange for the equity investment, the customer's spare parts requirements are added to DoD spare parts requirements. DoD is required to use the equity investment to augment DoD supply stocks to meet the new spare parts requirements. In return, the CLSSA customer's requisitions for spare parts receive equal treatment with DoD forces' requisitions. Additionally, the higher DoD supply stock levels allow for more economical procurement of CLSSA spare parts by DoD. The customer's equity investment is equal to approximately 30 percent of the customer's anticipated yearly requirement for spare parts from DoD supply stocks. Those anticipated spare parts requirements are identified through the preparation of an equity list.

Preparation of the Equity List. The equity list is the basis for identifying follow-on support requirements for the customer's weapon system. That list identifies the spare parts and quantities that are to be supported under the CLSSA and is used to calculate the equity investment required. The Military Department prepares a list of the recommended spare parts and quantities needed to support the customer's weapon system. Those recommendations are based upon DoD experience with the weapon system and on the customer's planned usage for the system. The customer then reviews the list and may make additions or deletions. The list is then provided to the Military Department along with the customer's equity investment funds so that augmentation of DoD

supply stocks may be initiated. Periodically, the equity list is updated to reflect customer's changing spare parts requirements. The customer's equity investment funding requirement is adjusted to reflect those changes to the equity list.

Supportable Items. The support available under a CLSSA includes all centrally managed and stocked consumable items and other spare parts normally available to DoD forces for the support of their weapon system. The CLSSA does not support spare parts not standard to the DoD supply system.

Requirement for the Armored Vehicle

As part of the Modernization Program, Saudi Arabia and the United States signed an FMS case valued at $1.5 billion to acquire 1,117 armored vehicles in 10 variations. The vehicle chosen to meet the requirements was the U.S. Marine Corps (the Corps) armored vehicle, manufactured by Diesel Division General Motors (General Motors). The SANG armored vehicles were to be similar to the Corps armored vehicle with only minor modifications. The Program Office, the sole interface with SANG, defined requirements, managed, and provided funds to support other activities associated with the acquisition, fielding, and support of the armored vehicle. The Marine Corps Systems Command and the Marine Corps Logistics Bases were responsible for providing initial and follow-on logistical support for the SANG armored vehicles.

Initial Logistical Support. The Saudi Arabian government signed an FMS case for the procurement of the armored vehicles and an FMS case for the initial logistical support for the armored vehicles. That support case was valued at $123 million and included 2-and-a-half years of spare parts for each of the 10 variants and those variants' associated weapons systems. The initial logistical support case was used to establish the armored vehicle supply stock levels in Saudi Arabia. Replenishment of those supply stock levels was to be accomplished through the implementation of a follow-on support case.

Follow-on Logistical Support. On June 30, 1991, the Saudi Arabian government signed a $37 million CLSSA case (SI-P-KAD) to provide follow-on logistical support for the armored vehicle. That case required that the Saudi Arabian government provide funding (the equity investment) of $11.3 million. That charge included an articles and services charge of $10.8 million for equity list spare parts and a nonrefundable administrative charge of $0.5 million. The equity investment was to provide the Military Departments adequate funding to allow augmentation of DoD supply stocks to meet the SANG armored vehicle support requirements.

Implementation of the Cooperative Logistics Supply Support Arrangement

Identification of Follow-on Support Requirements. In 1991, the Marine Corps Logistics Bases prepared an equity list that identified the spare parts and supply stock levels required to support the SANG armored vehicles. The supply support requirements developed by the Marine Corps Logistics Bases and approved by the Program Office were based upon manufacturer's parts identification data and on previous experience with the Corps armored vehicle. The equity list for the SANG armored vehicles specified the national stock numbers, the unit price, and the estimated annual demand for supportable items. The equity list also provided a basis for determining the equity investment funding requirement for the CLSSA.

Changes in Armored Vehicle Configuration. In December 1992, the SANG armored vehicle production contract was signed. The SANG continued to define armored vehicle requirements and require design changes and product improvements throughout the production of several SANG armored vehicle variants. Those configuration and design changes caused the SANG armored vehicles to become dissimilar in configuration to the Corps armored vehicle. Changes to the SANG armored vehicles included increasing fuel capacity, adding a .50 caliber machine gun, and improving the electrical system and the engine cooling system. As a result, many spare parts requirements specified in the initial equity list changed from DoD standard parts to nonstandard parts that were no longer supportable under the CLSSA.[5] Also, new spare parts requirements resulting from the configuration changes were not on that list. As of February 1995, the initial equity list no longer accurately reflected the SANG armored vehicle support requirements due to the various configuration and design changes.

Impact of Delaying Augmentation of DoD Supply Stocks

Although the Saudi Arabian government had provided $11.3 million for a CLSSA in June 1991, as of February 1995, DoD supply stocks had not been augmented with follow-on SANG armored vehicle spare parts requirements. As a result of that delay, spare parts for the SANG armored vehicle may not be available when the SANG requires them.

Delays in the augmentation of DoD supply stocks could impede readiness of SANG units because of armored vehicle downtime caused by the unavailability of spare parts. The SANG requisitions for armored vehicle spare parts will be delayed until the parts can be procured because DoD did not adjust supply stock levels in anticipation of the SANG requirement for spare parts. Procurement of many armored vehicle spare parts may take longer than 6 months to complete.

[5]Nonstandard parts were supported under a separate FMS case.

During that procurement time, armored vehicles that require the spare parts may be unavailable to perform their required mission. Additionally, combining SANG and U.S. Marine Corps requirements could result in overall reductions in prices paid for common spare parts. See Appendix B for a discussion of additional armored vehicle logistics issues.

Recommendations, Management Comments, and Audit Response

Redirected and Renumbered Recommendations. As a result of management comments, we redirected draft Recommendation B.2. to the Program Office, and renumbered the recommendation as B.1.c.

B.1. We recommend that the Office of the Program Manager, Saudi Arabian National Guard:

a. Request the U.S. Marine Corps Systems Command update the equity list for Cooperative Logistics Supply Support Arrangement case SI-P-KAD to reflect Saudi Arabian National Guard armored vehicle support requirements.

Management Comments. The Army nonconcurred, stating that initially the SANG and Marine Corps armored vehicles were planned to be compatible and a CLSSA would provide repair parts sustainment. However, the SANG and Marine Corps armored vehicles have become dissimilar due to design changes and fewer than half of the Marine Corps parts are usable on the SANG armored vehicle variants. The Program Office is presently working to identify and resolve problems on more than 3,000 lines of repair parts already shipped to the SANG. Although the Program Office has resolved most issues on those shipments, initiating an agreement to buy more Marine Corps repair parts at this time would not be in the best interest of the SANG. Additionally, credible data on parts for the SANG armored vehicle are not available and candidate lists cannot be properly reviewed and analyzed.

Audit Response. Although the Army nonconcurred, its response met the intent of the recommendation and we consider its comments partially responsive. We agree that the SANG and the Marine Corps armored vehicles have become less and less similar as stated in the report on page 19, paragraph 2. The basis of the finding is that the current equity list does not accurately reflect current support requirements and the recommendation is that the equity list be revised to reflect current support requirements. For those items where the correctness of the part is questioned, the part should be dropped from the equity list and the case value reduced accordingly. However, for those items whose configuration has not changed, such as baseline drive train items on the armored vehicle with a 25 mm gun that was fielded in January 1994, the requirements should be in the new equity list. If a requirement cannot be defined, the equity list should be updated accordingly and the case value should be reduced to zero with customer funds being used elsewhere. We request the Army reconsider its comments to

Recommendation B.1.a. and provide additional comments in its response to the final report. We request the Army provide an effective date for completing the review and update of the equity list.

b. Request the Marine Corps Logistics Bases initiate augmentation of DoD supply stocks for Cooperative Logistics Supply Support Arrangement case SI-P-KAD requirements.

Management Comments. The Army nonconcurred, stating that the Program Office intends to explore alternative methods of repair parts support. One possible alternative is to use the Army FMS system that would streamline support for the customer and simplify procedures, regulations, and payments. The Army will present the results of this analysis to Headquarters, SANG, for its decision.

Audit Response. The Army comments are not responsive. Although the Army is exploring alternative methods for repair parts support, the Army did not indicate the action it would take to initiate augmentation of DoD supply stocks for CLSSA case SI-P-KAD requirements or specify a date by which the action would be complete. Management has had considerable time to consider alternatives since signing the agreement in June 1991 and accepting payment of $11 million. Management has not used those funds to begin stock augmentation as required by DoD FMR 7000.14 and DoD Directive 2000.8. If management believes that a requirement does not exist for a CLSSA, and no augmentation of DoD stocks is required, then the equity list should be reduced to zero, the case should be closed, and funds returned to the SANG. However, as of June 12, 1995, no follow-on support plan was in effect 17 months after initial fielding of the vehicles. When procurement lead-time is considered, the SANG may not have the items necessary to maintain readiness of its fleet of armored vehicles. We request that the Army provide additional comments in its response to the final report.

c. We recommend that the Office of the Program Manager, Saudi Arabian National Guard, develop procedures to incorporate Saudi Arabian National Guard support in armored vehicle supply requirements.

Management Comments. The Army nonconcurred, stating that the armored vehicle manager is not an implementing agency responsible for providing initial and follow-on logistical support for the SANG armored vehicle. The Program Office and the SANG would determine whether the cost of adding overall supply coordination responsibilities to the armored vehicle manager are justified by potential benefits.

Audit Response. As a result of the Army comments, we redirected draft Recommendation B.2. to the Program Office and renumbered the recommendation as B.1.c. We request that the Army comment on the redirected recommendation in its response to the final report.

Management Comments Required

Management is requested to comment on the items indicated with an X in Table 2.

Table 2. Management Comments Required on Finding B

Recommendation Number	Organization	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues
B.1.a	Army			X	Program Results
B.1.b.	Army	X	X	X	Program Results
B.1.c.	Army	X	X	X	Program Results

Part II - Additional Information

Appendix A. Scope and Methodology

Audit Scope

We performed this program audit from March 1994 through January 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. The audit included such tests of management controls as were deemed necessary. Our review was limited to the acquisition and financial management of the SANG armored vehicle, management, and training elements of the Modernization Program. We visited each DoD organization responsible for the management of those cases and met with Headquarters SANG and SANG field locations in Saudi Arabia. We reviewed program charters and memoranda of agreement from 1951 through 1994. We also reviewed documentation from January 1990 through February 1995 that related primarily to the armored vehicle procurement case and the management and training cases. Our review included documentation on logistics, management, training, financial management, contracts, Letters of Offer and Acceptance, payment schedules, and billing statements. See Appendix D for a list of organizations visited or contacted.

Methodology

Estimated Value of the Modernization Elements Reviewed. All elements of the implemented SANG Modernization Program were estimated at about $5.6 billion. We defined the armored vehicle element of the Modernization Program as the acquisition, training devices, spare parts, and follow-on logistical support cases for the armored vehicle. The estimated value of the armored vehicle acquisition and sustainment program was about $1.8 billion. The management element of the Modernization Program was estimated at about $708 million and the training element of the Modernization Program was estimated at about $1.3 billion.

Limitations on Reviewing the Acquisition of the Armored Vehicle. We reviewed the contract and production milestones at the Canadian Commercial Corporation in Canada for the SANG armored vehicle. However, because the Defense Federal Acquisition Regulation Supplement 215.804-3 exempts the Canadian Commercial Corporation and its subcontractors from submission and certification of cost and pricing data on all acquisition, we did not examine the armored vehicle cost and pricing proposals.

Use of Computer-Processed Data

To achieve the audit objectives, we relied on computer-processed data in the FMS Trust Fund accounting systems. The reliability of the system was not the audit's primary objective; consequently, alternative testing of the system was not done to establish data reliability. We did not use statistical sampling procedures to conduct this audit.

Management Control Program

The audit evaluated management controls relating to the armored vehicle, management, and training elements of the SANG Modernization Program. We reviewed management controls considered necessary, including the controls over determining budgets and cash requirements as well as the control that the Program Office exercised as program manager for the Modernization Program. We also reviewed controls over the logistical functions used to provide the armored vehicles, spare parts, and technical publications to the SANG. We reviewed the Internal Control Review Checklists and Annual Assurance Statement of Internal Management Controls for Fiscal Year 1993 and Fiscal Year 1994 that documented the results of management's self-evaluation of management controls for the Program Office.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Specifically, the Program Office did not establish management controls for forecasting cash requirements and allocating cash deposits for the SANG Modernization Program. Finding A of this report discusses the material management control weaknesses in detail.

Adequacy of Management's Self-Evaluation. The Program Office did not identify forecasting cash requirements and allocating cash deposits for the SANG Modernization Program as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

Recommendations Relating to Management Controls. Recommendations A.2.c. and A.2.d., if implemented, will correct the material management control weaknesses. Implementation of the recommendations will provide more effective financial management of the Modernization Program elements. A copy of the report will be provided to the senior official responsible for management controls in the Department of the Army. See Appendix C for potential benefits.

Prior Audits and Other Reviews

Inspector General, DoD, Report No. 94-037, "Procurement of the M257, 66MM Smoke Grenade Launcher for the Saudi Arabian National Guard," February 10, 1994, covered the sale of specific equipment to the SANG. The report contained two recommendations that apply to our audit. The report recommended that the Program Office both maintain documentation of the specific customer requirements and document coordination with its FMS customers of any pricing, technical, and production information. The audit report also recommended that the armored vehicle manager maintain complete records of changes to contract specifications for procured items, document sources and details of cost estimates provided to customers, and validate the accuracy of information provided to all FMS program customers. Both organizations concurred with the audit report's recommendations.

Appendix B. Other Matters of Interest

Logistics Support Requirements for the Armored Vehicle. The SANG 1990 Letter of Request[1] for 1,117 armored vehicles required that the SANG armored vehicle be configured as the Corps armored vehicle with minor modifications. That requirement was used during the development of the initial logistics support analysis[2] data for the SANG armored vehicle acquisition. The SANG armored vehicle production contract required General Motors to provide validated and verified technical manuals before fielding the armored vehicle. The validation and verification procedures were intended to determine the suitability of technical data, such as maintenance instructions and spare parts selection for the delivered SANG armored vehicle. General Motors and the Corps based the development of technical manuals and spare parts requirements in part on their previous experience with the Corps armored vehicle. As the SANG continued to define the armored vehicle requirements, the resultant configuration and design for the SANG armored vehicle became less similar to the Corps armored vehicle.

Armored Vehicle Technical Manuals. General Motors delivered technical manuals for the first three SANG armored vehicle variants behind contract schedule and before validation and verification of technical data. That delay occurred because the development of the logistics support analysis data for the SANG armored vehicle required more time than had been anticipated. As a result, training and maintenance personnel used technical publications that contained procedures, spare parts lists, and diagrams that did not accurately reflect the SANG armored vehicle configurations.

Armored Vehicle Spare Parts Packages. In 1992, the delivery of spare parts for the SANG armored vehicle began. In January 1994, when the fielding of the LAV-25 variant of the armored vehicle started, the Program Office discovered errors in the spare parts package. Many erroneous spare parts received were Corps armored vehicle spare parts that were not interchangeable with the SANG armored vehicle spare parts. The spare parts package contained incorrect spare parts because changes to the SANG armored vehicle configuration made many Corps spare parts obsolete to the SANG armored vehicle requirements. Additionally, the Program Office received many olive green parts suitable for the Corps armored vehicle instead of the tan parts the SANG armored vehicle required. The Program Office was unable to identify erroneous parts at delivery because current technical data for the SANG armored vehicle were unavailable. Further, spare parts requirements were

[1]A written message or letter from an eligible FMS participant for the purchase of defense articles or services.

[2]Establishes the requirements for pre-operational and operational support of the armored vehicles.

developed concurrently with the SANG armored vehicle production that had not undergone validation and verification before provisioning. As a result, spare parts may not be available when required.

Management Actions Taken. During our audit, the Program Office and the Corps took actions to correct the technical manuals and spare parts package deficiencies. In December 1994, the validation and verification of technical data for the first armored vehicle variant began. The Program Office was receiving updated sections of technical manuals as those manuals were completed. The Program Office reprioritized Arabic translations to quicken the availability of the technical publications. The Marine Corps Logistics Bases and the Program Office inventoried SANG armored vehicle spare parts stored in Saudi Arabia, identified incorrect spare parts, and updated the spare parts data bases. The Program Office's and the Marine Corps Logistics Bases' goals were to provide replacement spare parts and obtain credits for incorrect spare parts.

Appendix C. Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a., A.1.b., and A.1.c.	Program Results. Ensures the SANG reimburses DoD for research and development funds expended on the armored vehicles.	Undeterminable.*
A.1.d.	Compliance. Ensures accurate financial reporting.	Nonmonetary.
A.2.a.	Program Results. Ensures accurate financial reporting.	Nonmonetary.
A.2.b.	Program Results. Ensures accurate customer billing of anticipated disbursements.	Nonmonetary.
A.2.c. and A.2.d.	Management Controls. Ensures accurate customer billing of future cash requirements.	Nonmonetary.
A.2.e.	Program Results. Ensures accurate financial reporting.	Nonmonetary.
A.3.	Program Results. Ensures accurate customer billing.	Nonmonetary.
B.1.a.	Program Results. Implements a Cooperative Logistics Supply Support Arrangement that will effectively support the SANG armored vehicle.	Nonmonetary.
B.1.b. and B.1.c.	Program Results. Ensures that DoD stocks are at sufficient levels to support SANG and DoD requirements.	Nonmonetary.

*Amount is undeterminable until August 15, 1995 when the Defense Security Assistance Agency concludes the review stated in Recommendation A.1.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Directorate of Financial Management Policy, Under Secretary of Defense (Comptroller), Washington, DC

Department of the Army

Communications-Electronic Command, Fort Monmouth, NJ
U.S. Army Corps of Engineers, Washington, DC
  Transatlantic Division, Winchester, VA
U.S. Army Security Assistance Command, New Cumberland, PA
U.S. Army Tank-Automotive and Armaments Command, Warren, MI
  Program Manager, Light Armored Vehicle, Warren, MI
Saudi Arabian National Guard Modernization Program, U.S. Army Materiel Command, Riyadh, Saudi Arabia
  Eastern Province Branch, Dhahran, Saudi Arabia
  Washington Field Office, Alexandria, VA
  Western Province Branch, Jeddah, Saudi Arabia
Directorate for Security Assistance, Deputy Chief of Staff for Logistics, Washington, DC

Department of the Navy

Office of the Inspector General of the Marine Corps, Arlington, VA
Marine Corps Systems Command, Arlington and Quantico, VA
  Marine Corps Logistics Base, Albany, GA
Navy International Programs Office, Arlington, VA
  Navy International Logistics Control Office, Naval Supply Systems Command, Philadelphia, PA

Department of the Air Force

Directorate of Budget Investment, Office of the Secretary of the Air Force, Washington, DC
Department of Economics and Business Management, Office of the Secretary of the Air Force, Arlington, VA

Defense Organizations

Defense Contract Management Area Operations, Defense Logistics Agency, Ottawa, Ontario, Canada
  Light Armored Vehicle Residency, London, Ontario, Canada

Defense Organizations (cont'd)

Defense Finance and Accounting Service, Denver Center, Denver, CO
Security Assistance Defense Accounting Office, New Cumberland, PA
Security Assistance Defense Accounting Office, Philadelphia, PA
Defense Security Assistance Agency, Arlington, VA
U.S. Military Training Mission, Riyadh, Saudi Arabia

Non-Government Organizations

Canadian Commercial Corporation, London, Ontario, Canada
Diesel Division - General Motors Corporation of Canada Limited, London, Ontario, Canada
Saudi Arabian National Guard, Riyadh, Saudi Arabia
Six Canadian Forces Quality Assurance Region, London, Ontario, Canada
Vinnell Corporation, Riyadh, Saudi Arabia

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)
Director, Administration and Management
Director, Defense Logistics Studies Information Exchange
Deputy Chief Financial Officer Director, Management Improvement

Department of the Army

Assistant Secretary of the Army (Financial Management)
Auditor General, Department of the Army
Commander, Army Materiel Command
  Deputy Chief of Staff for Acquisition
  Commander, Tank-Automotive and Armaments Command
Commander, Corps of Engineers
  Commander,Transatlantic Division
Commander, Security Assistance Command
  Program Manager, Saudi Arabian National Guard Modernization Program
Director, Directorate for Security Assistance, Deputy Chief of Staff for Logistics

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Inspector General of the Marine Corps
Commander, Marine Corps Systems Command
Commander, Marine Corps Logistics Base

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
  Commander, Defense Contract Management Area Operations, Defense Logistics Agency, Ottawa, Ontario, Canada

Other Defense Organizations (cont'd)

Director, Defense Security Assistance Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
  Senate Subcommittee on Defense
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
  House Subcommittee on National Security
House Committee on Government Reform and Oversight
  House Subcommittee on National Security, International Affairs, and Criminal Justice
House Committee on National Security

Part III - Management Comments

Department of the Army Comments

Final Report Reference

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DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
800 ARMY PENTAGON
WASHINGTON, DC 20310-0500

8 JUN REC'D

DALO-SAA 95034882

7 JUN 1995

MEMORANDUM THRU

~~DIRECTOR OF THE ARMY STAFF~~ GREGORY P. GUILLIE, LTC, GS, ADECC 8 JUN 1995

~~ASSISTANT SECRETARY OF THE ARMY (RESEARCH, DEVELOPMENT AND ACQUISITION)~~ COL ROBERT C. FILBEY, SARD-IN 12 JUN 95

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: IG DoD DRAFT Audit Report on the Management of the Saudi Arabian National Guard Security Assistance Program (Project No. 4FA-0032)--INFORMATION MEMORANDUM

1. This is in response to USAAA memorandum of 10 April 1995 (Tab A), which asked ODCSLOG to respond to your memorandum of 6 April 1995 (Encl to Tab A). Your memorandum requested that ODCSLOG review and comment on IG DoD DRAFT Audit Report on the Saudi Arabian National Guard Security Assistance Program (Project No. 4FA-0032).

2. The Army's position on the IG DoD DRAFT Audit Report on the Management of the Saudi Arabian National Guard Security Assistance Program (Project No. 4FA-0032) is at Tab B.

2 Encls

JOHNNIE E. WILSON
Lieutenant General, GS
Deputy Chief of Staff
for Logistics

CF:
VCSA
CDR, AMC
SAAG-PRF-E
DALO-ZXA

AMC, AMCIR-A - Concur, Mr. Kurzer, 274-9025 (memorandum)
USASAC, AMSAC-SI - Concur, Mr. Green, 977-7389(memorandum)

*

Peter Liszewski/X50390

This marking is canceled when separated from material bearing a protective marking.

*The Department of the Army approved the removal of the classification.

Final Report Reference

FINDINGS AND RECOMMENDATIONS

IG DoD DRAFT Report
Management of the Saudi Arabian National Guard
Security Assistance Program

(Project No. 4FA-0032)

GENERAL COMMENTS ON THE REPORT:

Names/Organizational Relationships:
It should be noted that TACOM (rather than TAACOM is the proper acronym for the U.S. Army Tank-Automotive and Armaments Command; automotive is capitalized. Administratively, the Program Manager, Light Armored Vehicles (PM LAV), is a part of TACOM. For LAV subcase, Army FMS case SI-B-JBP, the PM LAV receives guidance from and coordinates with the Army FMS command chain. The Marine Corps Systems Command does not exercise direct or indirect authority over the PM LAV for this case. Regarding follow-on logistical support, it should be noted that PM LAV's responsibility is currently limited to oversight of data prepared and loaded into the provisioning logistics support analysis by Diesel Division, General Motors, the primary vehicle contractor. Responsibility for review of the Recommended Repair Parts List and System Support Package items and quantities, and their subsequent procurement, rests with the Marine Corps Systems Command, acting through the Marine Corps Logistics Base, Albany. This effort is accomplished through Navy FMS case SI-P-BAA. This Navy case and Army case SI-B-JBP are both part of the "umbrella case" managed by the Office of the Program Manager, Saudi Arabian National Guard (SANG).

Revised in Final Report
Revised Page 17
Redirected and Renumbered Draft Recommendation B.2. as B.1.c.

COMMENTS ON THE VALIDITY OF REPORTED INFORMATION:

Armored Vehicle Payment Schedules:

This paragraph in the draft report, page 8, is misleading regarding the total purpose of Line 51 of the Letter of Offer and Acceptance (LOA). As stated in Case Modification #3, note 94, the purpose is:

"Line 51 will provide funding for modifications to the basic contracts for production, fielding and retrofit of the Light Armored Vehicles procured customer directed or approved changes in vehicle designs, approved Engineering Change Orders (ECOS), and approved modifications to training or fielding requirement. This line will also fund vehicular Correction of Deficiencies (COD) and vehicle retrofit, whether accomplished in the contractor/subcontractor plant(s) or in Kingdom."

Also, in the draft report, page 9, it is not accurate to conclude, "...the armored vehicle manager did not monitor the status of the LOA modification,...". In fact, we made numerous telephone and CC:Mail requests for status and for expedited completion of Modification #3. Further, draft report, page 9, tends to exaggerate the impact on customer billings when $44.9 million was removed from LOA Lines 1-10 and established on Line 51. Though now resident on a separate case line, it should be noted that these funds are still a part of the "armored vehicle procurement lines" for the procurement activities described above. When applied to contracts, they will become a part of the vehicle unit price and will be billed throughout the period during which vehicles are delivered and fielded--just as they would have been had they remained resident on individual vehicle lines. This action was essentially an internal adjustment which moved funds between accounts without changing the total value.

Nonrecurring Cost:

Draft report, page 8, concludes:

> "In accordance with the DoD FMR 7000.14-R, TACOM used the correct per unit nonrecurring cost for developing the LOA price of 9 of the 10 armored vehicle variants. However, an incorrect nonrecurring cost of $8,350 was used for the command and control armored vehicle instead of the DoD FMR 7000.14-R rate of $16,723. The correct nonrecurring cost in the LOA remained undetected from April 1991, when the LOA was implemented, until September 1994, when the audit identified the error. The TACOM did not adequately review the payment schedules by validating the nonrecurring cost when processing three LOA modifications or performing quarterly case financial reviews. As a result, TACOM understated the value of the LOA and accompanying payment schedules by about $1.5 million."

We disagree with the audit conclusion that the FMR 7000.14-R rate of $16,723 should be used for the SANG version of the Command and Control Armored Vehicle (CCAV). The rate was previously approved for the Marine Corps version of the CCAV. While both versions fulfill a similar function, they are substantially different. For example, the SANG CCAV will have different radios, antennas, and intercom systems. It will contain many advanced features

(air conditioning, integral Global Positioning System equipment, Digital Data Terminals and additional crew stations) which the Marine Corps version does not have. The SANG is paying the cost of these extensive modifications and should only be held accountable for recoupment of U.S. nonrecurring cost for the common features of the vehicle. We initially estimated the nonrecurring cost recoupment should be $8,350, or approximately half the rate shown in FMR 7000.14-R. We have asked the Defense Security Assistance Agency (DSAA) to further review this matter. We expect DSAA's position and an approved recoupment rate by 15 August 1995. Currently, it is inappropriate to increase the nonrecurring cost rate to that currently specified in the FMR 7000.14-R.

FINDINGS AND RECOMMENDATIONS:

FINDING A. Cash requirements for the Modernization of the Saudi Arabian National Guard: The Program Office and the implementing agencies did not develop accurate and reliable financial data for the armored vehicle, management, and training elements of the Modernization Program. The Program Office and the implementing agencies had not followed DoD Financial Management Regulation (FMR) 7000.14-R, Volume 15, "Security Assistance Policy and Procedures", March 18, 1993, in managing those Modernization Program elements resulting in the use of an incorrect nonrecurring cost charge for an armored vehicle variant. Additionally, the Program Office had not utilized available financial management data in forecasting actual cash requirements for the armored vehicle element of the Modernization Program. As a result, nonrecurring costs for the armored vehicle were understated by about $1.5 million. Additionally, cash requirements and payments due that were reported to the SANG for the armored vehicle, management, and training elements of the Modernization Program were inaccurate. For example, calendar year 1995 cash requirements for the armored vehicle training aids case were understated by $1.5 million, and the payment due in September 1994 for the management and training cases was overstated by $770 million.

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RECOMMENDATIONS:

RECOMMENDATION A.1.a.: We recommend that the Commander, U.S. Army Tank-Automotive and Armaments Command, correct the nonrecurring cost reported in the armored vehicle Letter of Offer and Acceptance pricing data and supporting payment schedules to that rate specified in DoD Financial Management Regulation 7000.14-R.

ACTION TAKEN: Nonconcur. As discussed above, it is inappropriate to increase the nonrecurring cost rate to that currently specified in FMR 7000.14-R. However, we have requested DSAA to review the issue and establish an approved recoupment rate. When DSAA provides the approved rate, we will adjust/bill the case accordingly.

RECOMMENDATION A.1.b.: We recommend that the Commander, U.S. Army Tank-Automotive and Armaments Command modify the Letter of Offer and Acceptance for the armored vehicle case to specify the new rate.

ACTION TAKEN: Nonconcur. As outlined above, it is inappropriate to modify the LOA to specify the nonrecurring cost rate currently shown in FMR 7000.14-R. When DSAA provides the approved rate, we will modify the LOA accordingly.

RECOMMENDATION A.1.c.: We recommend that the Commander, U.S. Army Tank-Automotive and Armaments Command assess the additional nonrecurring cost applicable to the armored vehicles that have already been delivery reported.

ACTION TAKEN: Nonconcur. As noted above, it is inappropriate to increase the nonrecurring cost rate to that currently shown in FMR 7000.14-R. We will continue to use the $8,350 rate until DSAA completes its review and provides the approved rate. When received, we will bill/rebill accordingly.

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RECOMMENDATION A.1.d.: We recommend that the Commander, U.S. Army Tank-Automotive and Armaments Command establish procedures to comply with the DoD FMR 7000.14-R to conduct indepth financial reviews of Letter of Offer and Acceptance amendments and modifications.

ACTION TAKEN: Nonconcur. Procedures required by FMS 7000.14-R were established and implemented prior to this DoD IG audit. Financial reviews for Army FMS Case SI-B-JBP are performed on a cyclic basis, and the results were filed in the case folder provided to the auditors.

RECOMMENDATION A.2.a.: We recommend that the Office of the Program Manager, Saudi Arabian National Guard (OPM-SANG), request the Saudi Arabian National Guard (SANG) authorize an amendment to the umbrella case Letter of Offer and Acceptance to align the Letter of Offer and Acceptance payment schedule with the payment requirements for ordered articles and services.

ACTION TAKEN: Concur. During the course of the audit, action was underway to realign the 1994 and 1995 umbrella case payment schedules with payment requirements for articles and services on order. The action was completed by modification to the umbrella case dated 2 November 1994.

RECOMMENDATION A.2.b.: We recommend that the Office of the Program Manager, Saudi Arabian National Guard (OPM-SANG), request the implementing agency establish payment schedules for all Letters of Offer and Acceptance modifications that accurately reflect the actual anticipated disbursements to the contractors and the DoD.

ACTION TAKEN: Concur. The OPM-SANG has completed action (August 1994) to align the payment schedule on the training subcase of the program. The OPM-SANG has initiated the same action on the management subcase. The expected completion date is 30 June 1995.

RECOMMENDATION A.2.c.: We recommend that the Office of the Program Manager, Saudi Arabian National Guard (OPM-SANG), establish standard operating procedures that specify the data and methodology used to forecast cash requirements and require the implementing agencies review and verify the reasonableness of the forecasted cash requirements.

ACTION TAKEN: Concur. A local standing operating procedure will be competed by 30 June 1995. Actions regarding the review and verification of the reasonableness of the forecasted cash requirements were ongoing during the course of the audit. These reviews resulted in the amendment/modification of payment schedules on several cases. The OPM-SANG forecasting techniques employed during the period of the audit achieved 99% accuracy (1994 forecast of $600,000 and actual of $593,000).

RECOMMENDATION A.2.d.: We recommend that the Office of the Program Manager, Saudi Arabian National Guard (OPM-SANG), establish standard operating procedures for allocating the cash deposits on all Saudi Arabian National Guard cases to ensure accurate reporting of the cash position.

ACTION TAKEN: Concur. Procedures for allocating cash deposits to subcases exist but will be documented more fully. The OPM-SANG will publish a local standing operating procedure for this action by 30 June 1995.

RECOMMENDATION A.2.e.: We recommend that the Office of the Program Manager, Saudi Arabian National Guard (OPM-SANG), review and correct the cash collections reported on the foreign military sales cases to more accurately reflect the actual cash status of those cases.

ACTION TAKEN: Concur. Action was completed during November 1994 to move $15 million excess cash from the Light Armored Vehicle (LAV) logistics support case to the LAV case.

RECOMMENDATION A.3.: We recommend that the Program Manager, Light Armored Vehicles, U.S. Marine Corps Systems Command, advise Office of the Program Manager, Saudi Arabian National Guard, of changes to the Letter of Offer and Acceptance values that could affect the payment schedules and request authorization to modify those values and the supporting payment schedules.

ACTION TAKEN: Nonconcur. We did, in fact, brief the Office of the Program Manager, SANG, regarding the proposed changes (including appropriate payment schedule revisions) to the LOA, and received their approval prior to initiating Modification #3.

POTENTIAL MONETARY BENEFITS: Nonconcur. We disagree with the audit conclusion that nonrecurring costs for the Modernization Program were understated by $1.5 million. As discussed above, the nonrecurring cost rate, $16,723, appearing in DoD FMR 7000.14-R is inappropriate and should not be used. Accordingly, we requested the Defense Security Assistance Agency to further review the LAV nonrecurring cost issue, considering the substantial differences between the SANG and Marine Corps versions of the Command and Control Vehicle. We currently have no basis for projecting any monetary benefits.

FINDING B. Follow-on logistical support Agreement for the Armored Vehicle: The SANG Program Office, in conjunction with the Program Manager, Light Armored Vehicles, U.S. Marine Corps Systems Command, had not ensured that the Marine Corps Logistics Base initiated augmentation of DoD supply stocks to provide follow-on logistical support for the SANG armored vehicle. The equity list prepared by the Marine Corps Logistics Base and approved by the SANG Program Office did not accurately reflect SANG armored vehicle logistical support requirements. As a result, the SANG may not have follow-on spare parts when needed, and the U.S. Marine Corps may incur higher spare parts prices by not combining procurement actions.

RECOMMENDATIONS:

RECOMMENDATION B.1.a.: We recommend that the Office of the Program Manager, Saudi Arabian National Guard (OPM-SANG), request the U.S. Marine Corps Systems Command to update the equity list for Cooperative Logistics Supply Support Arrangement Case SI-P-KAD to reflect Saudi Arabian National Guard armored vehicle support requirements.

ACTION TAKEN: Nonconcur. Initially, it was anticipated that the SANG and Marine Corps LAVs would be compatible and a Cooperative Logistics Supply Support Arrangement (CLSSA) would be the logical solution to repair parts sustainment. However, the SANG and USMC LAV are significantly different. Less than half of the Marine Corps parts is usable on SANG LAV variants. The incompatibility has caused difficulty. The OPM-SANG is presently working to identify and resolve problems on over 3,000 lines of repair parts already shipped by Marine Corps Logistics Bases to the SANG. Although OPM-SANG has resolved most of the issues on these shipments, initiating an agreement to buy more Marine Corps repair parts at this time would not be in the best interest of the SANG. Additionally, credible data on parts for the SANG LAV is not available and candidate lists cannot be properly reviewed and analyzed.

RECOMMENDATION B.1.b.: We recommend that the Office of the Program Manager, Saudi Arabian National Guard (OPM-SANG), request the U.S. Marine Corps Logistics Bases to initiate augmentation of DoD supply stocks for Cooperative Logistics Supply Support Arrangement case SI-P-KAD requirements.

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ACTION TAKEN: Nonconcur. Based on experience to date, the OPM-SANG intends to explore alternative methods of repair parts support. One possible alternative is to use the Army FMS system. This would streamline support for the customer and simplify procedures, regulations, and payments. The results of this analysis will be presented to HQ, SANG for their decision.

RECOMMENDATION B.2.: We recommend that the Program Manager, Light Armored Vehicles, U.S. Marine Corps Systems Command, develop procedures to incorporate SANG support in armored vehicle supply requirements.

Redirected and Renumbered as Recommendation B.1.c. Page 21

ACTION TAKEN: Nonconcur. Draft report, page 16, states the Marine Corps Systems Command and the Marine Corps Logistics Base are responsible for providing initial and follow-on logistical support for the SANG armored vehicles. Also, as noted above, this effort is accomplished through Navy FMS case SI-P-BAA. PM LAV is not among the implementing agencies for case SI-P-BAA. The Office of Program Manager, SANG, and the SANG would have to decide whether the cost of adding overall supply coordination responsibilities to the PM LAV are justified by potential benefits.

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