Audit Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT OF COOPERATIVE LOGISTICS SUPPLY SUPPORT ARRANGEMENTS FOR FOREIGN MILITARY SALES

Report No. 95-031 November 21, 1994

Department of Defense

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Acronyms

AFR	Air Force Regulation
AFSAC	Air Force Security Assistance Center
CLSSA	Cooperative Logistics Supply Support Arrangement
DBOF	Defense Business Operations Fund
DLA	Defense Logistics Agency
FMS	Foreign Military Sales
FMSO	Foreign Military Sales Order
ICP	Inventory Control Point
NAVILCO	Naval International Logistics Control Office
NAVSUP	Naval Supply Systems Command
SAMIS	Security Assistance Management Information System
USASAC	U.S. Army Security Assistance Command

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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November 21, 1994

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE FOR ECONOMIC SECURITY
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Management of Cooperative Logistics Supply Support Arrangements for Foreign Military Sales (Report No. 95-031)

We are providing this final report for your information and use. Comments on a draft of this report were considered in preparing the final report.

Management concurred with all findings and recommendations in the draft report. Management did not comment specifically on the potential monetary benefits or provide dates for some proposed actions. The addressees, except for the Navy, are requested to provide additional comments to the final report as specified in the charts following the recommendations.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Alvin L. Madison, Audit Program Director, at (703) 604-9100 (DSN 664-9100) or Mr. Robert W. Otten, Audit Project Manager, at (703) 604-9177 (DSN 664-9177). Appendix F lists the distribution of this report. The audit team members are listed inside the back cover.

David K. Steensma

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Deputy Assistant Inspector General
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Office of the Inspector General, Department of Defense

Report No. 95-031 **November 21, 1994**
(Project 3FA-0054)

MANAGEMENT OF COOPERATIVE LOGISTICS SUPPLY SUPPORT ARRANGEMENTS FOR FOREIGN MILITARY SALES

EXECUTIVE SUMMARY

Introduction. A Cooperative Logistics Supply Support Arrangement (CLSSA) is an agreement between a Military Department and a foreign military sales customer. Under a CLSSA, the DoD agrees to provide supply support for weapon systems bought from the United States by the foreign customer on a basis equal to support it provides U.S. Forces. For that support, the CLSSA customer agrees to make an equity investment in the DoD inventory system and to pay certain administrative and accessorial charges. The total amount of foreign customers' equity investment in the CLSSA program was about $700 million as of August 1993. Since program inception, in the early 1960s, CLSSA customers have placed requisitions valued at $7 billion in the DoD logistics system.

Objectives. The objectives of the audit were to determine whether the Military Departments provided responsive supply support to foreign military sales customers, to determine whether the DoD had procured and stocked the items agreed on in the CLSSAs, and to examine the adequacy of internal controls associated with executing and administering the financial and logistics aspects of the CLSSA program.

Audit Results. We were unable to determine whether the DoD provided responsive supply support to foreign military sales customers or whether the DoD had used CLSSA investment funds to procure and stock the agreed-on items for customers because of the lack of supply performance information for the program. We had the following specific findings.

o The Army, the Air Force, and the Defense Logistics Agency did not assess supply performance for requisitions made by CLSSA customers. As a result, those DoD activities could not determine whether CLSSA customers received supply support that was comparable to that given U.S. Forces, or whether CLSSA funds were effectively used to procure and stock items in support of the CLSSA program (Finding A).

o The Army and the Air Force did not require CLSSA customers to requisition their pro rata shares of over $186 million in excess DoD inventory procured to meet CLSSA customer agreements. The net amount owed by CLSSA customers for the excess inventory was $130 million ($186 million less $56 million customer equity investment in the CLSSA program). Therefore, the Military Departments will not have $130 million in funds to replenish their stocks and meet future item requirements (Finding B).

o The Air Force did not bill CLSSA customers for equity investments and administrative charges after price increases resulting from the implementation of the Defense Business Operations Fund. As a result, CLSSA customers were underbilled $9.6 million in equity investments and administrative charges (Finding C).

o Conversely, the Military Departments billed CLSSA customers for storage fees that were included in Defense Business Operations Fund prices. That resulted in overbillings of at least $8.4 million in storage fees (Finding D).

Internal Controls. The audit identified material internal control weaknesses. The Army, the Air Force, and the Defense Logistics Agency had not established supply performance reports to ensure CLSSA customers received supply support comparable to that given U.S. Forces (Finding A). The Army and the Air Force did not have a procedure that required CLSSA customers to requisition pro rata shares of their excess stocks held in DoD inventories (Finding B). The Air Force did not renegotiate customers' equity investments on a 6-month basis, or when there were significant changes in the financial or logistics values of the cases (Finding C). The Air Force did not have adequate controls to preclude overbilling CLSSA customers for storage fees that were based on total case values instead of inventory values (Finding D). The internal controls assessed are discussed in Part I of this report. The report discusses the adequacy of management's implementation of the DoD Internal Management Control Program.

Potential Benefits of Audit. We identified potential monetary benefits associated with the audit. The Army and Air Force will have available $130 million in funds from the drawdown of excess inventory held for foreign customers to replenish DoD inventory stocks to meet future item requirements. Also, the Air Force should collect $9.1 million in equity investments and $0.5 million in administration charges from 21 CLSSA customers based on the case values. See Appendix D for a summary of the potential monetary and other benefits resulting from the audit.

Summary of Recommendations. We recommend that the DoD issue policy requiring evaluation of the supply support effectiveness of the CLSSA program and that the Army and the Air Force develop procedures that require a customer's prorated share of excess stock to be identified and requisitioned. We also recommend that the Air Force perform semiannual renegotiations of CLSSA cases to allow for timely adjustment of any increases in case values. We recommend recalculation of the amount of storage overbilled to CLSSA customers after the implementation of the Defense Business Operations Fund and adjustment of CLSSA customers' accounts accordingly.

Management Comments. The Assistant Secretary of Defense (Economic Security), the Army, the Navy, and the Air Force generally concurred with the findings and recommendations. While we addressed no recommendations to the Defense Logistics Agency, the Agency provided comments. The Defense Logistics Agency concurred with all the report findings and recommendations and stated the report should require the Defense Logistics Agency's coordination and concurrence as the Military Departments resolve the issues identified in Findings B and C. A complete discussion of management comments is in Part II of the report, and the complete text of managements' comments is in Part IV of the report.

Audit Response. The Assistant Secretary of Defense (Economic Security), the Army, the Navy, and the Air Force comments are responsive to the findings, recommendations, and internal control weaknesses. The Army, the Navy, and the Air Force should provide comments to the final report that specifically address the potential monetary benefits. Dates proposed actions are to be completed should be supplied by all except the Navy.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

Cooperative Logistics Supply Support Arrangements Program. A Cooperative Logistics Supply Support Arrangement (CLSSA) is an agreement between a Military Department and a foreign military sales (FMS) customer. It contains the terms and conditions of the DoD supply support provided on weapon systems bought by the FMS customer. Supply support is to be provided to FMS customers on an equal basis with support provided the U.S. Forces. The DoD considers use of CLSSAs an effective means of providing spares, repair parts, and secondary items for U.S. defense equipment sold to allies or friendly countries.

CLSSA Policy. Under a CLSSA, the FMS customer invests funds in the DoD supply system to provide for future routine replenishment to the FMS country's stocks. CLSSA customers forecast data on item consumption, and the Military Departments use that data to compute world-wide requirements. The supply support offered to the CLSSA customer is executed in two stages through use of two separate types of Foreign Military Sales Orders (FMSOs).

FMSO I. The FMSO I is the Letter of Offer and Acceptance used by an FMS customer to purchase a financial equity in a specified list of items. That list is agreed on by the Military Departments and the CLSSA customer. Under a line-item management approach, the items listed are to be procured and stocked in the DoD logistics system. The FMSO I defines the customer's forecasted requirements and financial responsibilities. FMS customers' requirements are considered, along with the Military Departments' requirements, when determining overall requirements for a particular item. The Military Departments use the cash deposits (equity investments) made by customers, which equal approximately 30 percent of the value of the items on the FMSO I, to procure sufficient stocks to maintain 5 months of inventory in the DoD logistics system.

FMSO II. An FMSO II case allows for CLSSA customers to withdraw stocks procured by the Military Departments under an FMSO I. An FMSO II is an annual case and contains an estimated dollar value of the customer's anticipated purchases. That dollar amount is forwarded to the Military Departments, who use historical consumption data to replenish and maintain the stock levels for effective supply support.

CLSSA Regulations. DoD Directive 2000.8, "Cooperative Logistics Supply Support Arrangements," February 12, 1981, gives guidance that defines and implements cooperative logistics arrangements between CLSSA customers and the Military Departments. The financial management of a CLSSA is governed by DoD 7000.14-R, volume 15, "Financial Management Regulation," March 1993.

CLSSA Program Value. The total dollar value of open FMSO I cases for CLSSAs was $1.8 billion. That included more than 1,200 open cases involving 41 countries for the Army, 26 countries for the Navy, and 49 countries for the

Air Force. Since the CLSSA program began in the early 1960s, FMS customers have used FMSO IIs to requisition items costing over $7 billion to support weapon systems purchased.

Objectives

The overall objectives of this audit were to determine whether the Military Departments provided responsive supply support to CLSSA customers and whether the DoD procured and stocked the materiel agreed on in the quantities specified in the CLSSAs. We also evaluated the adequacy of internal controls over the execution and administration of the financial and logistics aspects of the CLSSA program and determined whether the Military Departments complied with existing laws and regulations.

We were unable to determine whether the Military Departments provided responsive supply support because comparative supply performance measures did not exist. We were unable to determine whether the DoD procured and stocked the items called for in the CLSSAs due to lack of performance measures and another scope limitation described in "Scope and Methodology" below.

Scope and Methodology

Elements of Scope. We reviewed each Military Department's method of developing FMSO I financial and logistics requirements. We looked at procedures for identifying and prorating excess items in DoD inventory in response to CLSSA customers' demands that did not materialize. We examined 121 FMSO I cases with a value of $185.6 million to determine the FMS customers' drawdown liability for excess DoD inventory. We reviewed the Military Departments' procedures for negotiating changes in customer requirements and the accuracy of the financial adjustments made to the FMSO I cases. We also reviewed 21 foreign countries' FMSO I cases to determine if FMS customers were underinvested in the CLSSA program. We examined billing records of the Military Departments for 173 FMSO II cases covering storage fees for the period October 1984 through December 1993. We also reviewed methods the Military Departments and the Defense Logistics Agency (DLA) used to measure and track CLSSA supply performance.

Scope Limitations. We could not fully ascertain that the customers received support comparable to that given the U.S. Forces because DoD performance measures did not exist. Also, the existing CLSSA financing procedures did not provide adequate audit trails to show that customers' FMSO I investment funds were used to procure any of the items listed in FMSO I cases. CLSSA regulations do not require that customers' funds be used to procure only those items listed in FMSO I cases. Therefore, the Military Departments combined customers' investment funds with the Military Departments'

procurement funds, making it impossible to determine the quantity and type of items purchased with the customers' FMSO I investment funds. Without supply performance data to evaluate, we could not ascertain any adverse effect of combining funds.

We did not evaluate the accuracy of computer-processed data generated by the Military Departments, the DLA, or by the Defense Finance and Accounting Service Denver Center. Nothing came to our attention as a result of the audit procedures that caused us to doubt the acceptability of the data, and we believe the recommendations in the report are valid. We also did not use statistical sampling procedures to conduct this audit, but we judgmentally selected FMSO II cases for which storage fees were billed after October 1, 1990.

Auditing Time Period, Standards, and Locations. This program audit was performed from May through December 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense. The audit included tests of internal controls that we considered necessary and tests of management's compliance with laws and regulations. Appendix E lists the organizations we visited or contacted.

Internal Controls

The Army and the Air Force had not identified the CLSSA program as a separate assessable unit when preparing vulnerability assessments on their operations. However, the Navy established CLSSA as a separate assessable unit in 1992 as a result of a recommendation made by the Naval Audit Service. The Army and the Air Force identified assessable units by functional area, including FMS, financial, and supply. They performed risk assessments accordingly. The Army and the Air Force had not performed any vulnerability assessments on the CLSSA program that would have identified the internal control weaknesses identified here.

Internal Controls Assessed. We evaluated the internal controls that the Military Departments and the DLA used to ensure FMS customers received responsive supply support under the CLSSA program. Specifically, we evaluated the adequacy of internal controls to determine whether:

o policies and procedures were developed and implemented for CLSSA customers to draw down their pro rata shares of excess items,

o FMSO I renegotiation procedures were established and followed as significant changes occurred in CLSSA customer requirements,

o CLSSA customers paid for storage costs that were also recouped by DoD in the unit price of the requisitioned materiel,

o CLSSA customers were assessed and made the appropriate equity investments in the DoD logistics system, and

o weaknesses existed in the CLSSA assessments and equity investments.

Internal Control Weaknesses Identified. We identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We reviewed the DoD Internal Management Control Program as it pertained to the audit objectives for each Military Department's security assistance program. The Army, the Air Force, and the Defense Logistics Agency had not established supply performance reports to ensure that CLSSA customers received supply support comparable to that given U.S. Forces (Finding A). The Army and the Air Force did not have adequate procedures to require CLSSA customers to requisition their pro rata shares of $186 million of excess items in DoD inventory within prescribed time frames (Finding B). Procedures were not being followed to negotiate price increases on the FMSO I for CLSSA items (Finding C). The Air Force did not have adequate controls to preclude overbilling CLSSA customers for storage fees that were based on total case values instead of inventory values (Finding D). Recommendations A., B.1.b., B.2.b., C.1., and D.2., if implemented, will correct the internal control weaknesses. For monetary benefits and other benefits associated with the audit, see Appendix D, "Summary of Potential Benefits Resulting From Audit." Copies of this report will be provided to the senior officials responsible for internal controls in the Military Departments for their use in preparing Annual Statements of Assurance.

Prior Audits and other Reviews

Prior Audits. The Inspector General, Department of Defense, had performed no audits on the CLSSA program within the past 5 years. The audit agency of each Military Department issued one related audit report.

Army. Army Audit Agency Report No. SR 92-11, "Repair Parts Support to Security Assistance Customers," April 1992, showed that although the Army asked CLSSA customers to make equity payments for maintaining more than a 12-month on-hand inventory for many items, the Army allowed the customers to order only a 12-month quantity on FMSO II cases for CLSSA items. To reduce the amount customers had to invest for on-hand inventory, the Army revised its computation of recommended on-hand inventory.

Navy. Naval Audit Service Report No. 043-C-92, "System Support Buy-Out and Excess Materiel Sales Processes," March 24, 1992, showed that FMSO I support arrangements were not renegotiated as required when the actual demand was less than 75 percent of the demand originally estimated. Also, excess repair parts were inappropriately sold to FMS customers at discounted prices. The Navy agreed to renegotiate with customers when the difference between the estimated and actual demands was 25 percent or greater. The Navy

also agreed to correct billing prices on repair parts sales representing the difference between billing at full price and billing at discounted prices.

Air Force. Air Force Audit Agency Report No. 0296214, "Cooperative Logistics Supply Support Arrangement (CLSSA) Contract Administration Services Surcharges," August 1990, showed that surcharges were not applied to $497 million of FMSO II requisitions. As a result, the U.S. Government could lose $10.9 million in uncollected surcharges. The Air Force agreed that once a contract administration services policy was officially determined, a decision to retroactively apply the surcharge would be sought from the Defense Security Assistance Agency.

Other Reviews. At the time of our audit, an Army Process Action Team was reviewing CLSSA financial and logistics policies and procedures and automated systems. The Army Process Action Team had developed, and was in the process of implementing, an automated drawdown process to require CLSSA customers to requisition their pro rata shares of excess DoD inventory items. Our audit work was completed before the Army Process Action Team implemented an automated drawdown process. Therefore, we were not able to determine the reliablity and effectiveness of the revised automated drawdown process.

Also at the time of our audit, the Air Force had designated a "Tiger Team" to review CLSSA and recommend improvements to financial and logistics policies and procedures. Specifically, the Tiger Team addressed the restructuring of the CLSSA program, FMSO I pricing and investing, and drawdown requisitioning.

Other Matters of Interest

In the Defense Logistics Agency comments to the report, the Agency raised questions relative to inventory shortages and underfunding of CLSSA cases. Since customers will be requisitioning excess stock, inventory shortages should not occur; therefore, the underfunding of CLSSA cases is not a factor.

Part II - Findings and Recommendations

Finding A. Performance Measures

The Army, the Air Force, and the Defense Logistics Agency (DLA) did not compare fill rates for programmed Cooperative Logistics Supply Support Arrangements (CLSSAs) and DoD customers' requisitions for managed items to determine whether CLSSA customers received supply support comparable to that provided to U.S. Forces. DoD policy did not prescribe standard supply performance reports to evaluate the effectiveness of the CLSSA program in supporting FMS customers' materiel needs. Studies had recommended that DoD implement a system of standard supply performance reports, but those recommendations were not implemented. As a result, the Army, the Air Force, and the DLA could not determine whether CLSSA customers received supply support that was commensurate with their $700 million investment in the DoD logistics system.

Background

Requisition Processing. The inventory control points (ICPs) are organizations of the Military Departments and the DLA that are responsible for worldwide inventory management of certain assigned defense items. Depending on the assigned priority of an FMS customer's requisition, the ICP will fill the requisition and ship the materiel. Each CLSSA requisition is edited by the ICP and processed as a "programmed" or "nonprogrammed" requisition. Programmed requisitions are to be given the same level of support as U.S. Forces' requisitions having the same requisition priority. Requisitioned items are eligible for programmed treatment if sufficient time has elapsed for the ICP to purchase and receive the materiel financed with FMSO I investment funds. The Army and the Air Force also process their CLSSA requisitions against authorized annual order quantity limits established for managed items and process those requisitions that exceed established limits as nonprogrammed. Nonprogrammed requisitions are filled by the ICP only if its on-hand quantities are above the stock reorder levels. Otherwise, the ICP backorders the requisitioned items.

Comparable Level of Support. DoD Directive 2000.8, "Cooperative Logistics Supply Support Arrangements," February 12, 1981, requires that CLSSA customers receive the same level of support for programmed items as DoD customers with comparable requisitioning priorities. DoD Manual 4000.25-3-M, "Military Supply and Transportation Evaluation Procedures," prescribed standard performance measures and standard reports for use by the Office of the Secretary of Defense to evaluate the responsiveness of Military Department and DLA wholesale supply systems in processing and filling requisitions for DoD and FMS customers. However, those reports did not contain information that could be used to determine whether CLSSA customers received supply support comparable to that given the U.S. Forces. DoD Manual 4000.25-3-M did not give procedures for

separate reporting of statistics on the supply availability for CLSSA requisitions or for standard reports that compare statistics on CLSSA programmed requisitions to requisitions for U.S. Forces.

CLSSA Performance Measures

Supply performance measures are the means to determine whether CLSSA customers receive support comparable to that given the U.S. Forces. At the time of the audit, such performance measures with related standards did not exist. CLSSA customers have deposited about $700 million on their FMSO I cases to buy DoD supply system items and to participate equally in that system. Therefore, the DoD needs to establish standard supply measures and reports for the Military Departments and the DLA to ensure that CLSSA customers receive support comparable to that given the U.S. Forces.

Supply Performance Reporting. The method and extent of monitoring and reporting of programmed requisitions for CLSSA customers varied between the Military Departments and the DLA. The Navy was the only Military Department that compared fill rates for requisitions that it processed for CLSSA customers with fill rates it processed for U.S. Forces.

Army. The Army monitored programmed requisitions in two ways. The Army monitored fill rates (percentage of items shipped within 30, 60, 90, or more days from receipt of a requisition) for requisitions processed by the ICPs of the Army and the DLA. The Army also measured performance on CLSSA programmed requisitions based on the percentage of materiel release orders that was issued within standard time frames for requisitions processed by the ICPs of the Army and the DLA. The percentage was measured against an on-time processing goal of 85 percent. The Army also used the same goal to measure supply support for Army requisitions. Army CLSSA program managers did not obtain from ICPs the percentages of Army requisitions processed on time. To identify support problems, the Army determined whether fill rates or rates for on-time processing of materiel release orders declined between monitoring periods. However, those analyses did not show whether CLSSA customers received support comparable to the Army for programmed requisitions.

Navy. The Navy compared fill rates for programmed CLSSA requisitions and for Navy requisitions on a monthly basis. The comparative fill rates were based on the percentage of requisitions filled immediately from available stock. The Navy monitored the fill rates for major categories of Navy-managed consumable and repairable items. The fill rates were not measured against a goal. Potential problems in supply support to FMS customers were identified by the Navy if fill rates for CLSSA requisitions deviated from that of the Navy by more than 3 percent.

Air Force. The Air Force routinely monitored fill rates for programmed CLSSA requisitions on a monthly, quarterly, and annual basis. Fill rates for

CLSSA requisitions were based on the percentage of shipments made within 30, 60, 90, and 180 days from receipt of the requisitions by ICPs of the Air Force and the DLA. However, the Air Force did not compare fill rates for programmed CLSSA requisitions to those for the Air Force or against a goal.

DLA. The DLA also did not monitor its supply performance on CLSSA programmed requisitions. Reports from the DLA supply data base did not separate data for CLSSA programmed and nonprogrammed requisitions. However, at the time of our audit, CLSSA program officials at the DLA stated that they were developing standard performance measures for comparison of support provided by the DLA to FMS customers and U.S. Forces.

Development of Supply Performance Measures. CLSSA program officials in the Army and the Air Force are concerned that reductions in the DoD inventory and supply work force stemming from budget constraints can adversely impact the supply support for CLSSA customers. The development of DoD standard measures to compare supply performance could provide useful management information. For example, restrictions imposed by Congress that give the DoD authority to spend only $0.65 of every inventory sales dollar to replenish DoD materiel requirements will reduce the amount of stock available to both DoD and CLSSA customers, even though Section 334 of the FY 1994 Defense Authorization Act excludes FMS from the limitation. Reduced inventories, combined with generally higher requisition priorities for DoD customers, increase the likelihood that DoD customers will use stock purchased to support CLSSA requirements. Therefore, CLSSA customers could be impacted by reduced item availability, even though they have fully financed their inventory requirements and the materiel has been procured and received in DoD inventories.

Prior CLSSA Studies. Past studies[1] have recommended development of standard reports for CLSSA supply performance, including reports to compare supply support for CLSSA programmed requisitions to support provided to the U.S. Forces. Officials in the Office of the Assistant Deputy Under Secretary of Defense for Cooperative Support Programs stated that DoD Directive 2000.8 was not revised based on those recommendations because the Military Departments and the DLA believed the CLSSA program had not matured enough to warrant separate performance reporting. Officials also said supply data bases would have to be modified to produce the needed performance data.

Growth of CLSSA Program. The combined annual value of FMSO II cases grew from $1 billion in June 1984 to $7 billion in December 1993. During FY 1993, the Army and the Navy processed about 16,000 CLSSA programmed requisitions and the DLA processed about 137,800 programmed requisitions for items on Army and Navy CLSSA cases. During CY 1993, the Air Force and the DLA processed about 281,600 programmed CLSSA requisitions for items

[1]Logistics Management Institute Report, "Proposed Uniform Reporting Specifications for Cooperative Logistics Supply Support Arrangements," December 1980, and Logistics Systems Analysis Office Study, "Cooperative Logistics Supply Support Arrangements," August 1984.

on Air Force CLSSA cases. Those workload statistics are indicative of growth in the CLSSA program. The data to develop standard CLSSA performance measures are already available in the logistics data bases of the Military Departments and the DLA.

Recommendation, Management Comments, and Audit Response

We recommend that the Assistant Secretary of Defense (Economic Security) revise DoD Directive 2000.8, "Cooperative Logistics Supply Support Arrangements." The revision should require the Military Departments and the Defense Logistics Agency to implement supply performance reporting for Cooperative Logistics Supply Support Arrangements customers, including the establishment of performance objectives and standards, to allow for comparison of the effectiveness of the supply support provided to Cooperative Logistics Supply Support Arrangements customers with that provided to U.S. Forces.

Assistant Secretary of Defense (Economic Security) Comments. The Assistant Secretary of Defense (Economic Security) concurred with the recommendation and will initiate appropriate performance measures in a revision to DoD Directive 2000.8, "Cooperative Logistics Supply Support Arrangements." Those performance measures will include performance objectives and standards.

Audit Response. Management comments are responsive to the finding and recommendation. The Assistant Secretary of Defense should provide an estimated completion date for action to revise DoD Directive 2000.8 when responding to the final report.

Army Comments. The Army replied that various audits in the past 10 years have substantiated that the logic used within the Commodity Command Standard System for Army managed materiel met the direction of DoD Directive 2000.8. Further, the Army stated that our audit did not investigate whether the Army had procured and stocked items agreed to on the CLSSA. The Army also stated that since it is meeting its 85 percent requisition fill rate, it has demonstrated that the Army is stocking the agreed-to items for CLSSA customers and standard supply performance measures are not needed.

Audit Response. We did not take issue with the logic of DoD Directive 2000.8, which directs that the quality of support provided to CLSSA customers shall be the same as that provided to U.S. Forces within assigned requisitioning priorities. The audit attempted to determine whether the Military Departments procured and stocked the items on the Foreign Military Sales Order I that are negotiated with customers. However, it was impossible from official records for the audit team to determine whether the Army, the Navy, and the Air Force procured items in the quantities listed on the CLSSA customers' Foreign Military Sales Order I's. The Military Departments

comingled the customers' investment funds with Military Departments' funds when procuring items for stock. Because funds are comingled, the Military Departments may be using CLSSA funds to procure materiel to satisfy their own requirements. In regard to the 85-percent fill rate, the Army claims the audit team clearly did not understand the performance measurements the Army uses to evaluate stockage. The Army stated actual performance for CLSSA has averaged 86.6 percent for the past 28 months. The audit determined that the percentage was mainly attributed to the availability of items that are currently in long supply as a result of the DoD downsizing policy. Performance percentages compared to an established objective and standard are more meaningful to measure the effectiveness of supply support to CLSSA customers. The Assistant Secretary of Defense (Economic Security) supports our position based on his comments to this finding.

Navy Comments. The Navy stated that Naval Supply Systems Command had implemented a system of reports that compares the effectiveness of supply support provided to U.S. Navy customers with that provided to CLSSA customers for like weapon systems.

Audit Response. We acknowledged in the report that the Navy has a system to compare fill rates. However, the Navy had not established goals to measure the effectiveness of supply performance to CLSSA customers.

Air Force Comments. The Air Force also provided comments and stated they generally agree that standard supply performance measures should be implemented, but doing so is probably not worth the added cost.

Audit Response. The Air Force provided no cost data or analysis showing that implementing standards and objectives for supply performance measurement reporting will add costs to the CLSSA program. The Air Force already has voluminous supply data in its Security Assistance Management Information System. We believe the proposed action to use the data to meet the supply performance measures, to be implemented by the Assistant Secretary of Defense (Economic Security), can be accomplished in a cost-effective manner.

Response Requirements for Each Recommendation

A response to the final report is required from the Office of the Assistant Secretary of Defense for the item indicated with an "X" in the chart below.

		Response Should Cover:		
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date
A.	Assistant Secretary of Defense (Economic Security)			X

Finding B. Drawdown of Excess Stock

The Army and the Air Force had not required Cooperative Logistics Supply Support Arrangement (CLSSA) customers to requisition (buy) their pro rata shares of excess stock in DoD inventory to include items supported by the DLA (Defense Logistics Agency). The situation occurred because Army and Air Force CLSSA policy did not prescribe specific time frames in which customers had to requisition excess items, including those assets managed by the DLA and stocked in support of Military Department-generated CLSSA demands. As a result, about $186 million in excess items that the Army, the Air Force, and the DLA procured to meet anticipated requirements of foreign countries were not requisitioned by CLSSA customers. Army, Air Force, and DLA funds of $130 million were used to buy those items, which when repaid can be used to fulfill immediate or future needs of DoD customers.

Background

DoD Directive 2000.8, "Cooperative Logistics Supply Support Arrangements," February 12, 1981, requires that excess stock created by anticipated CLSSA customer demands that did not materialize will be the responsibility of and chargeable to those countries. Army Regulation 12-8, "Security Assistance Operations and Procedures," December 21, 1990, and Air Force Regulation 130-1, "Security Assistance Management," November 6, 1987, require CLSSA customers to requisition their excess stocks in DoD inventory. Neither regulation sets time frames in which CLSSA customers must requisition their pro rata shares of the excess stocks in DoD inventory that were purchased for their anticipated demands.

DoD CLSSA Financing Concept. The DoD CLSSA financing concept requires Military Departments to recoup the costs incurred in providing supply support to CLSSA customers. Military Departments and foreign military sales (FMS) customers initiate Foreign Military Sales Order (FMSO) I agreements that represent the FMS customers' investment in secondary items (spare parts and components) to be stocked in the DoD supply system. The FMS customers subsequently requisition those items to replenish their own stocks stored in their countries. The Army and the Air Force require CLSSA customers to deposit amounts equal to about 30 percent of the FMSO I case value for the procurement of FMSO I inventory materiel requirements. The Army and the Air Force, therefore, finance 70 percent of the cost of procuring CLSSA materiel requirements. The Army and the Air Force are reimbursed for the cost of procuring the FMSO I items when CLSSA customers are billed for FMSO I items that they requisition on an FMSO II case. The CLSSA customer, therefore, is financially liable for its FMSO I-defined requirements. When the CLSSA customer decreases the quantity of an item needed or removes the item from the FMSO I, the customer's financial

obligation remains for items that have not been procured. The customer is still required to requisition the items in the quantities listed on the FMSO I within a reasonable period of time.

Requisitioning and Maturity Period. The CLSSA customer is normally required to wait until the item is procured and received by the Military Department before requisitioning the items listed on the FMSO I for the first time. That period of time is referred to as the initial maturity period, and it enables the Military Department to use the customer's equity investment (cash deposit) to procure and stock the customer's FMSO I requirements. The FMSO I case does not expire until it is terminated by the Military Department or the foreign country. Since the inception of the CLSSA program, very few FMSO I cases have been terminated or closed by Military Departments or FMS customers.

Computations of Requirements. FMSO I items are included as an additive factor in computing the total DoD buy requirements. Those requirements must satisfy DoD and FMS customer demands for the items the Military Departments manage. Using the results of those computations, information about on-hand inventory, and information on items due in from vendors, the inventory manager determines the quantity of items to buy to meet anticipated demand. If CLSSA customers do not requisition items in the agreed-on quantities, usually within 12-17 months after the item is received in inventory, the item could become excess to DoD requirements. CLSSA customers should then be required to submit requisitions for the excess quantities that were purchased by the DoD based on the customers' FMSO I agreements.

Army CLSSA

Although the Army's Commodity Command Standard System data base identifies customers' excess stock drawdown liabilities under CLSSAs, the Army did not establish time frames for customers to submit requisitions to draw down their pro rata shares of excess inventories. As of December 1, 1993, Army records showed 34 CLSSA customers had a total excess stock drawdown liability of about $75.1 million (Appendix A, Table 1). Because of Army initiatives to reduce the size of its inventory, the Army was in the process of implementing a procedure that establishes suspense dates for CLSSA customers to requisition excess items in inventory.

Identification of Drawdown Liability. The Army's CLSSA renegotiation registers show Army-recommended stock levels for each item on the FMSO I case based on the customer's 24-month demand history for the items. During annual FMSO I renegotiations, the Army provides the renegotiation registers to CLSSA customers for review. When the Army and CLSSA customers agree to recommended stock levels, Army item managers' records are updated with those requirements.

Unrequisitioned Items. When CLSSA customers do not requisition items at the agreed-to levels, the Army computes the value of the excess inventory for which the customer is liable and provides the data to customers on renegotiation registers. Army procedures allow customers to submit requisitions at any time to liquidate their recorded drawdown liabilities for excess inventory items. In the past, however, the Army had required customers to submit drawdown requisitions only for items that were obsolete or for FMSO I items that were not requisitioned at termination of the CLSSA case. As a result, the Army expended funds to buy and stock FMSO I items for which there was little or no demand from CLSSA customers.

Automatic Drawdown Process. The Army plans to initiate a new automatic stock drawdown process. The process will allow customers from 6 to 18 months to issue requisitions and draw down any liability for excess stocks. If customers do not submit requisitions within those time frames, the Army supply system will generate and process drawdown requisitions on behalf of the customer. The Army decided on an 18-month time period because several CLSSA customers had substantial drawdown liabilities that had accrued over several years, and the Army wanted to provide those customers with sufficient time to budget funds to liquidate those accumulated liabilities.

Delays in Implementing the Process. The Army had planned to implement the automatic drawdown process in November 1991, May 1992, and July 1993. However, the Army did not meet those dates. Army CLSSA program managers said that the schedule slippages were due to computer programming requirements and efforts of the Army to make the process as equitable to CLSSA customers as possible. The Army Security Assistance Command notified customers in a December 21, 1993, letter that the Army was finalizing its plan to implement the excess stock drawdown process, but the Army did not specify an implementation date.

Updating Policies and Procedures. Army Regulation 12-8 had not been updated to incorporate the policy on the automatic drawdown process at the time of our audit. Neither had the Army drafted updates to Army Regulation 12-8. The Army had drafted but not issued instructions for CLSSA customers explaining how to submit drawdown requisitions under the automatic drawdown process. The Army CLSSA program manager stated that the Army was in the process of drafting operating procedures for use by inventory managers.

Air Force CLSSA

Identification of Drawdown Liability. The Air Force was not determining CLSSA customers' drawdown liability for excess inventories semiannually as required by Air Force Regulation 130-1, "Security Assistance Management," November 6, 1987. The Air Force did not require customers to draw down their pro rata shares of excess DoD inventory until all or part of a CLSSA case was terminated. The regulation states that an FMSO I case is updated through semiannual renegotiations based on the CLSSA customer's demands, the rate of

inflation, and changes in investment items and quantities made by the CLSSA customer. However, the Air Force had not routinely conducted any renegotiating procedures since January 1, 1991, unless renegotiation was requested by the FMS customer (Finding C). It is during the semiannual renegotiating process that a CLSSA customer's drawdown liability is to be determined and the financial obligation of the FMSO I case updated.

Unrequisitioned Items. As of April 1993, 43 foreign countries had more than 7,500 defined requirements for stock items listed in FMSO I cases that had not been requisitioned in the past 4 years. Those items were valued in excess of $110.6 million (Appendix A, Table 2). At the time the FMSO I's were signed and those requirements were included in the computations of Air Force requirements, the CLSSA customers paid about 30 percent of the value of the FMSO I materiel requirements for stock on hand in the DoD inventory (approximately $33.2 million). The CLSSA customers' on-order portion of materiel requirements of $77.4 million was financed with Air Force funds. The $77.4 million represents the cost incurred by the Air Force to buy items in the FMSO I that CLSSA customers planned to requisition.

Planned Changes to CLSSA Program. The Air Force Security Assistance Center was working toward a goal to make CLSSA more efficient and cost effective. Air Force Security Assistance Center officials anticipated that CLSSA customers' drawdown liabilities for unrequisitioned excess stocks will be resolved, for the most part, through demands for the FMSO I items and through pooling of CLSSA customers' requirements.

We are not making a recommendation concerning the renegotiation process in this finding, but have addressed the issue in Finding C.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commander of the U.S. Army Security Assistance Command:

a. Require Cooperative Logistics Supply Support Arrangements customers to issue requisitions to draw down the $75.1 million FMSO I liability for excess stocks in the Services and the DLA inventory.

b. Revise Army Regulation 12-8, "Security Assistance Operations and Procedures," to establish time frames for customers to draw down their pro rata shares of their excess stock generated by the DoD commitment to the Cooperative Logistics Supply Support Arrangements program.

Army Comments. The Army concurred in principle with Recommendation B.1.a. and stated that it had issued a series of letters beginning in December 1993, to start the drawdown program for excess CLSSA stock in

DoD inventory. The initial stock drawdown lists were sent to 31 customers in February and March 1994, and the countries were advised of the date the drawdown program would begin.

The Army concurred with Recommendation B.1.b. and stated that because the stock drawdown program is still in its start-up phase, changes to Army Regulation 12-8 would be premature without the technical details that have yet to be gained from the drawdown procedures.

Audit Response. The Army comments to Recommendations B.1.a. and B.1.b. are responsive. However, management did not provide comments on the proposed monetary benefits and should provide that information in comments to the final report. The Army stated that time frames for the initial drawdown quantities were established well in advance of the audit. The Army is commended for that action. However, the Army's initial drawdown lists for the excess CLSSA stocks were not issued until the February and March 1994 time frames, almost 5 months after our audit was completed. We request the Army provide the date the drawdown of excess CLSSA stocks will be completed when responding to the final report.

2. We recommend that the Commander of the Air Force Security Assistance Center:

a. Require Cooperative Logistics Supply Support Arrangements customers to issue requisitions to draw down the $110.6 million FMSO I liability for excess stocks in Military Department and DLA inventories.

b. Revise Air Force Regulation 130-1, "Security Assistance Management," to establish specific time frames for customers to draw down their pro rata shares of excess stock generated by the DoD commitment to the Cooperative Logistic Supply Support Arrangements program.

Air Force Comments. The Air Force concurred with Recommendation B.2.a. and stated that the Air Force Security Assistance Center concluded a redesign of its Cooperative Logistics Program and, as of January 1994, began to clear the $110 million of excess stock levels identified in the audit. With recent software changes, future excess inventories will be tagged immediately and action initiated with the CLSSA customer to adjust the CLSSA customers' liabilities. The Air Force Security Assistance Center has set a 6-year goal to accomplish the drawdown of inventories recommended in the audit, and stated 6 years is needed to accomplish the tasks in an orderly fashion.

The Air Force concurred with Recommendation B.2.b and stated that under the revised Cooperative Logistics Program, the Security Assistance Management Information System had been programmed to initiate action to draw down excess inventories. If a customer has not ordered an item within 2 years, action will be taken to remove that item from inventory. These procedures were initiated in January 1994. The recent update to Air Force Manual 67-1, volume IX contains new guidance on reducing inventories and clearing excess inventory liabilities.

Audit Response. The Air Force comments to Recommendation B.2.a. are partially responsive. Management did not provide comments on the proposed monetary benefits and should provide that information in comments to the final report. The Air Force stated in its response to Recommendation B.2.a. that it began to clear excess stock in January 1994 and had already made software changes that would immediately tag and initiate customers' drawdown of excess stock. Therefore, it is not clear why it will take 6 years to accomplish the drawdown of the excess stock identified. We request the Air Force reconsider the estimated completion date and provide a revised date in comments to the final report.

The Air Force comments to Recommendation B.2.b. are fully responsive.

Response Requirements for Each Recommendation

Responses to the final report are required from the Army and the Air Force for the items indicated with an "X" and for the related issues listed in the chart below.

		Response Should Cover:			
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues*
B.1.a.	Army			X	M
B.1.b.	Army			X	IC
B.2.a.	Air Force			X	M

* IC = material internal control weakness.
M = monetary benefits.

Finding C. Renegotiation of Foreign Military Sales Order I Cases

The Air Force Security Assistance Center (AFSAC) did not bill Cooperative Logistic Supply Support Arrangement (CLSSA) customers for increases in value of FMSO I cases. The condition occurred because the AFSAC suspended renegotiations of most FMSO I cases in January 1991, pending resolution of pricing issues related to the inclusion of FMSO I investment (repairable) items in the Defense Business Operations Fund (DBOF). As a result, 20 CLSSA countries have FMSO I cases with stock items that are underpriced by about $31 million. Therefore, those countries owe the U.S. Government $9.6 million in equity investments and FMS administrative charges.

Background

Air Force Regulation (AFR) 130-1 states that the FMS customer's financial liabilities and equity investment requirements under a CLSSA are specified in the FMSO I case. The customer is financially liable for 100 percent of the FMSO I case value. The equity investment requirement in dollars represents the customer's investment in the DoD logistics system and is computed as 5/17 (approximately 30 percent) of the FMSO I case value. That figure represents 5 months average on-hand stock availability divided by an average procurement lead time of 17 months. The equity investment is to be used to augment DoD inventories (stocks) in anticipation of future CLSSA customer demands. For Air Force-managed CLSSA cases, the CLSSA customer specifies the items, the stock level quantities to be supported, and the dollar amount of support.

Renegotiation Requirement. AFR 130-1 states that an FMSO I case should be financially updated semiannually through renegotiation. Renegotiation is the financial adjustment of the FMSO I case and is necessary to allow for inflation and customer changes to item requirements. An Air Force-managed FMSO I case is written in perpetuity and is renegotiated to bring the case financial value in line with the current status of the case.

Renegotiation Procedure. At renegotiation, the Security Assistance Management Information System (SAMIS)[2] computes the dollar value of support received by the customer for consumable items during the past 24 months. The SAMIS also is used to compute the dollar value of customer changes to stock item requirements since the last renegotiation of the case. The FMSO I Letter of Offer and Acceptance is updated to reflect the SAMIS values, and the customer is required to pay 5/17 of the increase in the FMSO I case

[2]SAMIS is the Air Force management information computer system used for FMS management, requisition routing, and control.

value, plus a 5 percent administrative charge on the dollar value increase. The Military Departments use the additional equity investment by the foreign country to augment inventories with the new customer requirements.

Renegotiations Suspended

FMSO I Valuation. Before October 1, 1992, investment items on FMSO I cases were valued at the last acquisition cost. For example, if an item was last procured in 1985, then the price in the DoD supply catalog was the 1985 price. On October 1, 1992, all investment items were included in the DBOF. Under the DBOF, all prices are maintained at current-year levels. On October 1, 1992, all FMSO I prices were increased to current-year prices. The AFSAC estimated that prices for investment items significantly increased by an estimated 25 to 42 percent for some older weapon system components. CLSSA customers were to be billed 5/17 of the value of the investment item increase in their FMSO I cases, but the AFSAC initiated no such billings because of suspended renegotiations of cases.

Reason for Suspending Renegotiations. The AFSAC suspended renegotiation of most FMSO I cases in January 1991 so that it could examine alternatives to increasing FMSO I case values to current-year prices. During that time, FMSO I case values continued to change through additions and deletions of investment requirements, changes in recurring demand for consumable items, and inflation. Those changes in case dollar values occurred without the required adjustments to FMS customers' equity investment requirements or collection of the FMS administrative charges.

Result of Suspending Renegotiations. In November 1993, the AFSAC updated the FMSO I case values in the SAMIS to reflect the actual customers' demands for consumable items and changes in customers' repairable item requirements. The updated values showed that 21 CLSSA cases were understated in value by a total of more than $31 million. However, no action was taken to bill CLSSA customers. Based upon the higher FMSO case values, AFSAC should have billed CLSSA customers $9.1 million[3] for increased equity investment requirements and $0.5 million[4] in FMS administrative charges (Appendix B).

[3]The FMSO I cases values increased by $31 million. The equity investment requirement on the increase is $31 million, multiplied by 5/17, equals $9.1 million.
[4]The $9.1 million equity investment requirement multiplied by 5 percent.

Recommendations, Management Comments, and Audit Response

We recommend that the Commander, Air Force Security Assistance Center:

1. Direct case managers to perform Foreign Military Sales Order I renegotiations semiannually as required, or more frequently if significant changes occur in the financial status of the case.

Air Force Comments. The Air Force concurred with Recommendation C.1. stating that new procedures in the redesigned Cooperative Logistics Program will ensure that Foreign Military Sales Order I cases are renegotiated semiannually. The system redesign on the renegotiation process will be completed and implementation would occur on October 1, 1994. The estimated completion date on the renegotiation of all Foreign Military Sales Order I cases is April 1, 1995. The Air Force stated that the CLSSA program is overinvested in the amount of $105 million, and that amount more than offsets the $30 million on under-priced cases.

2. Renegotiate Foreign Military Sales Order I cases to reflect the increase in case dollar values and bill customers for the increased dollar equity investment requirement and the associated foreign military sales administrative charges. Pass the additional funds to the respective Military Department or agency with integrated material management responsibility for those items that are not managed by the Air Force, yet support CLSSA requirements.

Air Force Comments. The Air Force concurred with most aspects of Recommendation C.2., stating that all Foreign Military Sales Order I cases will be renegotiated in a 6-month period from October 1, 1994 to April 1, 1995. The increased equity investment requirement will be charged to the foreign customers. However, the Air Force disagreed with the potential monetary benefit. It said that because of the large amount of overinvestment ($105 million) on foreign customer books, the amount of the decreases will more than offset the increases.

Audit Response. We do not agree that the supposed overinvestment of $105 million on the CLSSA customers' books will more than offset the amount owed when the Air Force renegotiates the Foreign Military Sales Order I cases. The "Undefined Amount" of $105 million lacks specifics as to its case origin and eventual resolution. However, renegotiation of customer cases will result in the Air Force billing the CLSSA customer for $9.6 million in equity investments and administrative charges. We ask that the Air Force reconsider its position on the monetary benefits in responding to the final report. Otherwise, the Air Force proposed action to Recommendation C.2. is considered responsive.

Response Requirements for Each Recommendation

Responses to the final report are required from the Air Force for the related issues listed in the chart below.

		Response Should Cover:			
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues*
C.2.	Air Force				M

* M = monetary benefits.

Finding D. Overbilling of Storage Fees

The Military Departments overbilled Cooperative Logistic Supply Support Arrangement (CLSSA) customers storage fees on FMSO II cases after the implementation of the Defense Business Operations Fund (DBOF). That occurred because the Under Secretary of Defense (Comptroller) did not issue timely and clear guidance for the Military Departments to comply with the DBOF standard pricing concept. Another cause was that the Air Force included "undefined" amounts in storage fee computations that overstated the CLSSA customers' on-hand inventory values. As a result, CLSSA customers were overbilled at least $8.4 million in storage fees.

Background

The DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," (the FMS Manual) gave policy and financial guidance for FMS transactions. Effective in FY 1988, the FMS Manual required the Military Departments to bill storage fees for materiel on FMSO II cases. A uniform DoD rate of 1.5 percent annually, or .125 percent monthly, of the 5-month, on-hand FMSO I inventory value, was charged to FMSO II cases. In March 1993, the FMS Manual was replaced by DoD Regulation 7000.14-R, volume 15, "DoD Financial Management Regulation, Security Assistance Policy and Procedures." That regulation eliminated the previous requirement to charge CLSSA customers storage fees for DBOF stock fund items listed on the FMSO I cases.

Transfer to DBOF Stock Fund. As of October 1, 1990, the Army and the Navy stock funds were transferred to the DBOF stock fund. The Air Force stock fund was transferred to the DBOF stock fund for consumable items on October 1, 1991, and for repairable items on October 1, 1992.

DBOF Pricing Policy. On October 1, 1990, the DBOF implemented a pricing policy that required stock fund items be priced to recoup all costs, including storage, incurred by inventory control points and major supply depots that provide supplies and materiel to customers. Effective that date, the Military Departments should have discontinued assessing the 1.5 percent storage fee previously charged to customers, both domestic and foreign, because the price of requisitioned materiel now included storage costs.

Comptroller Guidance. In FYs 1990 and 1991, the Comptroller of the Department of Defense (now Under Secretary of Defense (Comptroller)), guidance for implementing DBOF pricing policy focused on surcharges for FMS pricing, such as packing, crating, and handling costs. The guidance did not include instructions for the proper handling of CLSSA storage fees after the implementation of DBOF pricing policy. Since storage fees were not a

surcharge to an item's selling price, the Military Departments' security assistance officials were unsure whether the DBOF standard pricing policy eliminated the billing of storage fees.

Storage Fee Billings

The Military Departments overbilled CLSSA customers at least $5.1 million (Appendix C, Tables 1, 2, and 3) in storage fees on FMSO II cases from October 1, 1990, through November 30, 1993. Comptroller guidance issued during the implementation of the DBOF standard pricing policy was unclear on storage fee billings. Also, the Air Force's CLSSA customers were overbilled an additional $3.3 million (Appendix C, Table 4) in storage fees since FY 1984 because the Air Force mistakenly overstated the on-hand inventory values used to compute storage fees on FMS transactions. The on-hand inventory values used to compute storage fees included not only the FMSO I case 5-month, on-hand inventory value, but other non-inventory values that were not associated with CLSSA inventory.

Army. We identified about $1.6 million in storage fees that the U.S. Army Security Assistance Command (USASAC) overbilled on 75 FMSO II cases after the October 1, 1990, implementation of the DBOF standard pricing policy (Appendix C, Table 1).

Storage Fees Billed after DBOF. We judgmentally selected eight Army FMSO II cases for which storage fees were billed after October 1, 1990.[5] On the eight cases, $446,000 in storage fees were billed for FY 1991 (Appendix C, Table 1). In addition, USASAC analysis showed that about $1.1 million of the storage fee billings on 67 FMSO II cases were applicable to FY 1992. In total, CLSSA customers were overbilled about $1.6 million in storage fees on FMSO II cases. We did not analyze all of the 381 Army FMSO II cases for which storage fees were billed after October 1990; therefore, we could not determine the actual amount of storage fees that Army CLSSA customers were overbilled. During our audit, the Defense Accounting Office, New Cumberland, Pennsylvania, had initiated a review of all FMSO II cases to determine the total amount of the overbillings to Army CLSSA customers.

Navy. The Naval International Logistics Office (NAVILCO) processes FMS requisitions and billing transactions for the Navy and the Marine Corps. After the October 1, 1990, implementation of the DBOF standard pricing policy, NAVILCO overbilled about $920,000 in storage fees on 51 FMSO II cases (Appendix C, Table 2).

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[5]The Army storage fee billings made after October 1, 1990, were on a lump sum basis. Each FMSO II case billing included a retroactive amount for storage fees applicable to periods prior to October 1, 1990, and amounts applicable to periods after October 1, 1990.

Suspended Billings for Storage Fees. Naval Supply Systems Command (NAVSUP) officials in October 1990 had informally suspended submitting billings for storage fees because of the implementation of the DBOF standard pricing policy. Although written guidance did not list storage fees as a DBOF surcharge, NAVSUP officials thought it best not to process storage fee billings until the Comptroller had issued clear written guidance on the issue. NAVSUP officials issued informal notice to the NAVILCO that billings for storage fees were not to be processed until further guidance was received by that command.

NAVSUP Command Inspection. The NAVSUP Inspector General conducted a command inspection at the NAVILCO in May 1991 and found that the NAVILCO had not billed storage fees consistently. In response to the command inspection, the NAVILCO billed storage fees for FYs 1988 through 1991. Since the Comptroller guidance for implementing the DBOF standard pricing policy did not instruct the Military Departments to stop billing storage fees, the NAVSUP inspection officials directed the NAVILCO managers to bill CLSSA customers for storage fees.

Storage Fees Billed after DBOF. We identified about $360,000 in storage fees that were billed to 23 FMSO II cases implemented after October 1990 (Appendix C, Table 2). Those FMSO II customers should not have been billed for storage fees because the performance period on the cases began after the DBOF standard pricing policy was implemented. For FMSO II cases with performance periods before and after October 1990, the NAVILCO had overbilled about $560,000 in storage fees on 28 FMSO II cases (Appendix C, Table 2). As a result of our audit, NAVSUP officials issued a memorandum directing the NAVILCO to credit the NAVSUP's FMSO II customers for the overbilled storage fees.

Air Force. The Air Force Security Assistance Center (AFSAC) overbilled about $2.7 million in storage fees for 47 FMSO I cases after the Air Force stock fund items were transferred to the DBOF stock fund (Appendix C, Table 3). Also, because the AFSAC included both cash and inventory value when establishing FMSO I case values, Air Force CLSSA customers were overbilled $3.3 million from FYs 1984 through 1993 (Appendix C, Table 4).

Storage Fees Billed after DBOF. The AFSAC continued to bill storage fees after the October 1, 1990, implementation of the DBOF pricing policy and after the Air Force stock fund inventory was transferred to the DBOF. Since the Comptroller did not issue clear guidance on assessing storage fees for CLSSA items until December 1992, AFSAC officials did not realize that storage fee billings had been eliminated with the implementation of the DBOF pricing policy. In December 1992, AFSAC stopped billing storage fees and began to identify overbillings caused by the untimely implementation of the DBOF pricing policy. The AFSAC overbilled CLSSA customers about $2.7 million for storage fees in FYs 1991 through 1993 (Appendix C, Table 3).

Storage Fees Billed on Case Value. In FY 1988, the AFSAC began billing storage fees on FMSO II cases through the Security Assistance Management Information System (SAMIS). At that time, the SAMIS was

programmed to compute the storage fees based on customers' total FMSO I case values. The FMSO I case values included a category called "undefined." The "undefined" category value represented funds that CLSSA customers kept on FMSO I cases to be used for future CLSSA requirements. Customers could withdraw any excess funds not supported by their future requirements. A review of SAMIS records showed that the "undefined" category value had been included in computations of storage fees since October 1983. By including the "undefined" category value in the computation of storage fees, the Air Force overbilled CLSSA customers about $3.3 million in storage fees from FYs 1984 through 1993 (Appendix C, Table 4).

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commanders of the U.S. Army Security Assistance Command, the Naval Supply Systems Command, and the Air Force Security Assistance Center identify storage fees billed to customers' Foreign Military Sales Order II cases for the periods after the implementation of Defense Business Operations Fund standard pricing policy on October 1, 1990, and credit all overpaid storage fees to the customers' foreign military sales trust accounts.

Army Comments. The Army concurred with Recommendation D.1. and stated that foreign military sales customers were incorrectly charged for storage fees for the 5-month on-hand portion of Foreign Military Sales Order I cases for the period after October 1, 1990. Action has been taken by the Defense Finance and Accounting Service-Direct Cite Accounting Branch at the U.S. Army Security Assistance Command to review all Foreign Military Sales Order I storage fees from October 1, 1986, to the present date. Correcting entries have been processed since November 1993 with the final adjustment for active Foreign Military Sales Order II cases to be processed in the next accounting cycle. The Foreign Military Sales Order II cases that are closed will require guidance from the Defense Finance and Accounting Service Denver on the correct procedures to follow for processing transactions on closed cases. Once this guidance is obtained, the correcting entries will be processed.

Navy Comments. The Navy concurred with Recommendation D.1. and stated the Naval Supply System Command completed corrective action to credit its foreign customers for those storage charges that were billed to foreign military sales customers after the implementation of the Defense Business Operations Fund on October 1, 1990. A total of $1 million has been credited to foreign military sales customer trust accounts.

Air Force Comments. The Air Force concurred with Recommendation D.1. and stated the Security Assistance Management Information System has been programmed to identify storage fees billed to foreign customers and will insure that the proper charges are billed in the future. Storage fees billed to customers following the implementation of the Defense Business Operations Fund

procedures will be identified, and overpaid fees by foreign customers will be credited to their trust accounts. The estimated completion date for this action is September 30, 1994.

Audit Response. The Army, the Navy, and the Air Force proposed actions to Recommendation D.1. are responsive. The Army should provide an estimated completion date for processing the remaining storage credits to customer accounts and provide comments on the proposed potential monetary benefits when responding to the final report. The Air Force did not provide comments on the potential monetary benefits and should provide that information in comments to the final report.

2. We recommend that the Commander of the Air Force Security Assistance Center issue credit to the foreign military sales customers' trust accounts for the storage fees overbilled due to the inclusion of the "undefined" category value in the computation of storage fees in FYs 1984 through 1993.

Air Force Comments. The Air Force concurred with Recommendation D.2. and stated the Air Force Security Assistance Center will provide Air Force Materiel Command with a list of overbillings for the "undefined" amount of Foreign Military Sales Order I cases by fiscal year. Air Force Materiel Command will then secure the funds by fiscal year and notify the Air Force Security Assistance Center to reverse the overbillings. The estimated completion date for the action is December 31, 1994.

Response Requirements for Each Recommendation

Responses to the final report are required from the Army for the item indicated with an "X" and for the related issues listed in the chart below.

		Response Should Cover:			
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues*
D.1.	Army			X	M
D.1.	Air Force				M

* M = monetary benefits.

Part III - Additional Information

Appendix A. Drawdown Liability for Excess Stock

Table 1. Army-Managed Cases as of December 1, 1993

Country/ Organization	Number of FMSO I Cases	Drawdown Liability[2]	Potential Net Liability[2,3]
Australia	3	$ 3,646,000	$ 2,552,000
Austria	1	396,000	277,000
Bahrain	1	17,000	12,000
Belgium	1	65,000	45,000
Brazil	1	678,000	475,000
Canada	1	3,442,000	2,409,000
Denmark	1	144,000	101,000
Egypt	8	5,043,000	3,530,000
El Salvador	1	375,000	263,000
Germany	1	1,065,000	746,000
Greece	1	122,000	85,000
Honduras	1	79,000	55,000
Israel	2	7,261,000	5,083,000
Japan	1	484,000	339,000
Jordan	3	476,000	333,000
Kenya	1	27,000	19,000
Morocco	1	5,415,000	3,790,000
NAMSA[1]	4	445,000	312,000
Netherlands	2	3,128,000	2,190,000
New Zealand	2	2,330,000	1,631,000
Norway	2	860,000	602,000
Oman	1	52,000	36,000
Pakistan	1	2,399,000	1,679,000
Philippines	2	1,847,000	1,293,000
Portugal	1	21,000	15,000
Saudi Arabia	1	6,373,000	4,461,000
South Korea	2	794,000	556,000
Spain	5	528,000	370,000
Sudan	1	454,000	318,000
Taiwan	6	14,912,000	10,438,000
Thailand	6	4,412,000	3,088,000
Tunisia	2	385,000	270,000
Turkey	4	2,439,000	1,707,000
United Kingdom	2	5,083,000	3,558,000
Army Total	73	$75,097,000	$53,148,000

Table 1. Army-Managed Cases as of December 1, 1993 (cont'd)

[1]North Atlantic Treaty Organization Maintenance and Supply Agency
[2]Rounded to nearest thousand.
[3]Potential net liability less original 30 percent FMSO I investment deposit to be refunded to CLSSA customers. This computation represents the net cost to the Army to procure and stock items listed on the CLSSA customers' FMSO I cases.

Table 2. Air Force-Managed Cases as of April 30, 1993

Country/ Organization	Number of FMSO I Cases	Drawdown Liability[2]	Potential Net Liability[2,3]
Australia	1	$ 2,542,000	$ 1,779,000
Bahrain	2	6,563,000	4,594,000
Belgium	1	631,000	442,000
Brazil	1	139,000	97,000
Canada	1	2,565,000	1,795,000
Colombia	1	416,000	291,000
Denmark	1	120,000	84,000
Dominican Republic	1	335,000	234,000
Ecuador	1	463,000	324,000
Egypt	1	1,656,000	1,159,000
El Salvador	1	43,000	30,000
Germany	1	17,000	12,000
Greece	2	9,501,000	6,651,000
Guatemala	1	984,000	689,000
Honduras	1	2,924,000	2,047,000
Indonesia	1	984,000	689,000
Japan	1	474,000	332,000
Jordan	2	991,000	694,000
Kenya	1	2,216,000	1,551,000
Malaysia	1	1,074,000	752,000
Mexico	1	1,842,000	1,289,000
Morocco	1	1,331,000	932,000
NATO[1]	1	14,101,000	9,871,000
Netherlands	1	406,000	284,000
New Zealand	1	111,000	78,000
Norway	1	1,280,000	896,000
Oman	1	870,000	609,000
Pakistan	2	14,009,000	9,806,000
Peru	1	402,000	281,000
Philippines	1	501,000	351,000
Saudi Arabia	1	3,515,000	2,460,000
Somalia	1	684,000	479,000
South Korea	1	6,126,000	4,288,000
Spain	2	2,751,000	1,926,000
Taiwan	1	1,306,000	914,000
Thailand	1	7,958,000	5,571,000
Tunisia	1	297,000	208,000
Turkey	1	11,026,000	7,718,000
United Kingdom	1	410,000	287,000
Uruguay	1	5,000	4,000
Venezuela	1	1,560,000	1,092,000
Yemen	1	2,027,000	1,419,000
Zaire	1	3,473,000	2,431,000
Air Force Total	48	$110,629,000	$77,440,000

Table 2. Air Force Managed Cases as of April 30, 1993 (cont'd)

[1]North Atlantic Treaty Organization
[2]Rounded to nearest thousand.
[3]Potential net liability computed as drawdown liability less original 30 percent FMSO I investment deposit refunded to CLSSA customers. This computation represents the net cost to the Air Force to procure and stock items listed on the CLSSA customers' FMSO I cases.

Appendix B. Underinvested Foreign Military Sales Order I Cases

Country	FMSO I Case	Established Case Value[1]	Actual Case Value[1,2]	Understated Amount[1,3]	Investment Amount[1,4]	Administrative Charge[1,5]
Argentina	AR -KAC	$ 2,012,000	$ 3,140,000	$ 1,128,000	$ 332,000	$ 17,000
Canada	CN -KAD	19,769,000	20,343,000	574,000	169,000	8,000
Colombia	CO -KAA	1,475,000	1,774,000	299,000	88,000	4,000
Dominican Republic	DR -KAA	516,000	582,000	66,000	19,000	1,000
Ecuador	EC -KAA	2,213,000	2,308,000	95,000	28,000	1,000
Greece	GR -KAA	29,638,000	30,729,000	1,091,000	321,000	16,000
Guatemala	GT -KAA	1,126,000	1,364,000	238,000	70,000	4,000
Honduras	HO -KAA	5,209,000	7,090,000	1,881,000	553,000	28,000
Jordan	JO -KAA	2,142,000	2,990,000	848,000	249,000	12,000
Jordan	JO -KAB	515,000	829,000	314,000	92,000	5,000
Malaysia	MF -KAA	3,185,000	3,318,000	133,000	39,000	2,000
Netherlands	NE -KAU	16,936,000	17,803,000	867,000	255,000	13,000
Norway	NO -KAB	9,393,000	10,099,000	706,000	208,000	10,000
Oman	MU -KAA	828,000	958,000	130,000	38,000	2,000
Pakistan	PK -KAD	13,427,000	17,702,000	4,275,000	1,257,000	63,000
Philippines	PI -KAA	9,120,000	9,541,000	421,000	124,000	6,000
Saudi Arabia	SR -KAA	191,030,000	201,755,000	10,725,000	3,154,000	158,000
Turkey	TK -KAA	123,510,000	128,008,000	4,498,000	1,323,000	66,000
United Kingdom	UK -KAF	26,496,000	27,455,000	959,000	282,000	14,000
Yemen	YE -KAA	3,552,000	4,365,000	813,000	239,000	12,000
Zaire	CX -KAA	3,885,000	4,844,000	959,000	282,000	14,000
Total		$465,977,000	$496,997,000	$31,020,000	$9,122,000	$456,000

[1]All values rounded to nearest thousand.
[2]Case values as of October 30, 1993.
[3]The amount by which the FMSO I case is understated.
[4]Understated amount multiplied by the 5/17 (30 percent) investment requirement.
[5]The 5/17 (30 percent) investment requirement multiplied by the 5 percent FMS administrative charge.

Appendix C. Storage Fees Overbilled

Table 1. Army Storage Fees Overbilled for FYs 1991 and 1992

Country/ Organization	Number of FMSO II Cases[2]	Overbilled Amount[1] FY 1991	FY 1992
Austria	2		$23,400
Australia	2		14,400
Bahrain	2		4,500
Belgium	1		1,300
Brazil	1		2,400
Colombia	1		27,000
Canada	1	$ 52,000	52,000
Denmark	1		1,500
Egypt	8	13,000	45,600
Germany	1		27,000
Greece	1		27,000
Jordan	1		10,700
Kenya	1		2,300
Korea	3		11,500
Kuwait	1		12,300
Morocco	2	127,000	31,800
Oman	1		1,700
NAMSA-4	2		3,000
NAMSA-5	1		100
NAMSA-7	1		5,300
Netherlands	2		23,800
New Zealand	2		13,400
Norway	2		11,400
Philippines	2		68,800
Portugal	1		15,400
Saudi Arabia	3	243,000	439,500
Spain	3		8,200
Thailand	13		99,100
Tunisia	2		4,000
Turkey	4	11,000	46,400
Taiwan	7		96,200
Subtotal		$446,000	$1,131,000
Total	75	$1,577,000	

[1]Rounded to the nearest hundred.
[2]Cases may include overbilled amounts for only one fiscal year or for both fiscal years.

Table 2. Navy Storage Fees Overbilled for FYs 1991 and 1992

Country	Number of FMSO II Cases[2]	Overbilled Amount[1] After DBOF[3]	Overbilled Amount[1] Before DBOF[4]
Australia	6	$66,700	$60,000
Canada	5	57,300	31,000
Egypt	2		56,000
France	1		900
Germany	3	49,500	900
Indonesia	1		4,000
Israel	1		32,000
Jordan	1		5,000
Korea	1		6,000
Kuwait	1		32,000
Netherlands	4	35,600	14,000
New Zealand	5	9,500	29,000
Norway	1		8,000
Portugal	1		9,000
Singapore	2	400	400
Spain	7	72,300	131,000
Taiwan	1		6,000
Thailand	1		6,000
United Kingdom	7	72,000	133,000
Subtotal		$363,300	$564,200
Total Overbilled	51		$927,500

[1]Rounded to the nearest hundred.
[2]Case may include overbilled amounts for one FY or for both FYs.
[3]Cases implemented after the Defense Business Operations Fund (DBOF) standard pricing policy of October 1, 1990.
[4]Cases implemented before the DBOF standard pricing policy.

Table 3. Air Force Storage Fees Overbilled During FYs 1991 through 1993

Country/ Organization	Number of FMSO I Cases	Amount Overbilled*
Argentina	1	$ 300
Bahrain	2	5,600
Belgium	1	82,200
Brazil	1	32,400
Canada	1	118,800
Colombia	1	2,700
Denmark	1	36,400
Egypt	1	157,200
El Salvador	1	4,100
Germany	1	178,300
Greece	2	140,000
Guatemala	1	700
Honduras	1	1,700
Indonesia	1	20,200
Israel	1	108,900
Japan	1	3,000
Jordan	2	1,400
Kenya	1	20,300
Malaysia	1	6,100
Mexico	1	11,900
Morocco	1	12,400
NATO[1]	1	56,900
Netherlands	1	67,800
New Zealand	1	12,400
Norway	1	40,200
Oman	1	900
Pakistan	2	53,200
Peru	1	12,000
Saudi Arabia	1	268,500
Singapore	1	8,000
Somalia	1	1,500
South Korea	1	304,600
Spain	2	89,400
Sudan	1	10,100
Taiwan	1	218,200

Table 3. Air Force Storage Fees Overbilled During FYs 1991 through 1993 (cont'd)

Country/ Organization	Number of FMSO I Cases	Amount Overbilled*
Thailand	1	37,100
Tunisia	1	14,700
Turkey	1	273,700
United Kingdom	1	223,600
Venezuela	1	9,600
Yemen	1	200
Zaire	1	4,000
Total	47	$2,651,200

*Rounded to nearest hundred.
[1]North Atlantic Treaty Organization

Table 4. Air Force Storage Fees Billed on "Undefined" Category

Country/ Organization	Number of FMSO I Cases	Amount Billed FYs 91 - 93[1]	Amount Billed FYs 84 - 90[1]
Argentina	1	$ 4,800	$ 7,900
Australia	1	128,300	142,900
Bahrain	2	5,700	26,300
Belgium	1	15,000	5,100
Brazil	1	4,700	5,500
Canada	1	23,200	32,800
Colombia	1	3,600	13,800
Denmark	1	14,800	13,400
Dominican Republic	1	1,800	2,300
Ecuador	1	2,900	1,000
Egypt	1	29,700	5,200
El Salvador	1	600	500
France	1	1,800	5,700
Germany	1	30,600	162,800
Greece	2	300	46,900
Guatemala	1	400	800
Honduras	1	1,300	900
Indonesia	1	5,500	15,300
Israel	1	51,700	58,500
Japan	1	9,800	11,300
Jordan	2	1,500	9,100
Kenya	1	900	5,300
Malaysia	1	7,400	14,700
Mexico	1	0	400
Morocco	1	32,400	56,800
NATO[2]	1	37,600	7,300
Netherlands	1	2,500	54,900
New Zealand	1	1,800	15,700
Norway	1	1,800	19,600
Pakistan	2	1,800	43,900
Peru	1	1,200	200
Philippines	1	10,300	12,800
Saudi Arabia	1	73,000	164,000
Singapore	1	4,400	12,600
Somalia	1	4,500	6,300
South Korea	1	100,700	457,900
Spain	2	5,000	0
Sudan	1	1,000	2,800
Taiwan	1	70,300	488,900
Thailand	1	69,100	308,300

Table 4. Air Force Storage Fees Billed on "Undefined" Category (cont'd)

Country/ Organization	Number of FMSO I Cases	Amount Billed FYs 91 - 93[1]	Amount Billed FYs 84 - 90[1]
Tunisia	1	5,700	4,100
Turkey	1	500	9,400
United Arab Emirates	1	1,500	0
United Kingdom	1	35,000	118,200
Uruguay	1	700	200
Venezuela	1	25,400	62,400
Yemen	1	2,000	1,700
Zaire	1	800	3,000
Subtotal		$835,300	$2,439,400
Total	53	$3,274,700	

[1]Rounded to nearest hundred.
[2]North Atlantic Treaty Organization

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.	Internal Controls. Implementing performance measures within DoD for evaluating the effectiveness of CLSSA supply support would ensure that FMS customers share DoD stocks on an equal basis with U.S. Forces citing the same requisition priority designator.	Nonmonetary
B.1.a.	Program results. Will result in Army CLSSA customers paying their pro rata share for excess inventory items resulting from reduced demands on the DoD logistics system by those CLSSA customers.	CLSSA customers' drawdown of excess stock items will make available to Army $52.6 million to put to better use on a one-time basis.
B.1.b.	Internal Controls. Revising Army policy will improve financial management of CLSSA cases by establishing time frames during which CLSSA customers must draw down their financial liabilities related to excess DoD inventories.	Nonmonetary
B.2.a.	Program Results. Will result in Air Force's CLSSA customers paying their pro rata share for excess inventory items resulting from reduced demands on the DoD logistics system by those CLSSA customers.	CLSSA customers' drawdown of excess stock items will make available to Air Force $77.4 million in funds to be put to better use on a one-time basis.

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.2.b.	Internal Controls. Revising Air Force policy will improve financial management of CLSSA cases by establishing time frames during which CLSSA customers must draw down their financial liabilities related to DoD excess inventory.	Nonmonetary
C.1.	Internal Controls. Following Air Force renegotiation policy on CLSSA cases will improve the financial and logistics management of such cases.	Nonmonetary
C.2.	Compliance with regulations. Following Air Force policy to update FMSO I customers' investment requirements would ensure customers would deposit funds for increases in CLSSA case values.	CLSSA customer deposits for increased case values will result in $9.6 million to put to better use on a one-time basis.
D.1.	Compliance with regulations. Correcting storage fee billings will ensure that CLSSA customers did not pay for storage fees twice and their trust accounts were properly credited.	Nonmonetary
D.2.	Internal Controls. Correcting storage fee billings will result in CLSSA customers receiving refunds for amounts that were overbilled as a result of the Air Force using the "undefined" funds category value in computing storage fees.	Nonmonetary

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC
Deputy Under Secretary of Defense for Logistics, Washington, DC

Department of the Army

Inspector General, Department of the Army
U.S. Army Materiel Command, Alexandria, VA
- U.S. Army Aviation and Training Command, St. Louis, MO
- U.S. Army Communications/Electronics Command, Ft. Monmouth, NJ
- U.S. Army Security Assistance Command, Alexandria, VA
- U.S. Army Security Assistance Command, New Cumberland, PA

Department of the Navy

Assistant Secretary of the Navy (Financial Management), Washington, DC
U.S. Navy International Policy Office, Washington, DC
U.S. Marine Corps Systems Command, Quantico, VA
Naval Air Systems Command, Washington, DC
Naval Supply Systems Command, Washington, DC
- Aviation Supply Office, Philadelphia, PA
- Navy International Logistics Control Office, Philadelphia, PA
- Navy Ships Parts Control Center, Mechanicsburg, PA

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Air Force Materiel Command, Wright-Patterson Air Force Base, OH
- Sacramento Air Logistics Center, Sacramento, CA
- San Antonio Air Logistics Center, San Antonio, TX
- Air Force Security Assistance Center, Dayton, OH

Other Defense Organizations

Headquarters, Defense Finance and Accounting Service, Washington, DC
- Defense Finance and Accounting Service Center, Denver, CO
- Defense Accounting Office, Chambersburg, PA

Defense Logistics Agency, Alexandria, VA
Defense Security Assistance Agency, Washington, DC

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Under Secretary of Defense (Comptroller)
Deputy Assistant Secretary of Defense for Cooperative Support Programs

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Inspector General, Department of the Army
Auditor General, Department of the Army
Commander, United States Army Security Assistance Command

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Commander, Naval Air Systems Command
Commander, Naval Supply Systems Command
Commander, Marine Corps Systems Command
Auditor General, Department of the Navy

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, Air Force Materiel Command
Commander, Air Force Security Assistance Center
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Director, Defense Security Assistance Agency
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency

Defense Organizations (cont'd)

Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, U.S. 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, 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

American Embassies

American Embassy, Argentina
American Embassy, Australia
American Embassy, Austria
American Embassy, Bahrain
American Embassy, Belgium
American Embassy, Brazil
American Embassy, Canada
American Embassy, Colombia
American Embassy, Denmark
American Embassy, Dominican Republic
American Embassy, Ecuador
American Embassy, Egypt
American Embassy, El Salvador
American Embassy, France
American Embassy, Germany
American Embassy, Greece
American Embassy, Guatemala
American Embassy, Honduras
American Embassy, Indonesia
American Embassy, Israel

American Embassies (cont'd)

American Embassy, Japan
American Embassy, Jordan
American Embassy, Kenya
American Embassy, Kuwait
American Embassy, Malaysia
American Embassy, Mexico
American Embassy, Morocco
American Embassy, Netherlands
American Embassy, New Zealand
American Embassy, Norway
American Embassy, Oman
American Embassy, Pakistan
American Embassy, Peru
American Embassy, Philippines
American Embassy, Portugal
American Embassy, Saudi Arabia
American Embassy, Singapore
American Embassy, Somalia
American Embassy, South Korea
American Embassy, Spain
American Embassy, Sudan
American Embassy, Taiwan
American Embassy, Thailand
American Embassy, Tunisia
American Embassy, Turkey
American Embassy, United Arab Emirates
American Embassy, United Kingdom
American Embassy, Uruguay
American Embassy, Venezuela
American Embassy, Yemen
American Embassy, Zaire

Part IV - Management Comments

Assistant Secretary of Defense (Economic Security) Comments

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
3300 DEFENSE PENTAGON
WASHINGTON, DC 20301-3300

ECONOMIC SECURITY

(DUTP&IP/CSP)

9 AUG 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
(DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE)

THROUGH: DIRECTOR, CONGRESSIONAL ACTIONS AND INTERNAL REPORTS

SUBJECT: Follow-up on Draft of a Proposed Audit Report on "Management of Cooperative Logistics Supply Support Arrangements for Foreign Military Sales (Project No. 3FA-0054)"

We appreciate the opportunity to comment on your draft proposed audit report of June 10, 1994. We concur with your finding for performance measures and will initiate an appropriate revision to DoD Directive 2000.8, "Cooperative Logistics Supply Support Arrangements" (CLSSA). Attached are specific comments to your draft report.

Should you have any questions, please contact Mr. Eugene Chin, Acting Director for Cooperative Support Programs, at extension 78248 or 70351.

for
Kenneth S. Flamm
PDASD, Dual Use Technology Policy
and International Programs

Attachment

DRAFT AUDIT REPORT, PROJECT 3FA-0054

MANAGEMENT OF COOPERATIVE LOGISTICS SUPPLY SUPPORT ARRANGEMENTS FOR FOREIGN MILITARY SALES

1. EXECUTIVE SUMMARY, page i, Introduction paragraph: amend the last sentence by replacing "$7.0 billion" with "$2.4 billion".

RATIONALE: The equity investment in the CLSSA program is composed of five months of on-hand and 12 months of on-order inventory. If the equity investment is $700 million, then the potential value of the drawdown requisitions is $2.4 billion.

2. EXECUTIVE SUMMARY, page ii, Management Comments paragraph and others: replace references to "Deputy Assistant Under Secretary of Defense for Cooperative Support Programs" with "Deputy Assistant Secretary of Defense for Dual Use Technology Policy and International Programs."

RATIONALE: Accuracy.

3. Part I, Background, page 2, third paragraph: replace the second sentence with "That list is agreed on by the Military Departments and the CLSSA customer. Under a line-item management approach, the items listed are to be procured and stocked in the DoD logistics system." Revised

RATIONALE: Provided the CLSSA customers have equal access with U.S. forces within assigned priorities, the Military Departments are permitted to either line-item or financially manage their CLSSA programs.

4. Part II, Development of Supply Performance Measures, page 10: replace the first sentence with "The development of DoD standard measures to compare supply performance could provide useful management information."

RATIONALE: Nearly everyone would agree that good standard measures for comparing supply performance are important, but the audit does not establish a case that performance measures are "more important than ever."

5. Part II, Development of Supply Performance Measures, page 10: add at the end of the third sentence ". . . even though Section Revised

334 of the Fiscal Year 1994 Defense Authorization Act excludes foreign military sales from the limitation."

RATIONALE: Clarification.

6. Appendix A, Table 1, and Appendix C, Table 1, footnotes: "NAMSA" should be identified as "North Atlantic Treaty Organization Maintenance and Supply Agency." Revised

RATIONALE: Accuracy.

7. Appendix A, Table 2, and Appendix C, Tables 3, footnotes: "NATO" should be identified as "North Atlantic Treaty Organization."

RATIONAL: Accuracy.

Army Comments

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

DALO-SAA 4 August 1994

MEMORANDUM THRU

~~DIRECTOR OF THE ARMY STAFF~~ 19 Oct 94 MICHAEL B. WILSON, LTC, GS, ADAS 10/19/94

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)

Eric A. Orsini
Deputy Assistant Secretary of the Army (Logistics)
OASA (I, L&E)

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: IG, DoD Draft Audit Report on Management of Cooperative Supply Support Arrangements for Foreign Military Sales (Project No. 3FA-0054)

1. Reference SAAG-PRF-E memorandum, 15 June 1994, subject as above.

2. This is the Department of the Army's response (Tab A) to the Department of Defense, Inspector General (DODIG) subject draft audit report.

3. The Army feels that the Cooperative Logistics Supply Support Arrangement (CLSSA) program provides a useful means of helping our allies and friends in maintaining the readiness of their systems.

4. The assistance of the DODIG in improving management of the CLSSA program is welcome. The Army is also pleased to have the opportunity to review and respond to the draft report.

FOR THE DEPUTY CHIEF OF STAFF FOR LOGISTICS:

Encl

FRANK S. BESSON III
Director of Security Assistance

CF:
CSA
ASA(FM)
VCSA
SAAG-PRF-E

Mr. Weinstein/43762

FINDING AND RECOMMENDATIONS

FINDING B: Drawdown of Excess Stock

The Army and the Air Force had not required Cooperative Logistics Supply Support Arrangements (CLSSA) customers to requisition their pro rata shares of excess stock in Department of Defense (DoD) inventory. That situation occurred because Army and Air Force CLSSA policy did not prescribe specific timeframes in which customers had to requisition (buy) excess items. As a result, about $186.0 million in excess items that the Army and the Air Force procured to meet anticipated requirements of foreign countries were not requisitioned by CLSSA customers. Army and Air Force funds of $130.0 million were used to buy those items, which might not fulfill immediate or future needs of DoD customers.

RECOMMENDATION B-1: We recommend that the Commander of the U.S. Army Security Assistance Command (USASAC):

a. Require CLSSA customers to issue requisitions to drawdown the $75.1 million Foreign Military Sales Order I (FMSO) liability for excess stocks in DoD inventory.

b. Revise Army Regulation 12-8, "Security Assistance Operations and Procedures", to establish timeframes for customers to drawdown their pro rata shares of their excess stock under CLSSAs.

COMMAND COMMENTS: Concur in Principle.

a. In a series of 21 Dec 93 letters to the 31 CLSSA customers with drawdown, the CG, USASAC announced the start-up of the drawdown program. Copies of these letters were provided to the DoDIG by datafax on 25 Jan 94.

b. Because the drawdown process is still in its start-up phase, changes to AR 12-8 to include technical details that have yet been "tested by fire" would be premature. Timeframe (18 months) for withdrawal of the initial drawdown quantities had been established well in advance of the DoDIG audit. Correspondence providing the initial drawdown lists to the countries were sent out in Feb/Mar 94. The correspondence advised the countries of the date for the start-up of the 18 month suspense for their programs. We recommend that the final report be revised to show that the Army has already implemented drawdown procedures.

FINDING D: Overbilling of Storage Fees

The Military Departments overbilled CLSSA customers storage fees on FMSO II cases after the implementation of the Defense Business Operations Funds (DBOF). That occurred because the Comptroller of the Department of Defense (DoD Comptroller) did not issue timely and clear guidance for the Military Departments to comply with the DBOF standard concept. Another cause was that the Air Force included "undefined" amounts in storage fee computations that overstated the CLSSA customers' on-hand inventory values. As a result, CLSSA customers were overbilled at least $8.4 million in storage fees.

RECOMMENDATION D-1: We recommend that the Commander of USASAC, the Naval Supply Systems Command, and the Air Force Security Assistance Center identify storage fees billed to customers' FMSO II cases for the periods after the implementation of DBOF standard pricing policy on October 1, 1990, and credit all overpaid storage fees to the Foreign Military Sales (FMS) trust accounts.

COMMAND COMMENTS: Concur. The FMS Customers were incorrectly charged for storage fees for the 5 month on hand portion of FMSO I cases for the period after October 1, 1990. Action has been taken by the Defense Finance and Accounting Service (DFAS) Direct Cite Accounting Branch at USASAC to review all FMSO I storage costs from October 1, 1986, when the USASAC assumed the responsibility for these charges from the Security Assistance Accounting Office, to the present date. Correcting entries have been processed since November 1993 with the final adjustment for active FMSO II cases to be processed in the July accounting cycle. The FMSO II cases that are closed will require guidance from the DFAS - Denver on the correct procedures to follow for processing transactions on closed cases. Once this guidance is obtained the correcting entries will be processed. The USASAC had targeted this area as a problem prior to the DoDIG audit and was in the process of identifying the final dollar value of overcharges. This recommendation should be changed to read "continue to process credits for all overpaid storage fees."

ADDITIONAL COMMENTS

Finding A: Performance Measures.

The DoD Directive 2000.8, subject: Cooperative Logistics Supply Support Arrangements (CLSSA), directs that the quality of support provided under matured CLSSAs to foreign military forces shall be the same as that provided to similar U.S. forces within assigned priorities (Para G.1.). Various audits in the past 10 years have substantiated that the logic used within Commodity Command Standard System for Army managed materiel and the Defense Logistics Agency supply system meets this direction. Requisitions for programmed materiel under mature CLSSAs, in fact, are processed using the same logic as requisitions from U.S. forces with similar assigned priorities. This issue was not addressed by the DoDIG in their audit and provides a fatal flaw in their analysis of CLSSA performance. While it is true that the DoDIG did not agree with USASAC during the audit that the data we used to evaluate supply effectiveness was adequate, the DoDIG never investigated whether the Army had procured and stocked items agreed to on the CLSSAs.

The first area - supply effectiveness - addresses how quickly we respond to customer requisitions and whether this support was comparable to support provided to comparable U.S. Army units. Our comments in this area are addressed in Finding A: Performance Measures.

The second area - Stockage - addresses how much of the materiel we agreed to have available was actually available when countries order it. The DoDIG clearly did not understand the performance measurements the Army uses to evaluate this latter area - stockage. We explained that the data that USASAC calls supply performance data corresponds to what the Army measures as stock availability. Per AR 710-1, the Department of Army goal for this area is 85 percent. Actual performance for CLSSA has averaged 86.6 percent for the past 28 months. Accordingly, we conclude that the Army has procured and stocked items agreed to on the CLSSA program.

Navy Comments

THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

AUG 12 1994

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT AUDIT REPORT ON MANAGEMENT OF COOPERATIVE LOGISTICS SUPPLY SUPPORT ARRANGEMENTS FOR FOREIGN MILITARY SALES (PROJECT NO. 3FA-0054)

Ref: (a) DODIG tasker of 10 Jun 94 on proposed audit report

Encl: (1) DON Comments

Per reference (a), we have reviewed the findings and recommendations in the subject report. We defer to Mr. Gene Chin, Director, Cooperative Support Programs, Office of the Assistant Secretary of Defense for Economic Security, for comment on recommendation A.1.; however, the Naval Supply System has already implemented a system that compares effectiveness of support to Navy versus Cooperative Logistics Supply Support Arrangements customers. We also concur with the recommendation C.1., to credit all overpaid storage fees to customers' Foreign Military Sales Order II cases.

Our detailed comments are provided in enclosure (1).

Nora Slatkin

Copy to:
NAVCOMPT (NCB-53)
NAVINSGEN

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT AUDIT REPORT OF 10 JUNE 1994
ON
MANAGEMENT OF COOPERATIVE LOGISTICS SUPPLY SUPPORT
ARRANGEMENTS FOR FOREIGN MILITARY SALES
(PROJECT NO. 3FA-0054)

Finding A. Performance Measures

The Army, the Air Force, and the Defense Logistics Agency (DLA) did not compare fill rates for programmed Cooperative Logistics Supply Support Arrangement (CLSSA) and DOD customers' requisitions for managed items to determine whether CLSSA customers received supply support comparable to that of the DOD customers. DOD policy did not prescribe standard supply performance reports to evaluate the effectiveness of the CLSSA program in supporting Foreign Military Sales (FMS) customers' materiel needs. Studies had recommended that DOD implement a system of standard supply performance reports, but those recommendations were not implemented. As a result, the Army, the Air Force, and the DLA could not determine whether CLSSA customers received supply support that was commensurate with their $700.0 million investment in the DOD logistics system.

DON Comment

Defer comment to Army, Air Force, and DLA.

Recommendation

We recommend that the Assistant Deputy Under Secretary of Defense for Cooperative Support Programs revise DOD Directive 2000.8, "Cooperative Logistics Supply Support Arrangements." The revision should require the Military Departments and the DLA to implement supply performance reporting for CLSSA customers, including the establishment of performance objectives and standards, to allow for comparison of the effectiveness of the supply support provided to CLSSA customers with that provided to U.S. Forces.

DON Comment

Defer to the Assistant Deputy Under Secretary of Defense for Cooperative Support Programs. However, the Naval Supply Systems Command (NAVSUP) has implemented a system of reports generated by the Naval Aviation Supply Office and the Navy Ships Parts Control Center that compares the effectiveness of the supply support provided to U.S. Navy customers with that provided to CLSSA customers for like weapons systems. Performance objectives and standards will be established after six months of data has been collected and analyzed.

Enclosure (1)

Finding B. Drawdown of Excess Stock

DON Comment

Defer to Army and Air Force.

Finding C. Renegotiation of Foreign Military Sales Order I Cases

DON Comment

Defer to Air Force.

Finding D. Overbilling of Storage Fees

The Military Departments overbilled CLSSA customers storage fees on Foreign Military Sales Order (FMSO) II cases after the implementation of the Defense Business Operations Fund (DBOF). That occurred because the Comptroller of the Department of Defense (DOD Comptroller) did not issue timely and clear guidance to the Military Departments to comply with the DBOF standard pricing concept. Another cause was that the Air Force included "undefined" amounts in storage fee computations that overstated the CLSSA customers' on-hand inventory values. As a result, CLSSA customers were overbilled at least $8.4 million in storage fees.

Don Comment

Concur.

Recommendation

1. We recommend that the Commanders of the U.S. Army Security Assistance Command, NAVSUP, and the Air Force Security Assistance Center identify storage fees billed to customers' FMSO II cases for the periods after the implementation of DBOF standard pricing policy on October 1, 1990, and credit all overpaid storage fees to the customers' FMS trust accounts.

DON Comment

Concur. NAVSUP already has taken the corrective action to credit its foreign customers for those storage charges that were billed to FMS customers after the implementation of the DBOF on 1 October 1990. A total of $1,002,694.24 has been credited to customer trust accounts.

Air Force Comments

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

15 AUG 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/FM
1130 Air Force Pentagon
Washington, DC 20330-1130

SUBJECT: Draft Audit Report, "Management of Cooperative Logistics Supply Support Arrangements for Foreign Military Sales," 10 June 1994 Project No. 3FA-0054

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on the subject audit. My staff and representatives at the Air Force Security Assistance Center have reviewed the subject draft report of audit and are in essential agreement with the findings. As you indicated in the report, action to correct many of the errors was already underway at the time of the audit, and procedures are being updated to prevent similar errors from occurring in the future.

Comments regarding the specific findings and recommendations contained in the audit are attached.

My point of contact is Mr. John Hunt, SAF/FMBIS, commercial phone number 703-695-3980, DSN 225-3980.

Robert F. Hale

ROBERT F. HALE
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

Attachment:
Specific Comments

DOD(IG) Draft Audit, "Management of Cooperative Logistics Supply Support Arrangements for Foreign Military Sales" (Project No. 3FA-0054)

Comments on Specific Findings and Recommendations:

Finding A. The Air Force, and others, do not have performance reporting systems in place to show whether or not requisitions from foreign customers are filled within the same time frame as requisitions received from DOD customers.

Concur. The audit recommends that OSD require the services to implement standard performance reporting. The Air Force agrees in general, but thinks that improvements in the ability to compare fill rates by introducing improved performance standards is probably not worth the added cost. The majority of CLSSA requisitions today are automatically filled by pre-programmed computer systems in the same manner as requisitions from DOD customers. All requisitions are handled based on date received. Computer systems are not programmed to favor DOD customers over CLSSA customers. The remaining requisitions that are manually filled generally have a problem or some unusual feature which requires special handling. It is more difficult to compare the response times with regard to problem requisitions without having detail knowledge of the problems. In summary, existing pre-programmed data systems insure that the majority of CLSSA requisitions are filled in an appropriate manner.

Recommendation A. Directed that action be taken by the Assistant Deputy Under Secretary of Defense for Cooperative Support Programs.

Finding B. The Army and Air Force have not required foreign customers to requisition their pro rata share of excess stock in DOD inventory.

Concur. As stated in the audit, the Air Force was aware of problems in the CLSSA program and was already taking corrective action. AFSAC concluded a redesign of its Cooperative Logistics Program and, as of 1 Jan 94, began to clear the $110 Million of excess stock levels identified in the audit. With recent software changes, future excess inventories will be tagged immediately and action initiated with the customer to adjust liabilities. AFSAC has set a six year goal to accomplish the drawdown of inventories recommended in the audit. Six years is needed to accomplish the task in an orderly fashion.

Recommendation B1. Directed to the Army for action.

Recommendation B2a. Estimated completion date for the drawdown of excess inventories is 1 Oct 2000.

Recommendation B2b. Under the revised Cooperative Logistics Program, the SAMIS data system has been programmed to initiate action to drawdown excess inventories. If a customer has not ordered an item within two years, action will be taken to remove that item from inventory. These procedures were initiated 1 Jan 94. The recent update of AFM 67-1, Vol.IX contains new guidance on reducing inventories and clearing excess liabilities.

Finding C. The Air Force Security Assistance Center did not bill CLSSA customers for increases brought about when DBOF procedures were introduced, and consequently under-priced customers by $31 Million.

Concur with one exception. The slow response in re-negotiating FMSO 1 cases after the introduction of DBOF procedures had also to do with the lack of timely guidance. Problems had been identified and the need to make corrections led to the redesign of the entire Cooperative Logistics Program. The new program will now require re-negotiations on a semiannual basis and more frequently if necessary. The Program Control Office within AFSAC will monitor this effort to insure timely re-negotiations.

The audit states that FMSO 1 cases were under-priced by $31 Million, and that foreign customers owed the US Government $9.6 Million in equity investment and FMS administrative charges. The Cooperative Logistics Program overall, however, is over invested. As pointed out in finding D, there is an undefined amount in some FMSO 1 cases. This undefined amount is $105 Million of excess case value and $30 Million of excess investment. The $30 Million of over investment more than offsets the $9 Million of under investment.

Recommendation C1. New procedures in the redesigned Cooperative Logistics Program will insure that FMSO 1 cases are re-negotiated semiannually. System redesign on the re-negotiation process will be complete and implementation will occur on 1 October 1994. The estimated completion date on the re-negotiation of all FMSO 1 cases is 1 April 1995.

Recommendation C2. All FMSO 1 cases will be re-negotiated in a six month period from 1 October 94 to 1 April 95. Increased equity investment requirements will be charged to the foreign customers, but as stated above, because of the large amount of over investment on the books, the amount of the decreases will more than offset the increases.

Finding D. The Military Departments overbilled CLSSA customers for storage fees on FMSO 2 cases following the implementation of DBOF procedures.

Concur. The SAMIS data system has been programmed to identify storage fees billed to foreign customers and will insure that the proper charges are billed in the future.

Recommendation D1. Storage fees billed to customers following the implementation of DBOF procedures will be identified, and overpaid fees will be credited to the customers accounts. The estimated completion date for this action is 30 September 1994.

Recommendation D2. AFSAC/XM will provide AFMC/FM a list of over billings for the undefined amount of FMSO 1 cases by fiscal year. AFMC/FM will then secure funds by fiscal year and notify AFSAC to reverse the overbilling. The estimated completion date for this action is 1 December 1994.

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

17 AUG 1994

IN REPLY REFER TO

MEMORANDUM FOR THE INSPECTOR GENERAL, DIRECTOR OF FINANCIAL MANAGEMENT

SUBJECT: Audit Report on Management of Cooperative Logistics Supply Support Arrangement (CLSSA) for Foreign Military Sales (FMS) (Project No.3FA-0054)

Reference is made to your letter dated 10 June 1994, subject as above. The report asks the MILDEPs for their comments on the draft report on CLSSA support to FMS. While the report was not addressed to the Defense Logistics Agency (DLA), the resolution of the findings impact our Agency.

DLA concurs with all of your findings and recommendations. We also would like the report to require DLA's coordination and concurrence as the MILDEPs resolve the issues identified in findings B and C. Our comments and recommendations are at Enclosures 1 through 4.

You point out in your Executive Summary that the Services could not determine... "whether CLSSA investment funds were used to procure and stock the agreed-on items for customers because of the lack of supply performance information for the program. " If this condition exists, how can it be determined if the Services ever invested in those CLSSA items the customer never requisitioned? Requiring the FMS customers to requisition these items may cause a shortage to U.S. Forces in those stocks. This question raises the possibility of FMSO I and II cases not being properly funded. If the FMSO I case was written for the value of a defined quantity of parts, and other parts are ordered instead, can we be sure the funds cover the value of the inventory being requested by the FMS customers? Internal controls should preclude this situation from continuing

The project officer is Lt Col Donald J. McCormick, MMSIS telephone (703) 274-6295, DSN 284-6295.

4 Encl

JOHN R. RAY, Jr.
Colonel, USAF
Actg Assist Executive Director
International Programs Group

FINDING A. **Performance Measures**

The Army, the Air Force, and the Defense Logistics Agency (DLA) did not compare fill rates for programmed CLSSA and DoD customers' requisitions for managed items to determine whether CLSSA customers received supply support to that of the DoD customers. DoD policy did not prescribe standard supply performance reports to evaluate the effectiveness of the CLSSA program in supporting FMS customers' materials needs. Studies had recommended that DoD implement a system of standard supply performance reports, nut those recommendations were not implemented. As a result, the Army, the Air Force, and the DLA could not determine whether CLSSA customers received supply support that was commensurate with their $700.0 million investment in the DoD logistics system.

FINDING A. **Recommendation for Corrective Action**

We recommend that the Assistant Deputy Under Secretary of Defense for Cooperative Support Programs revise DoD Directive 2000.8, "Cooperative Logistics Supply Support Arrangements." The revision should require the Military Departments and the Defense Logistics Agency to implement supply performance reporting for Cooperative Logistics Supply Support Arrangement customers, including the establishment of performance objectives and standards, to allow for comparison of the effectiveness of the supply support provided to Cooperative Logistics Supply Support Arrangements customers with that provided to U.S. Forces.

DLA Comments:

DLA concurs with the finding and recommendation.

Encl 1

FINDING B: **Drawdown of Excess Stock**

The Army and the Air Force had not required Cooperative Logistics Supply Support Arrangement (CLSSA) customers to requisition their pro rata shares of excess stock in DoD inventory. That situation occurred because Army and Air Force CLSSA policy did not prescribe specific time frames in which customers had to requisition (buy) excess items. As a result, about $186.0 million in excess items that the Army and the Air Force procured to meet anticipated requirements of foreign countries were not requisitioned by CLSSA customers. Army and Air Force funds of $130.0 million were used to buy those items, which might not fulfill immediate or future needs of DoD customers.

FINDING B: **Recommendations for Corrective Action**

1. We recommend that the Commander of the U.S. Army Security Assistance Command:

a. Require Cooperative Logistics Supply Support Arrangement customers to issue requisition to draw down the $75.1 million FMSO I liability for excess stock in DoD inventory.

b. Revise Army Regulation 12-8, "Security Assistance Operations and Procedures," to establish time frames for customers to draw down their pro rata shares of their excess stock under Cooperative Logistics Supply Support Arrangements.

2. We recommend that the Commander of the Air Force Security Assistance Center:

a. Require Cooperative Logistics Supply Support Arrangement customers to issue requisitions to draw down the $110.6 million FMSO I liability for excess stocks in DoD inventory.

b. Revise Air Force Regulation 130-1, "Security Assistance Management," to establish specific time frames for customers to draw down their pro rata shares of excess stock under Cooperative Logistics Supply Support Arrangements.

DLA recommends the finding be rewritten as follows:

The Army and the Air Force had not required CLSSA customers to requisition their pro rata share of excess stock in DoD ***inventory to include items supported by DLA.*** That situation occurred because Army and Air Force CLSSA policy did not prescribe specific time frames in which the customer had to requisition (buy) excess items, ***to include those assets managed by DLA and stocked in support of service generated CLSSA demands.***. As a result, about $186 million in excess items that the Army Air Force ***and DLA*** procured to meet anticipated requirements of foreign countries were not requisitioned by CLSSA customers. Army, Air Force ***and DLA*** funds of $130 million were used to buy those items, which might not fulfill immediate or future needs of DoD customers.

Encl 2

RECOMMENDATION 1. We recommend that the Commander of the U.S. Army Security Assistance Command (USASAC):

a. Require CLSSA customers to issue requisitions to draw down the $75.1 million FMSO I liability for excess stock in ***Services and DLA inventory.***

b. Revise Army Regulation 12-8, "Security Assistance Operations and Procedures," to establish time frames for customer to draw down their pro rata share of excess stock ***generated by the DoDs' commitment to the CLSSA program.***

2. We recommend that the Commander Air Force Security Assistance Center (AFSAC):

a. Require CLSSA customers to issue requisitions to draw down the $110.6 million FMSO I liability for excess stock in ***Services and DLA inventory.***

b. Revise Air Force 130-1, "Security Assistance Management," to establish specific time frames for customer to draw down their pro rata share of excess stock ***generated by the DoDs' commitment to the CLSSA program.***

FINDING C. **Renegotiation of Foreign Military Sales Order I Cases**

The AFSAC did not bill CLSSA customers for increases in value of FMSO I cases. The condition occurred because the AFSAC suspended renegotiations of most FMSO I cases in January 1991, pending resolutions of pricing issues related to the inclusion of FMSO I investment (repairable) items in the Defense Business Operating Fund (DBOF). As a result, 20 CLSSA countries have FMSO I cases with stock items that are underpriced by about $31.0 million. Also those countries owe the U.S. Government $9.6 million in equity investment and FMS administrative charges.

RECOMMENDATION 1: Direct case managers to perform FMSO I renegotiations semiannually as required, or more frequently if significant changes occur in the financial status of the case.

DLA concurs with this recommendation.

FINDING C: **Recommendations for Corrective Action**

We recommend that the Commander, Air Force Security Assistance Center:

1. Direct case managers to perform Foreign Military Sales Order I renegotiations semiannually as required, or more frequently if significant changes occur in the financial status of the case.

2. Renegotiate Foreign Military Sales Order I cases to reflect the increase in case dollar values and bill customers for the increased dollar equity investment requirement and the associated foreign military sales administrative charges.

DLA recommends the following modification to recommendation number two:

RECOMMENDATION 2: Renegotiate FMSO I cases to reflect the increase in case dollar values and bill customers for the increased dollar equity investment requirement and the associated foreign military sales administrative charges. ***Pass the additional funds to the respective MILDEP/Agency with Integrated Material Management responsibility for those items not managed by the Air Force yet supporting CLSSA requirements.***

Encl 3

FINDING D: **Overbilling of Storage Fees**

The Military Departments overbilled the CLSSA customer storage fees on FMSO II cases after the implementation of the DBOF. That occurred because the Comptroller of the Department of Defense (DoD Comptroller) did not issue timely and clear guidance for the Military Departments to comply with the DBOF standard pricing concept. Another cause was that the Air Force included "undefined" amounts in storage fee computation that overstated the CLSSA customers' on-hand inventory values. As a result, CLSSA customers were overbilled at least $8.4 million in storage fees.

FINDING D: **Recommendations for Corrective Action**

1. We recommend that the Commanders of the U.S. Army Security Assistance Command, the Naval Supply Systems Command, and the Air Force Security Assistance Center identify storage fees billed to customers' Foreign Military Sales Order II cases for the periods after the implementation of Defense Business Operations Fund standard pricing policy on October 1, 1990, and credit all overpaid storage fees to the customers' foreign military sales trust accounts.

2. We recommend that the Commander of the Air Force Security Assistance Center issue credit to the foreign military sales customers' trust accounts for the storage fees overbilled due to the inclusion of the "undefined" category value in the computation of storage fees in FYs 1984 through 1993.

DLA Comments:

DLA concurs with the finding and recommendation. Since DLA does not write CLSSA cases, all cost for requisition support to include storage are included in the DBOF standard price. The MILDEPS pass to DLA the funds required to establish the FMSO I levels for initial support. DLA supports of the FMSO II case, is through a funded requisitions received from the Services International Control Offices.

Encl 4

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