

DSCA 01-22
Finance IPT Reinvention Policy Documents
19 September 2001

19 SEP 2001

In reply refer to:
I-01/009498-FM

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF THE ARMY
(INTERNATIONAL AFFAIRS)
DEPARTMENT OF THE ARMY

DIRECTOR, NAVY INTERNATIONAL PROGRAMS OFFICE
DEPARTMENT OF THE NAVY

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

DIRECTOR, DEFENSE LOGISTICS AGENCY

DIRECTOR, NATIONAL IMAGERY AND MAPPING
AGENCY

DIRECTOR, NATIONAL SECURITY AGENCY

DIRECTOR, DEFENSE CONTRACT MANAGEMENT
AGENCY

DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE (DENVER CENTER)

SUBJECT: Finance IPT Reinvention Policy Documents (DSCA 01-22)

As you know, the Finance IPT was one of four Reinvention teams established to develop and implement deliverables aimed at improving FMS financial operations. In that regard, I am pleased to take this opportunity to provide the policy documents relating to those deliverables.

The Finance IPT focused on three main areas: Standby Letter of Credit (SBLC); Payment Schedules; and Case Closure. Attached are the following:

SBLC

Attachment 1

Excerpts from USG Procedures Paper

Payment Schedules

Attachment 2

Payment Schedule Policy Guidance

Attachment 2A	Lexicon of Payment Schedule Related Terms
Attachment 2B	FMS Case Review and Reconciliation Checklist
Attachment 2C	Payment Schedule Variance Report Sample (with Lexicon)
Attachment 2D	Revised DoD Financial Management Regulation, Volume 15, (DOD 7000.14-R), Chapter 4 Payment Schedule Policy
Attachment 2E	Life Cycle Matrix for Payment Schedule Actions
Attachment 2F	Line-Level Roll-up Methodology
Case Closure	
Attachment 3	Fall 2001 Closure Review Schedule, Timeline, and Process

I am confident that these policies represent real change and improvements to our FMS program, and that its implementation and widespread practice will further promote business process efficiencies and increase customer satisfaction.

Except as noted in attachments 1 and 2, these policies are effective immediately. Wide dissemination of these documents is strongly encouraged. In addition, these documents will be posted on the DSCA web site, Publications and Policy section (<http://www.dsca.osd.mil>) and as a reference document in DoD Deskbook (web2.deskbook.osd.mil).

In closing, I want to thank the individuals outside DSCA as noted in Attachment 4 for their outstanding contributions to this important endeavor. Please convey my personal appreciation for their dedication and professionalism, without which the IPT's objectives would not have been accomplished.

Should your staff have any questions, the DSCA point of contact is Mr. David Rude, Financial Policy Team Chief/IPT Chair, (703) 604-6569, e-mail: david.rude@osd.pentagon.mil.

/SIGNED/
Tome H. Walters, Jr.
Lieutenant General, USAF
Director

Attachments
As stated
Copy to:
Commandant, DISAM
OUSD (Comptroller/Business Policy)
USASAC Alexandria
USASAC New Cumberland
NAVICP
AFSAC

Attachment 1

Standby Letter of Credit (SBLC) Procedures Paper Excerpts

Section 1: Introduction and Framework

1.1 Purpose

This paper describes the procedures pursuant to which a Standby Letter of Credit (SBLC) instrument can apply to the Foreign Military Sales (FMS) program. The rights of the DSCA under an SBLC are independent of the underlying transaction between the financial institution and the FMS Purchaser.

1.2 Scope

This SBLC is in lieu of termination liability (T/L) prepayment requirements under the FMS program. Instead of T/L prepayments being deposited into the FMS Purchaser's Federal Reserve Bank (FRB) account or the FMS Trust Fund, an equivalent amount is guaranteed under the SBLC. Other financial requirements owed the USG (i.e., working capital) are not covered by this arrangement. This SBLC covers all basic FMS cases offered on or after 1 November 2001.

Section 2: Responsibilities

2.1 Defense Security Cooperation Agency (DSCA)

The DSCA is the Beneficiary stated on the SBLC. The DSCA is responsible for implementing all aspects of the U.S. Security Cooperation Program. In addition, DSCA is the Trust Fund manager of the FMS program and is ultimately responsible for sound and efficient fiduciary and financial management thereof.

2.1.1 Director

The DSCA Director has overall responsibility for ensuring the successful implementation, execution and management of the SBLC program. The Director must approve any waivers to the eligibility threshold criteria contained in Section 3.3 and 3.4 below as regards a particular SBLC application.

2.1.2 Comptroller

The DSCA Comptroller directs and oversees the financial management of Security Cooperation programs (particularly the Foreign Military Sales program) and DoD appropriated programs allocated to DSCA to optimize the use of fiscal resources and maximize benefit to the U.S. foreign policy and national security objectives. The Comptroller is the lead directorate within DSCA for performing the FMS Trust Fund manager functions/duties.

The DSCA Comptroller provides general leadership and policy guidance to the Deputy for Financial Management regarding administration of the SBLC program. The Comptroller signs all invitations for FMS Purchasers to consider joining the SBLC program. The Comptroller determines whether a SBLC application will be approved or rejected. Lastly, the Comptroller normally signs all SBLC documents on behalf of DSCA ("Beneficiary").

2.1.3 Deputy for Financial Management (FM)

The Deputy for FM is responsible for day-to-day financial management of the FMS program, to include country financial management, financial policy and information reporting.

FM will prepare all invitation letters; issue for release all SBLC documents; conduct negotiations and discussions with FMS Purchaser representatives and participating bank officials; recommend to the DSCA Comptroller whether a SBLC application should be approved or rejected; ensure adherence to SBLC policy; update SBLC policy as necessary (to include obtaining requisite coordinations thereon); notify DFAS and the Implementing Agencies when SBLCs are implemented (to include confirmation as to which FMS cases pertain); maintain a current tracking mechanism to reflect SBLC activity; resolve problems/issues that arise; keep the DSCA Director and Comptroller apprised of SBLC-related issues as appropriate; serve as USG contact for all SBLC-related inquiries; and serve as overall coordinator for the SBLC program.

2.1.4 General Counsel (GC)

The DSCA GC will serve as counsel to the Director, Comptroller and FM on SBLC issues. GC will coordinate on all SBLC documents prior to their issuance to designated parties for their review and acceptance. GC is responsible for reviewing any proposed revisions to SBLC documents. In addition, GC will articulate dispute resolution mechanisms. As necessary, DSCA GC will coordinate with DoD GC (Fiscal).

2.2 Office of the Under Secretary of Defense (Comptroller)

The OUSD(C) is responsible for issuing financial policy relating to the FMS program. Volume 15 of the DoD Financial Management Regulation (FMR, DoD 7000.14-R) pertains. OUSD(C) shall coordinate on the generic SBLC documents and issue formal changes to the FMR/Volume 15 to reflect the SBLC program.

2.3 Defense Financing and Accounting Service (DFAS) Denver

The Directorate for Security Assistance (DFAS-AY/DE) is responsible for the financial accounting of FMS Trust Fund transactions. As regards the SBLC, DFAS-AY/DE will record the deposit of funds from the issuing/confirming bank(s) to the FMS Purchaser's Trust Fund general ledger account (GLA) 1009. (This will have a corresponding impact on GLA 1001 as well.) DFAS-AY/DE will be provided copies of all sight drafts issued by DSCA, in order to be provided advance notification of the forthcoming deposit.

2.4 FMS Purchaser

The FMS Purchaser may initiate a request to participate in the SBLC for FMS program. All requests, either initiated unilaterally or in reply to a DSCA invitation, must be sent to the DSCA Comptroller in writing and signed by an official authorized to accept the SBLC documents on behalf of the Purchaser's government/organization. The FMS Purchaser is responsible for paying to the issuing bank any/all fees associated with the SBLC. No fees can be capitalized or subsumed into the dollar amount specified in the SBLC documents. The Purchaser must specify to DSCA the issuing and/or confirming bank(s) it wishes to participate in the SBLC for FMS program. The Purchaser is responsible for notifying DSCA in writing if and when it wishes to terminate its agreement with an issuing and/or confirming bank. Lastly, the Purchaser must sign

the agreement specifying terms and conditions in order for the associated SBLC to be implemented.

2.5 Implementing Agencies (IAs)

Refer to Chapter 7 of the Security Assistance Management Manual (DoD 5105.38-M) for general IA responsibilities as regards the FMS program. For the SBLC program, the IAs will be notified by DSCA when the SBLC for a particular FMS Purchaser is implemented. That notification will include the list of cases (or cite all cases as a general statement) governed by the SBLC. Accordingly, the IA will ensure proper format of payment schedules that extract the T/L component as a financial requirement owed the USG. Likewise, should a given SBLC be terminated, the payment schedules may need to be revised to re-insert T/L as appropriate; the same time frames as noted in the preceding sentence apply.

Section 3: Implementation

3.1 Implementation Criteria

The SBLC is binding when issued. The Terms and Conditions Agreement is considered to be implemented when all parties signed all copies of the documents and the corresponding SBLC is issued. At this stage, the process to notify applicable USG agencies as to the implementation shall commence.

3.2 Notification to USG Entities

Upon SBLC implementation, DSCA will engage specific DoD components as follows:

- *Implementing Agencies:* A frontchannel cable will be sent from DSCA that provides the SBLC implementation date; confirms the extent of T/L coverage under the SBLC; and provides either a list of affected cases (or makes general reference to all cases to which T/L applies). The cable will also specify actions to be performed in terms of ensuring proper format of payment schedules on affected cases. See Section 2.5 above.
- *DFAS:* A frontchannel cable will be sent from DSCA that conveys the requirement to modify the means by which DFAS captures the payment schedule amounts into its DIFS system.
- *FMS Purchaser:* A letter will be sent from DSCA that confirms implementation details of the SBLC documents.

Section 4: Execution/Monitoring/Adjustments

4.1 Sight Draft Process/Requirements

A sight draft is a demand for payment. This Section describes the associated actions and requirements.

4.1.1 Events Prompting a Sight Draft

A sight draft may be completed by FM and signed by the DSCA Comptroller after coordination and approval by the Director or Deputy Director. DSCA may issue a sight draft if any of the following situations occur:

- The FMS Purchaser notifies the USG in writing that it is terminating all or a portion of any FMS case.
- The USG notifies the FMS Purchaser in writing that it is terminating an FMS case(s) or contracts relating to an FMS case.
- The USG is aware the SBLC is being either terminated or not extended beyond its expiration date.
- A contractor presents a bill to the USG for termination charges associated with an FMS case(s).
- The issuing and/or confirming bank falls below DSCA's acceptable eligibility thresholds.

The sight drafts may demand payment for the entire secured amount (to include the automatic amendment of up to 10 percent over the original secured amount) or for a portion of the secured amount. Multiple drawings, on either the same date or on separate dates, can also occur, provided those drawings taken together do not exceed the original or amended secured amount.

4.1.2 Sight Draft Presentation

The sight draft must be completed and signed by the DSCA Comptroller. It will be presented to the issuing bank (with a copy to the FMS Purchaser and, if applicable, the confirming bank). DSCA will handcarry, express mail or telex the sight draft to the address specified in the SBLC and the Terms and Conditions Agreement. No documentation other than the sight draft is required for presentation to the bank in order for that presentation to be complete. The bank cannot dishonor payment by demanding that additional documents be furnished by the DSCA.

4.1.3 Sight Draft Honor

The sight draft, SBLC agreement (and, in the absence of specific terms, clauses or provisions in either of those documents, the ISP 98) govern the timeframes by which the payment demand is to be honored.

4.1.4 Application of Payment Received

The sight draft specifies the account into which the payment shall be remitted. Upon receipt, DFAS will ensure the payment is properly credited to the FMS case(s) as directed on the wire transfer. DFAS will notify DSCA (FM) via e-mail as to the date deposited and FMS case(s) credited within three (3) business days of demand payment receipt. DSCA (FM) will acknowledge to DFAS via e-mail within one (1) business day thereafter its receipt of the DFAS advice and confirm that it approves the demand payment application.

4.1.5 Impact of Sight Draft on SBLC Secured amount

To the extent a sight draft is presented and demand payment received, the corresponding amount is deducted from the SBLC Secured amount remaining for future payment. Understandably, a bank's amount under an SBLC for a given FMS Purchaser is ultimately finite in nature. For example, if the SBLC Secured amount is \$100M and a payment of \$42M

is made to DSCA, only \$58M is available for subsequent drawings. An exception to this is if the SBLC Secured amount is restored to \$100M (or some other amount) via an amended or new SBLC.

4.2 Monitoring Requirements

DSCA (FM) will monitor the status of each SBLC for FMS on a basis not less than quarterly. This includes processes as noted in the following sections.

4.2.1 Validating T/L Requirements

Each quarter, DSCA (FM) Financial Policy will, in coordination with the DSCA (FM) CFD, determine whether the secured amount specified in the SBLC remains adequate to cover T/L requirements for the portion of the Purchaser's FMS program governed by the SBLC. This is in recognition of the dynamic nature of FMS programs. For example, during the period in which a given SBLC is active, many FMS cases may be implemented, many may close and many may continue to be executed – all of which may impact the corpus-level T/L requirement. Refer to Section 6.3 below for actions taken to amend the SBLC to reflect changes in the T/L.

4.2.2 Tracking Mechanism

Each quarter, DSCA (FM) Financial Policy will submit via the Deputy for FM to the Comptroller a report to identify SBLC activity/status. On an annual basis (by 31 October for the fiscal year-end), a consolidated report will be forwarded to the DSCA Director with an information copy to OUSD(C). The annual report will include overall assessments and a recommendation as to any changes in the overarching SBLC policy that may be required to more effectively execute this program.

4.3 Amendments

It is recognized that valid changes to any given SBLC while it is active can be necessary. These changes could be prompted by the DSCA assessment that the amount should be adjusted, the Purchaser's and/or issuing bank(s) request for the same, and changes in any terms and conditions acceptable to all parties. Regardless of the reason, all amendments must be approved by DSCA before they are accepted and implemented.

4.4 Impact on LOA Payment Schedules

T/L applies for purchases of defense articles and defense services made pursuant to Section 21 of the Arms Export Control Act. In the event no SBLC exists, T/L prepayments are made as part of the financial requirements owed the DSCA on each applicable FMS case. With an executed SBLC, T/L requirements are instead governed by the SBLC instrument. The SBLC therefore impacts the USG's financial requirements. Accordingly, the FMS case payment schedules must be adjusted to identify the revised amount owed the DSCA (which equals the advance collection of funds needed to cover anticipated disbursements).

Upon SBLC implementation, DSCA will notify the IAs in accordance with Section 3.2 above. For basic FMS cases offered on or after 1 November 2001, the IAs will ensure payment schedules reflect the exclusion of T/L from the financial requirements owed the USG. Initially, this will be accomplished by ensuring the payment schedules (using the current format) consider only the anticipated financial expenditures and omit the T/L requirement. The following format applies once the requisite reprogramming enhancements to DSAMS are completed:

Quarterly Payment	(1) Total Requirements	(2) Termination Liability	[(1) – (2)] USG Financial Requirements
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Upon receiving the LOA documents, DFAS will load the “USG Financial Requirements” figures into DIFS. This will replace the “total requirements” figures currently shown in DIFS and, consequently, revise future financial forecasts and individual quarterly amounts due.

Section 5: Closeout

5.1 Closeout

Closeout of the SBLC can be prompted by its termination or expiration without extension. Within thirty days after either date (whichever occurs earlier), the bank(s) will be requested to submit to the DSCA Comptroller and to the authorized FMS Purchaser official a written notice that confirms the SBLC was closed and that the bank is no longer carrying this contingent liability on its books. Within fifteen days after receiving the bank’s notice, DSCA will send written confirmation to the FMS Purchaser and the bank that it has also closed the SBLC. Written confirmation to the FMS Purchaser will also include information on how future T/L requirements will be billed until/unless a new SBLC is implemented. DSCA will notify DFAS and the IAs that the SBLC was closed and instruct (a) the IAs as to consequent payment schedule methodology and (b) DFAS as to the revised billing process.

If the FMS Purchaser requests that the SBLC not be renewed, not later than 30 days prior to the expiration date it may request that DSCA either draw the entire T/L amount from the SBLC or shall deposit the applicable T/L prepayment amount into its FMS Trust Fund account. If the secured amount available in the SBLC is not sufficient to cover all T/L funds required at the time of SBLC expiration, the Purchaser would be responsible for depositing that uncovered amount.

Section 6: Points of Contact

For more information, contact:

DSCA Deputy for Financial Management

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SBLC Program Coordinator/Financial Policy

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Attachment 2 Payment Schedules Policy

Note: This policy will be incorporated into the Security Assistance Management Manual (DoD 5105.38-M) and Volume 15 of the DoD Financial Management Regulation (DoD 7000.14-R).

Definitions

In order to ensure common understanding of the terms utilized throughout this policy guidance, the IPT developed a lexicon defining those terms. The lexicon is furnished at Attachment 2A.

Implementation Guidelines for DEPSECDEF 13 Dec 99 Memorandum

On 13 Dec 99, the DEPSECDEF issued a memorandum concerning FMS financial management. That memorandum mandated the periodic revision of payment schedules and described the reconciliation requirements for major cases. This policy memorandum provides implementation guidelines for effectively executing those requirements.

Case Reviews. All FMS cases must be reviewed. A review shall occur at least annually either (a) on the anniversary of basic case implementation; (b) in preparation for a formal review with the FMS customer; or (c) when the case value adjusts by ten percent or more. Attachment 2B provides the minimum review items that, taken together, constitute a review of an FMS case. The IAs should develop checklists that incorporate the Attachment 2B case review items, and issue detailed procedural guidance that provides supplementary information unique to each IA. Each checklist shall be signed and dated by the case manager conducting the review, and shall become an official document within the applicable case file.

Additional Major Case Requirement. In addition to the guidance specified above, a quarterly payment schedule variance report was developed to signify major cases for which discrepancies between the payment schedule and financial requirements appear to exist. A sample of this report, along with a lexicon defining each data element thereon, is furnished at Attachment 2C. The report will be comprised of two sections: (1) the universe of all open FMS cases; and (2) a filtered version. The filtered version identifies only those cases meeting the following criteria:

- ☐ Is a major case as defined in Attachment 2A
and
- ☐ Type of Assistance code is not equal to '3' (i.e., Cash with Acceptance) or 'U' (FMSO I)
and
- ☐ Expenditures do not exceed 80 percent of the total LOA value
and
- ☐ The variance between the payment schedule and financial requirements exceeds 25 percent for the average of the past three quarters.

This filtered version should be considered as the actionable version. It will be generated and distributed by DSCA. The IAs will use this report to issue workflow tasks in DSAMS that will bring these variances to the attention of case managers for their analysis and, as appropriate, revision to the corresponding payment schedules via a modification or (if a scope adjustment is being done concurrently) an amendment.

Case Reconciliations. While all cases must be reviewed, not all cases need to be reconciled. A reconciliation is required only when errors or discrepancies are found during the review. The IPT identified those reconciliation actions, correlated them with the aforementioned case review actions, and combined them into a single matrix (see Attachment 2B). This matrix describes what needs to be done to correct situations found during the review. As with the case review checklist, the IAs should develop procedural guidance that provides a “how to” primer on fixing errors discovered during the review. Many of these tools are already being taught in the DISAM-CR (Case Reconciliation/Closure) course and should be promulgated throughout the FMS community. (To that end, DISAM should incorporate the Attachment 2B matrix into its CR course curriculum.)

Payment Schedule Format

Through the IPT’s discussions and the simultaneous rewrite of Volume 15 to the DoD Financial Management Regulation (DoD 7000.14-R), revisions to the payment schedule format were made. Attachment 2D illustrates those revisions contained in Chapter 4 of the rewritten Volume 15. For example, use of the term “Initial Deposit” no longer applies to LOA amendments; instead, the new language is “Due with Amendment Acceptance.” This change eliminates the confusion that “Initial Deposits” as related to amendments oftentimes caused. Another key formatting change regards cases subject to the Standby Letter of Credit (SBLC); refer to Attachment 1 for more information. Other fundamental revisions to the payment schedule methodology are articulated in ensuing sections of this document.

Factors/Variables

Life Cycle Matrix. The relevance of payment schedules spans from pre-LOR through active case reconciliation. Attachment 2E provides a matrix delineating the general actions relative to payment schedules during each stage of an FMS case.

Line Level. A basic shift in the culture of developing payment schedules concerns the baseline for how they will be developed. In the past, payment schedules were predominantly developed at the case level; while they considered line-level activity, there was no requirement to analyze the future requirements for each line. For the future, however, the general policy rule is that schedules will be built at least at the line level (and could be constructed at the sub-line or delivery set level). For multi-line LOAs, the individual line-level schedules will be rolled-up to reflect a consolidated case-level schedule. (For cases with only one line, construct at the case level is appropriate.) From a systems perspective, DSAMS already has the capability to use curves to compute projected line-level financial requirements that would, in turn, be combined to form a case-level payment schedule. Attachment 2F illustrates the concept of the line-level roll-up methodology using quarterly estimated expenditures for each line; this manual process will be incorporated into a future DSAMS release. On an exception basis, case managers will be allowed to construct payment schedules at the case level.

Collections. A primary principle of payment schedule logic is that it is intended to reflect the timeline and amounts to be paid from the FMS customer. While this statement seems fairly obvious, the absence of recording what the customer has already paid when adjusting those schedules can result in a misleading representation of future payment requirements. Thus, we have incorporated the requirement that, for payment schedule revisions reflected on LOA amendments and modifications, the amount paid from the FMS purchaser will be shown on those LOA documents. That said, the infusion of collections is the last sequential component in developing the future stream of payments. In other words, the case/program manager develops the payment schedule based on the forecasted expenditure requirements remaining on that LOA. Once those requirements are solidified in the form of a case-level schedule, the amount paid by the FMS purchaser is then factored into the equation. Whether the collections to date equal, exceed or are less than the financial requirements for the next payment due on the case has a corresponding influence on the future payment schedule. Revisions B through G on Attachment 2D illustrate the impact collections have on the payment schedule. Regardless of collections, revision B reflects the projected expenditure requirements. The collection status is then used to determine which payment schedule computation logic (i.e., revisions B through G) applies.

In addition, it is worth noting that Attachment 2D also describes changes to the “Initial Deposit” and “Due With Amendment Acceptance” computation methods. These changes are shown in both the calculations and the notes underneath each payment schedule example.

Parameters/Assumptions. In order to construct as accurate a payment schedule as possible, the proper assumptions must be used and loaded into DSAMS. This touches on lead times (both administrative and procurement); period of performance; progress payment schedules; delivery schedules; and when commitments, obligations and expenditures are anticipated to be incurred. The inadvertent use of inaccurate parameters will likely result in inaccurate payment schedules. The case manager should at all times be able to validate the assumptions used to create a payment schedule.

Information Exchange. In many organizations, personnel responsible for the development and preparation of LOA documents are different from those who negotiate contracts, schedule training, determine follow-on and concurrent spare parts requirements, etc. It is critical that the full package of information necessary to develop the payment schedule portion of LOA documents be provided to the case writers. Examples of information are: contractor progress payment schedules; contractor termination schedules (used in the termination liability worksheet); lead times/availability; periods of performance; delivery schedules; estimated contract award dates; customer requested payment schedules and organizational approvals; and disbursement histories for like-item cases or lines already implemented. As noted above, provision of this information needs to be at the line-level, not just the case-level. The more information furnished to the case writers, the more complete the analysis – which should correspond to a better representation of future payment needs.

Curve Validation. Payment schedule curves (most of which reside in DSAMS) exist as a means of profiling the expenditure patterns for types of cases/weapon systems. These curves can then be used as a means for computing expenditure patterns for similar types of cases/systems, without having to “re-create the wheel” each time. The IPT reviewed some

curves currently used and conducted a limited sampling of cases that used each curve. In general, the findings were that the curves studied required relatively minor adjustments. However, it is important to note that the sampling was extremely small in scope and that time precluded a thorough review of all curves in existence. Also, it was discovered that there was no systemic procedure for validating the accuracy of curves. Accordingly, each payment schedule curve must be validated every two years by conducting a random sampling of cases that used each curve, comparing the actual performance of those cases with the curve, and adjusting the curve based on those findings. A statistically valid sample (e.g., a sufficient number of cases are analyzed when compared to the total population of cases using a given curve) is important to provide sufficient analytic data and to document whatever adjustments to the curve resulted during the validation process.

New curves proposed by the IAs should be sent to the Headquarters component for assessment. The IAs should validate the need for a new curve (to include affirming that it will be used frequently enough to merit its creation) and verify the basis for how the proposed curve was constructed. After the IA review is completed, it should be sent to DSCA (COMPT-FM) for approval.

Termination Liability (T/L). T/L applies to procurement-based FMS cases and, when added to the disbursements projected for a given quarter, constitute the total payment due for that quarter. The use of contractor termination schedules is the preferred baseline document for calculating the T/L that would apply at a given point in time for a specific FMS case. The next preferred method is using the T/L component of the payment schedule curve being used. The least preferred method, to be used only in the absence of any other documentation, is the "DoD Standard Curve" shown in Chapter 4, Volume 15, of the DoD FMR.

This policy memorandum deletes the requirement for the T/L Worksheets to be furnished with LOA documents sent to DSCA for electronic countersignature. However, T/L Worksheets must be prepared whenever a case contains a Pricing Element Code (PEC) of 'CC'. The T/L Worksheets must reside in DSAMS. On an ad hoc basis, DSCA will print the T/L Worksheets from DSAMS.

As noted above, T/L Worksheets are prepared for cases containing a PEC of 'CC'. Moreover, T/L does not apply to *any* PEC other than 'CC'. This business rule must be followed to help ensure accurate pricing of the item and to help reflect an accurate portrayal of financial requirements owed under the LOA. If a specific case, or line within a case, contains multiple PECs, to include 'CC', care must be taken to appropriately pro-rate the 'CC' component for the purpose of computing the T/L.

'BK' Transactions. The 'BK' transaction, aka "K" cards, represent committed unfilled requisitions. These requisitions apply to the Cooperative Logistics Supply Support Arrangement requisitioning cases (FMSO II) and some blanket order cases. Through the IPT's discussions, it was agreed that the 'BK' billing process was more convoluted than necessary. As such, the 'BK' transaction/'K' card feed from the IAs to DFAS will in all instances form the basis for what is billed to the FMS customer. In addition, payment schedules for the 'BK transaction-based cases shall include a note directly underneath the schedule that states the following: *"This schedule represents the USG's best approximation*

only, and is ultimately determined by actual FMS customer requisitioning.” Significant variances that arise on ‘BK’-based cases will, if meeting the criteria for the payment schedule variance filtered report, require revisions to the approximate payments for the remainder of that case.

Customer Requests. On occasion, the FMS customer may submit its requested payment schedule for a given case. This schedule may be based on its internal budgetary allocation, reflect other constraints or may reflect a desire to pay on an accelerated basis. In all instances, the IA should analyze the customer’s request in the context of whether the desired incoming cash flow ensures sufficient funds are available throughout the life of the case. This requires a comparison with the payment schedule the USG would have otherwise developed on its own. Every effort should be made to accommodate customer requests. If minor adjustments should be made to satisfy our requirements, a dialogue with the customer should commence; an outright rejection should not be initiated. Most obstacles will be overcome through clear and open communication in advance of an offered LOA.

To the extent customer-requested schedules that deviate from the USG’s schedule are used, only the customer-requested schedule will appear on the LOA (except for certain Japan cases under its Planned Payment Schedule concept). The case manager must document, either through DSAMS or in the case file, the USG-developed payment schedule that would have otherwise been used had the customer not requested a unique schedule. A note underneath the schedule is required to confirm usage of the customer-requested schedule (provide a reference) and USG approval (provide name of organization and approval date). In addition, a second note to be placed underneath that schedule shall be worded as follows: *“The USG reserves the right to bill for additional amounts if, during the execution phase, actual costs materialize at a rate that cannot be supported by the customer-based schedule.”* That said, it is understood that dialogue with the FMS customer will occur in advance of modifying the payment schedule to reflect a profile not based on our prior arrangement.

Lastly, customer-based schedules will impact the T/L Worksheet. The IA should first develop the T/L Worksheet based on the payment schedule the USG would have otherwise developed (to include contractor termination costs). Then, the customer-based schedule should be overlaid and used to re-calculate what the T/L profile will be based on that schedule. In other words, the T/L “curve” will change to accommodate and align with the customer-based schedule.

Updates. Updates to payment schedules are an integral part of keeping the FMS customer informed as to changes during the execution phase of an LOA. These changes may be necessary to reflect revisions to delivery schedules (for example) and also adjusted scopes. For major cases, this includes the payment schedule variance filtered report discussed above. For all cases, the payment schedule review occurs at least annually, and is one item found on the case review checklist (Attachment 2B).

Special Billing Arrangements (SBAs). Over 30 countries have SBAs that serve as alternate billing arrangements with DSCA and DFAS. These SBAs were created primarily as a result of customer dissatisfaction with the payment schedule process. We believe that the improved policies and methodologies will likely, over time, obviate the need for SBAs from a USG

perspective. However, ultimate decision on whether to continue or terminate an individual SBA rests with the applicable FMS customer. No SBA will be terminated unilaterally.

DSAMS and DIFS. The policy revisions articulated in this guidance necessitated a number of revisions and corrections to the DSAMS (and to a lesser extent, DIFS) constructs. These issues were explored in detail with the DSAMS programmers earlier this year. The meeting with DIFS programmers has not yet been held. However, due to the relative complexity of some programming requirements, not all of the policy revisions can be implemented immediately. DSCA will send a formal memorandum announcing deployment of the release that incorporates these changes. Refer to the “Implementation” section below for additional information on when the policies announced herein will be effective.

Implementation

The following policies are effective immediately upon the USG FMS community being adequately trained on these requirements, and in any event not later than 31 December 2001:

- Case review and case reconciliation requirements (including the checklists).
- Use of, and taskings through DSAMS based on, the payment schedule variance report (filtered/actionable version).
- Reference to the life cycle matrix.
- Construct of payment schedules from the line-level using curves in DSAMS, rolled-up to the case-level.
- Use of valid/proper parameters and assumptions when building schedules.
- Information exchange requirements between case writers and information providers.
- Curve validation process.
- Elimination of requirement to provide T/L worksheet with LOA packages sent to DSCA for countersignature.
- Inclusion of notes underneath LOA payment schedules for ‘BK’ transaction-based cases and also for customer-requested schedules.
- Payment schedule update requirements.

The following policies are effective when DSAMS or DIFS are reprogrammed, the corresponding releases are deployed, and DSCA notifies the FMS community:

- Reformatted payment schedules (to include insertion of collection data) (DSAMS)
- Construct of payment schedules from the line-level using manually-entered quarterly financial expenditures, rolled-up to the case-level (DSAMS)
- Computing T/L amounts based only on PEC of ‘CC’ (DSAMS)
- Reformatted T/L worksheets (DSAMS)
- Recomputed billing methodology for ‘BK’ transaction-based cases (DIFS)

Attachment 2A

Finance IPT Lexicon

[Reference Librarian Note: Click on the link below to see the Finance IPT Lexicon in it's original format.]

[Launch Finance IPT Lexicon \(.xls format\)](#)

Term	Definition
Major case	Defined order: \$25M/Blanket order or CLSSA: \$10M/and/or 15% or more of a country's total FMS program. Refer to the "Case-Related Manpower Activities and Associated Costs" matrix for decision criteria on funding manpower efforts.
Reconciliation	Logistical and financial actions to ensure proper accounting, accuracy of data, currency of schedules, timeliness and completeness of reporting.
Internal Review	A comparison of case level financial and logistical data between the Defense Integrated Financial System (DIFS) and MILDEP systems.
Lead Time/Availability	The time interval from LOA acceptance to final delivery. Comprised of two parts: (1) Admin Lead Time (ALT, from LOA acceptance to contract award); and (2) Procurement Lead Time (PLT, from contract award to final delivery). SAMM, Sec 070105B.
Period of Performance	Indicates how long the requirement is planned to last, the duration of a service.
Commitments	An administrative reservation of funds based on firm procurement requests, unaccepted customer orders, Directives and equivalent instructions for items to be bought in the future. Commitments constitute the 1st stage in the FMS funding process. Refer to DoD FMR, Volume 1.
Obligations	A binding reservation of funds, to include amounts of orders placed, contracts awarded and services received. The amount of obligations incurred is segregated into undelivered orders and accrued expenditures -- paid or unpaid. Represents the 2nd stage of the FMS funding process. Refer to DoD FMR, Volume 1.
Accrued Expenditures	Represents completed obligations, both paid and unpaid. This is the 3rd stage of the FMS funding process. Refer to DoD FMR, Volume 1.
Disbursements	Funds paid from the FMS Trust Fund for bills submitted from contractors and the Implementing Agencies. Represents the 4th stage of the FMS funding process. Refer to DoD FMR, Volume 1.
Curves	Predetermined schedules that can be used as a basis for

	developing a payment schedule for a given case or line on a case.
Types of cases	Defined order; blanket order; CLSSA; non-standard. SAMM, Section 70002C1 thru C4.
Special Billing Arrangement	An alternative to the DD645's financial forecast and Column 14 that serves as an official USG billing statement to the FMS customer. Usually computed at country or in-country service level.
Termination Liability for Payment Schedules	The amount of prepayments required by Sec 22, AECA, that cover payments required by the contract and any damages and costs that may accrue from the cancellation of such contract. Funds prepaid for T/L will convert to cover actual expenditures should the contract not be terminated prior to performance completion. T/L does not apply to articles/services procured under other authorities of the AECA or FAA.
Forecasting/projection Methodology	The basis by which estimates are derived to reflect future financial performance and associated funds owed the USG. For example, contractor furnished progress payment/disbursement schedules, historical requisitioning activity, analysis of past performance of similar cases, lead times, delivery schedules and periods of performance are factors for estimating future financial requirements.
Standby Letter of Credit	The SBLC is a universally-recognized and commonly-used banking instrument which, for FMS, can be used in lieu of T/L prepayment requirements.
Curve Validation Methodology	The process by which payment schedule curves/profiles housed in DSAMS are validated. All curves must be validated every two years, using the following process: random sampling of XXX cases that used each curve at any point during the preceding five years; obtaining of actual performance data from DSCA/DLO; comparing actual performance with forecasts as shown on curves/profiles; determining whether allowable variations are exceeded; and adjusting the curve/profile as appropriate.

Attachment 2B

Case Review and Reconciliation Matrix

[Reference Librarian Note: Click on the link below to see the Case Review and Reconciliation Matrix in it's original format.]

[Launch Case Review and Reconciliation Matrix \(.xls format\)](#)

Minimum Actions Required

WHAT TO REVIEW	LOA	DIFS	MILDEP SYSTEM 1/	CASE DIR	CASE FILE	CASE MGR RECORDS	FUNDING DOCS	SHIPMENT DOCS	VOUCHER/ EXPNS	WHAT TO DO (RECONCILIATION) 2/
SYSTEM DATA										
Compare LOA values in DIFS and MILDEP systems	X	X	X							When DIFS does not equal LOA values contact Country Accountant at DFAS-AY/DE for assistance
Compare LOA line values and associated CAS, and LSC to MILDEP systems and DIFS at line values	X	X	X							When MILDEP system values do not equal LOA values contact legacy system point of contact to resolve
Ensure OA received does not exceed ADJ NCV	X	X	X	X		X				When OA received exceeds ADJ NCV check case direction; ensure OA value is net of CAS and LSC; check with legacy system point of contact
MILDEP SYSTEM										
Ensure commitments are posted			X		X	X				Ensure commitments are posted; check program office (local records) against official accounting and MILDEP records; check with financial point of contact/comptroller to ensure records are accurately posted
Review commitments, obligations and expenditures	X	X	X	X	X	X	X		X	Review case accounting records to ensure that the case is not over committed, obligated or expended. If the case is in a financially troubled or financially adverse condition, review case and take appropriate action to clear erroneous commitments, obligations and expenditures or increase case as appropriate. Contract NULOs require intensive work. Contract histories from MOCAS may be required. If necessary prepare correction packages, forward to comptroller and DFAS. Refer to FMR, Vol 3, Chapter 11 for additional information and guidance on problem disbursements.
Ensure obligations do not exceed OA received vs. LOA values	X		X	X	X	X	X			If obligations exceed OA received, check funding documents, check system to ensure duplications are not posted. If duplications

										posted contact financial point of contact/comptroller to deobligate. If obligations are valid, determine if all OA has been drawn down. If not, drawn down additional OA. If all case OA received and obligations exceed OA, a case mod/amend required to increase case value. Check financial system to ensure that correct use of appropriation indicators, pricing element, direct/indirect pricing codes were utilized as well as the correct Delivery Source Codes
Ordered quantity versus delivered quantity	X	X	X	X	X	X	X	X		LOA quantities ordered versus delivered quantity. Check case direction in program directives against LOA and ensure that quantities ordered/delivered do not exceed LOA -- also check quantities in legacy systems. If invalid initiate corrective action with legacy system point of contact or other point of contact. If valid, mod/amend LOA accordingly.
Deliveries. Ensure accurate and timely delivery reporting of ALL deliverables.	X	X	X	X	X	X	X	X	X	Track deliveries of major items and ensure all deliveries (physical and financial) already completed are recorded. Also ensure that as deliveries are posted that NRC costs are appropriately billed. Ensure any NRC waivers that apply are not inadvertently billed. Track and ensure all other deliveries (physical and financial) already completed are recorded and ensure that future deliveries are recorded. If deliveries are delayed notify customer and prepare case mod/amend when required. When LOA lines/case becomes supply complete, ensure MILDEP system is annotated with a material/service complete date. Issue Notice of Supply Service Completion (NSSC) IAW local MILDEP/Command procedures. Also ensure that "E" (estimated) deliveries are converted to actual deliveries. "E" bills will enable all material shipped to be reported to DIFS as shipped delivery reported. The "E" bill will be used if an actual bill was not received within 30 days of material shipment/service performance. Ensure "E" billings are converted to actual billings throughout the case and specifically at closure.
Ensure all travel orders/vouchers are liquidated		X	X		X	X	X		X	Travel Vouchers. Travel vouchers are a reconciliation problem. Ensure that vouchers are submitted within 5 days of travel completion. Obtain copy of travel voucher when paid by DFAS. <u>For invitational travel orders or when travel funds are sent to other</u>

										activities, do not issue additional travel funds until all paid vouchers have been received. Upon receipt of paid travel voucher ensure all travel is liquidated.
Ensure posting to correct LOA Line; also review Delivery Source Codes, Appropriation Indicators, and Pricing Elements and delivery quantities	X	X	X	X	X	X	X	X		Review funding documents, to check appropriation indicators, pricing elements, and delivery source codes to ensure that deliveries are posting correctly within MILDEP system and in DIFS (to the correct LOA line). If any part of the property accounting activity (PAA) field in the line of accounting is erroneous, work with financial point of contact/comptroller to correct. Make changes as necessary to DSAMS in order to keep case reconciled, this may require case mod to realign.
Review and resolve Adverse Financial Condition (AFC) and Financially Troubled Condition (FTC) cases (to include ensuring expenditures do not exceed obligations)		X	X		X	X	X		X	If an AFC/FTC condition exists, check funding documents, validate commitments/obligations/ expenditures and check system to ensure duplications are not posted. If duplications posted contact financial point of contact/comptroller to correct. If expenditures are valid, determine if all OA has been drawn down. If not, drawn down additional OA and increase obligations. If all case OA received and obligations exceed OA, a case mod/amend required. Increase case.
Resolve problem disbursements		X	X		X	X	X		X	If case has problem disbursements, review funding documents, validate commitments, obligations and expenditures against MILDEP system, if valid and no additional OA available prepare case mod/amend to increase case; or realign funds via case mod/amend. If invalid prepare correction package IAW local MILDEP/Command procedures and forward to financial point of contact/comptroller for processing.
Obtaining Billings on current information on reimbursable documents.			X		X	X	X		X	Obtain finals on reimbursable documents with 90 days after funding document expires. Field activities should submit quarterly billing information. To avoid multiple requests, send a consolidated list of missing finals to the field activity performing the work. Keep on top of reimbursable documents.
Obtain current information on contracts, including information on future deliveries (when will contract be physically complete) and financial			X		X	X	X	X	X	For acquisition items delivered under a Firm Fixed Price contract (without award or incentive fees) billing should not be an issue. If the contract is an Other Than Firm Fixed Priced contract (cost plus, incentive or award fees), check MOCAS to determine when last physical delivery will occur (as of that date) and keep a

billing information (when does contractor anticipate submitting final voucher when contract is physically complete)										copy of query in file. Check MOCAS, work with the PM, ACO, PCO to obtain current contract information. When contract become physically complete, the contractor has submitted the final voucher and a final audit has been completed obtain a copy of the final contract mod and PK9/DD1594. Use these documents to clear outstanding net commitments and obligations in the MILDEP financial/accounting systems. Following MILDEP/Command procedures for audit trail when documentation is not available. Remember that for Non-ACC customers to keep track of current mods let against long running multi appropriation funded contracts to advise when last deliveries will occur.
Resolve SDRs		X	X		X	X	X	X	X	Resolve SDRs within published timeframes. Work with DFAS-AY/DE as necessary to resolve financial SDRs.
EXPENDITURES/ DISBURSEMENTS										
Ensure ADMIN, LSC, CAS and Royalty Fee disbursements do not exceed estimated ADMIN, LSC, CAS and Royalty Fees		X	X		X	X	X		X	If ADMIN, CAS, LSC or Royalty Fees disbursements exceed estimates, check funding documents, along with obligations and expenditures against MILDEP system. If duplications posted contact financial point of contact/comptroller to correct. If valid prepare case mod/amend to realign funds or if required to increase case. ADMIN and CAS costs are easier to correct than LSC. Working with DFAS-AY/DE to make summary changes to SEC 21 and SEC 22 and associated CAS costs. LSC corrections must be done at the individual reqn level/line of accounting. Also check Delivery Source Codes to ensure posting to SEC 21 and SEC 22.
Ensure Accessorial costs in DIFS do not exceed Ordered Accessorial and LOA value	X	X	X		X	X	X	X	X	Accessorials. Ensure accessorial costs do not exceed LOA estimates. If accessorial exceed, review LOA, case direction. shipping documents and actual bills to determine how items were packaged, crated, handled or transported. What changes were made? Where these reflected in the transportation bill code in the requisition? If erroneous, correct. May require a DIFS history search. Work with DFAS-AY/DE.
Ensure total OBS CUM FROM INCEPT on FIF2 Budget OA/OBS agrees with OBS		X	X							Compare MILDEP Obligations against DIFS total Obligations CUM FROM INCEPT. This amount is updated monthly. Work with DFAS-AY/DE to correct also work with legacy system

recorded in MILDEP System										administrator.
Rounding variances between MILDEP System and DFAS (DIFS)		X	X							Any rounding variances should be brought to the attention of DFAS-AY/DE to correct. Can impact CAS and LSC.
Reconcile DIFS to DIFS: DIFS FIC1 to DIFS FIS2 -- DIFS performance/case = DIFS disbursements also review CAS, LSC, ADMIN		X								Complete an internal comparison of DIFS by reviewing the DIFS FIC1 against DIFS FIS2 to ensure performance and disbursements as well as CAS, LSC and ADMIN are in balance. Any discrepancies work with DFAS-AY/DE to correct
Ensure no credit values exist in DIFS		X								Review DIFS to ensure credit (CR) balance does not exist -- too many credits processed. Run DIFS history search and compare against MILDEP records, identify individual transactions and process corrections
Ensure liquidated progress payments do not exceed PRG PMT RPT (note: N/A for "E" billings)		X								Compare DIFS PRG PMT RPT against SEC 21 and SEC 22 liquidating values. The sum of SEC 21 and SEC 22 LIQ values minus LSC should equal PRG PMT RPT. If variance greater than LSC work with DFAS-AY/DE to correct.
Comparison of DIFS deliveries against MILDEP deliveries. Ensure DLVR-ART-SVC-COST minus DLVR CAS-NON-LIQ minus DLVR-CAS-LIQ minus LSC-STOCK-FUND does not exceed MILDEP system expenditures.		X	X							Compare MILDEP deliveries against DIFS. Formula: DLVR ART SVC COST minus DLVR CAS (NON LIQ and LIQ) minus LSC STOCK FUND should equal MILDEP expenditures. Depending on the age of the case and STOCK FUND was used, the STOCK FUND would have to be added to the MILDEP deliveries in order to balance between the two systems. Obtain necessary detailed reports to determine which transactions did or did not process into DIFS. Work with DFAS-AY/DE to correct.
Comparison of DIFS Disbursements to MILDEP disbursements. Ensure DIFS TOTAL DLVR COST (F1C1) does not exceed DISB TOTAL (FIS2)) values - - along with CAS and LSC		X	X							ART SVC DISB on FIS2 should not exceed MILDEP disbursements. When MILDEP disbursements are not equal to DIFS disbursements, determine missing dollar amounts. Obtain necessary detailed reports to determine which transactions did not report to DIFS. Work with DFAS-AY/DE to correct.
FINANCIAL REVIEWS										
Conduct Yearly Case Reviews (logistics and financial) and payment	X	X	X	X	X	X	X	X	X	Conduct yearly case and payment schedule reviews of major cases based on case 'anniversary' implementation date, in

schedule review of cases										preparation for an external FMS review or when the case value changes by 10% or more. Pull various MILDEP and DIFS queries or download system data in order to prepare for review. Note any imbalances, discrepancies, reconcile, process corrections or case amend/mods as necessary. <u>Review must be annotated on local command developed form, reviewed, signed, dated and placed in case file.</u> If applicable, annotate MILDEP system indicating the a case review was completed. Initiate action against any discrepancies noted in review. Refer to FMR Vol 15, Chapter 4 and the Finance IPT Policy Memorandum.
Prepare for various financial review meetings	X	X	X		X	X	X	X		Prepare for various Case Reconciliation, Program and Financial Management reviews as tasked. Pull various MILDEP and DIFS queries to obtain data or download system as applicable to complete MILDEP/Command reporting format. Be prepared to advise customer, at a minimum, the following logistics and financial information that pertains to each case: 1) the estimated or actual delivery date at the LOA line level; 2) the estimate or actual date when the entire case will become supply complete; 3) if excess funds are available identify possible case reduction value and completion date; 4) indicate whether any open SDRs exist and progress to resolve (if known); 5) identify when case will be submitted by the MILDEP to DFAS for closure, provide an estimated case closure certificate value and any monies that will be return at closure. Note any imbalances, discrepancies and advise what actions have been or will be undertaken to resolve. Where contracts are involved, working with the PM, ACO, PCO and reviewing MOCAS (or other system) establish current information on the contract: when will entire contract be physically complete, when does contractor anticipate submitting final voucher. What about reimbursables?
CLOSURE										
Conduct Final Reconciliation of MILDEP and DIFS systems	X			X	X					As appropriate reconcile and close down case at lowest level (line of accounting, requisition, PDLI, funding document) as items are delivered to enhance overall case closure. IAW with local Command procedures issue Notices of Supply Service Completion to the customer as LOA lines complete and when the case is completed.

										Also reduce internal program/case directives to return obligational authority back to the case at case level. Conduct final reconciliation of MILDEP and DoD systems to ensure that systems are reconciled and in balance.
Determine how the case will be submitted/closed -- interim, final, zero or Standard closure	X	X	X		X	X				Determine if customer is ACC or non-ACC participant. If ACC, determine if case will be submitted for interim or final closure. If a non-ACC utilized standard case closure procedures - that is all funding documents finalized, all contracts associated with the case physically completed and contract completion statements issued. If case has been cancelled or a potential zero closure, contact DSCA (Pam Berg) to determine if ADMIN costs are applicable. Attach/provide DSCA response to DFAS-AY/DE with case closure certificate if case will closure at zero.
Estimated to Actual Billings		X	X		X	X	X	X	X	Prior to submitting any case for FINAL closure, ensure all Estimated "E" delivery billings have been converted to Actual "A" delivery billings.
Develop ULO Value		X	X	X	X	X	X		X	If the customer is an ACC participant and the case will be submitted for interim closure, develop ULO values. This pertains to ACC/EACC interim closure. Simply stated the ULO value is the difference between your net obligations and expenditures, plus any applicable CAS. The ULO value is determined by reviewing the MILDEP system and identifying financially open funding documents and their type -- reimbursable or direct cite (acquisitions/contracts). First sum up all the net commitments (contract award/incentive fees not yet obligated) and obligations on the open funding documents; then for direct cite funding documents include applicable CAS percentages -- then add the two together. Annotate the total ULO value and applicable CAS values on the case closure certificate. Prepare any worksheets as required by MILDEP/Command procedures and submit to DFAS-AY/DE prior to submitting the case closure certificate.
Conduct activities within MILDEP system to return all monies back to case level			X		X					Reduce internal program/case directives/program directive line items to return obligational authority back to the case at case level
Prepare case closure certificate		X	X		X	X				Prepare case closure certificate and case closure package for review IAW MILDEP/Command procedures. A case closure certificate is not required for cases identified as DSCA EACC

										closure candidates. A certificate should be passed to DFAS-AY/DE for MILDEP/Command EACC candidates.
Forward case to DFAS-AY/DE via MILDEP system		X	X							When review complete and certificate signed, push case for closure in MILDEP system. Retain a signed hard copy of closure certificate in the case file, e-mail the closure certificate to DFAS-AY/DE. Ensure internal distribution of electronic certificates IAW MILDEP/Command policy. A current copy of the case closure certificate is attached.
Follow-Up on Certificate/Archive Files		X			X					DFAS reviews case closure certificate against DIFS, accomplishes necessary DIFS actions and closes case -- identified on DD645. Should DFAS-AY/DE have questions on the closure certificate they should contact the point of contact list on the certificate for clarification and assistance. MILDEP should check DIFS case closure inventory on a monthly basis to determine which cases are closed. Depending on MILDEP/Command policy, keep interim closed cases in house and send final closure to archives IAW local record disposition standards.

1/Includes MILDEP accounting systems

2/The use of automated tools is highly encouraged whenever feasible

Attachment 2C

Lexicon for Payment Schedule Variance Report

[Reference Librarian Note: Click on the link below to see the Variance Report Lexicon in it's original format.]

Launch Variance Report Lexicon (.xls format)

Overall premise in using the following dates and data for payment schedule variances is that the financial requirements, per payment schedule, are billed on the DD645 for expected customer payment within 90 days after the billing DD645, to cover expenditures occurring 180 days after the billing DD645. For example, for financial requirements on the DEC 00 DD645, the payment is expected by 15 Mar 01 to cover expenditures through 30 Jun 01. By comparing the financial requirements on the Dec 00 DD645 to the Accrued Costs and Disbursements at Jun 30 00 provides a measure as to the accuracy of the financial requirements (payment schedule) on individual cases. NOTE: 'BP' = bill position.

<u>DATA FIELD</u>	<u>DEFINITION/DATA OPTIONS</u>
SBA	Special Bill Arrangement Indicator. Y = Yes; Blank = No
FMF	Foreign Military Financing. Y = Yes; N = No
CC	Country Code (Excludes 2A, 2B, 2C, 2D, 3W, 39, 67, W1, IR)
IA	U.S. Implementing Agency
CASE	Case Designator
DT-IMPL (0106BP)	The Julian Calendar date on which the case was implemented in DIFS
SoS	Source of Supply. S = Stock/Inventory; P = Procurement; X = Mixed; F = SDAF
T/A	Type of Assistance: 3 = Cash with Acceptance 4 = Dependable Undertaking, source undetermined 5 = Cash Sale from Procurement 6 = Payment on Delivery 7 = Dependable Undertaking with 120 Day Payment 8 = Sale from stock with 120 Day Payment M = Military Assistance Program (MAP) N = FMS Credit (Nonrepayable) U = Foreign Military Sales Order (FMSO) No. 1 V = Foreign Military Sales Order (FMSO) No. 2 Z = FMS Credit (Repayable) or Mixed Financed Case
ORD (0012BP)	Totaled Ordered Value of LOA, including last amendment/modification. As of DD 645 Bill Position (e.g., Mar, Jun, Sep, Dec)
FR (0012BP)	DD 645 Financial Requirements (e.g., Mar, Jun, Sep, Dec) less DIFS termination liability (TL) or Unearned Advance (UEA) If source of supply (SoS) is "S" value = UEA. If source of supply is "P" value = T/L.
ACRD COST (0106BP)	Accrued Costs. Accrued Costs consists of Total Deliveries + Progress Payments Disbursed Undelivered + Contractor


	Holdback + Progress Payment Admin Fee. This value will correlate to the date of requirements. For example, Mar report is for requirements of Jul-Sep. Jun report = Oct-Nov; Sep report = Jan-Mar; Dec report = Apr-Jun.
DLVR (0106BP)	Total Deliveries. Article/Services + Admin Fee + Accessorials (transportation, PC&H, etc.) delivered costs. This value correlates to the date of requirements.
DISB JUN 01	Total Disbursements. Article/Services + Admin Fee + Accessorials disbursements reported to the U.S. Treasury as of an accounting month. This value correlates to the date of requirements. For example, Mar report is cumulative disbursements as of 30 Sep; Jun report is cum disb as of 31 Dec; Sep report is cum disb as of 31 Mar; Dec report is cum disb as of 30 Jun.
CLCT (0103BP)	Total Collections. All collections (MAP, Credit, Cash, FRB) on a case. This value relates to the DD 645 payment due date. For example, Mar DD 645 is due 15 Jun, therefore collections = 30 Jun; Jun DD 645; due 15 Sep, clct = 30 Sep; Sep DD 645; due 15 Dec, clct = 31 Dec.
% COMP (JUN 01 BP) JUN 01 AC to DEC 00 FR	Percent the case is complete as of the last date the DD645 was prepared. This is the Accrued Costs divided by ordered costs. For the month indicated, Accrued Costs divided by Financial Requirements less T/L or UEA. For example, Jun 01 Accrued Costs divided by Dec 00 DD645 financial requirements less TL or UEA.
JUN 01 DISB TO DEC 00 FR	For the month indicated, Disbursements divided by Financial Requirements less T/L or UEA. For example, Jun 01 Disbursements divided by Dec 00 DD 645 financial requirements less TL or UEA.

JUN 00 VAR

SEP 00 VAR

DEC 00 VAR

AVG VAR



For three consecutive billing periods, this is the variance when comparing the Financial Requirement (FR), less T/L or UEA, to both Accrued Costs and Disbursements. The variance for the period indicated is the higher variance of Accrued Costs divided by Financial Requirements or Disbursements divided by Financial Requirements. A POSITIVE variance (the FR are higher than Accrued cost or Deliveries) may indicate that the payment schedules are accelerated and may be causing the FMS customer to deposit funds into their Trust Fund ahead of requirements. A NEGATIVE variance (the FR are lower than Accrued Costs or Deliveries) may indicate that Payment Schedules are lagging behind case execution and the MILDEPS expenditures may not be covered by FMS customer deposits.

Average Variance. Average variance of the previous quarters. For example, JUN, SEP and DEC variances divided by 3.

PAYMENT SCHEDULE THRESHOLD VARIANCE REPORT
(DEC 2000 DD645; PAYMENT DUE 15 MAR FOR REQUIREMENTS APR-JUN 2001)

[Reference Librarian Note: Click on the link below to see the Variance Report Lexicon Sample in it's original format.]

Launch Variance Report Lexicon Sample (.xls format)

SBA	FMF	CC	IA	CASE	DT IMPL (0106BP)	SOS	T/A	ORD (0012BP)	FR (0012BP)	ACRD CST(0106BP)	DLVR (0106BP)	DISB JUN 01	CLCT (0103BP)	% COMP (JUN 01 BP)	JUN 01 AC To DEC 00 FR	J D DE
Y	N	BN	P	GAG	99152	S	4	940,187	144,824	97,057	21,206	91,177	33,398	10%	33%	
Y	N	BN	P	GBB	00168	S	4	33,406	4,227	7,864	7,549	28,864	15,979	24%	-86%	
Y	N	BN	P	GSO	99288	S	4	348,982	4,256	4,256	0	4,256	20,007	1%	0%	
Y	N	BN	P	GSP	99288	S	4	63,877	24,452	24,452	0	22,050	63,877	38%	0%	
Y	N	BN	P	JAD	96269	S	4	2,000	1,399	503	482	503	1,399	25%	64%	
Y	N	BN	P	JAR	97213	S	4	40,000	39,999	27,975	27,797	27,975	40,000	70%	30%	
Y	N	BN	P	JAX	99170	S	4	318,000	99,690	55,526	51,622	55,526	86,081	17%	44%	
Y	N	BN	P	JAZ	99272	S	4	3,210,000	467,410	261,029	217,596	261,028	479,126	8%	44%	
Y	N	BN	P	JMC	99074	S	4	158,600	8,850	2,727	0	35,251	158,583	1%	69%	
Y	N	BN	P	MAU	93336	S	4	1,515,000	1,515,000	101,322	42,947	98,672	1,515,000	7%	93%	
Y	N	BN	P	MAV	97357	S	4	100,000	100,000	19,185	15,845	19,432	100,000	19%	81%	
Y	N	BN	P	PAQ	98336	S	4	540,292	97,897	71,271	5,035	69,898	386,385	13%	27%	
Y	N	BN	P	RAQ	99193	S	4	2,000,000	347,204	694,675	181,135	649,358	347,204	35%	-100%	
Y	N	BN	P	SBB	99188	S	4	2,630,456	2,237,125	2,013,837	460,039	1,882,108	2,630,456	77%	10%	
Y	N	BN	P	SRC	99074	S	4	206,258	2,352	2,352	0	2,352	206,258	1%	0%	
Y	N	BN	P	SRD	00007	S	4	1,205,122	114,697	14,697	0	14,697	140,000	1%	87%	
N	N	XX	P	GAS	98219	P	5	3,380,310	1,246,080	987,957	302,387	940,494	2,950,264	29%	21%	
N	N	XX	P	GAU	98209	P	5	80,707	51,809	52,786	52,373	54,344	80,707	65%	-2%	
N	N	XX	P	GAX	98258	S	4	1,559,156	99,378	386,775	370,799	406,233	1,559,156	25%	-289%	
N	N	XX	P	JMS	89284	S	4	150,188	26,000	2,233	211	2,183	102,000	1%	91%	
N	N	XX	P	JUS	94230	S	4	20,000	5,002	1,515	1,261	1,515	5,015	8%	70%	
N	N	XX	P	KBA	98343	S	V	1,000,000	679,465	950,256	934,741	970,217	619,353	48%	-40%	
N	N	XX	P	MAD	90155	S	4	600,000	453,969	241,462	96,498	230,694	453,969	40%	47%	
N	N	XX	P	MAE	96121	S	4	250,000	205,645	80,018	61,735	80,266	205,645	32%	61%	
N	N	XX	P	TAL	97189	S	4	1,957,000	1,110,873	1,181,517	1,170,056	1,165,833	1,957,000	60%	-6%	

Attachment 2D

Illustrations of Payment Schedule Revision Examples

A. Original Estimated Payment Schedule

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Initial Deposit	\$100,000	\$100,000
15 Mar 200X	90,000	190,000
15 Jun 200X	80,000	270,000
15 Sep 200X	35,000	305,000
15 Dec 200X	35,000	340,000
15 Mar 200Y	10,000	350,000
15 Jun 200Y	10,000	360,000
15 Sep 200Y	5,000	365,000
15 Dec 200Y	2,000	367,000

Given Data for Revisions 1 through 5 Below:

1. Last Payment Due Date: 15 Dec 200X (most recent quarterly payment before month of LOA amendment preparation – refer to Section 040304B)
2. LOA Amendment Prepared: February 200Y
3. Offer Expiration Date: 25 May 200Y
4. Next Payment Due Date: 15 Sep 200Y (next quarterly payment due date after Offer Expiration Date – refer to Section 040304B)

B. Revision Example No.1 -- Upward Adjustment via Amendment (Note 1); Collections Equal Previous Payments Scheduled

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled (15 Dec 200X)	N/A	\$340,000
<u>Current USG Financial Requirements</u>		<u>425,000</u>
Amount received from Purchaser		\$340,000
Due with Amendment Acceptance	85,000	425,000
15 Sep 200Y	35,000	460,000
15 Dec 200Y	25,000	485,000

Note: the “Due with Amendment Acceptance” reflected above includes amounts for payments earlier shown as due 15 Mar 200Y, 15 Jun 200Y and other requirements for the period through the payment due 15 Sep 200Y as shown above. Any payments made by the Purchaser that exceed the “Amount Received from Purchaser” as shown above are to be deducted from the “Due With Amendment Acceptance” amount shown above.

C. Revision Example No.2 – Upward Adjustment via Amendment (Note 2); Collections Exceed Previous Payments Scheduled

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled (15 Dec 200X)	N/A	\$340,000

<u>Current USG Financial Requirements</u>		<u>425,000</u>
Amount received from Purchaser		\$455,000
Due with Amendment Acceptance	0	455,000
15 Sep 200Y	5,000	460,000
15 Dec 200Y	25,000	485,000

Note: any payments made by the Purchaser that exceed the “Amount Received from Purchaser” as shown above are to be deducted from the “Due With Amendment Acceptance” amount shown above.

D. Revision Example No.3 – Upward Adjustment via Amendment (Note 3); Collections Less Than Previous Payments Scheduled

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled (15 Dec 200X)	N/A	\$340,000
<u>Current USG Financial Requirements</u>		<u>425,000</u>
Amount received from Purchaser		\$275,000
Due with Amendment Acceptance	150,000	425,000
15 Sep 200Y	35,000	460,000
15 Dec 200Y	25,000	485,000

Note: the “Due with Amendment Acceptance” reflected above includes amounts for payments earlier shown as due 15 Mar 200Y, 15 Jun 200Y and other requirements for the period through the payment due 15 Sep 200Y as shown above. Any payments made by the Purchaser that exceed the “Amount Received from Purchaser” as shown above are to be deducted from the “Due With Amendment Acceptance” amount.

E. Revision Example No.4 -- Downward Adjustment via Modification; Collections Equal Revised Payments Scheduled

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled (15 Sep 200X)	N/A	\$460,000
<u>Current USG Financial Requirements</u>		<u>375,000</u>
Amount received from Purchaser		\$375,000
Revised Payments Scheduled (15 Sep 200Y)	N/A	375,000
15 Sep 200Y	15,000	390,000
15 Mar 200Z	10,000	400,000

F. Revision Example No.5 – Downward Adjustment via Modification (Note 4); Collections Exceed Revised Case Value

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled (15 Sep 200X)	N/A	\$460,000
<u>Current USG Financial Requirements</u>		<u>400,000</u>
Amount received from Purchaser		\$425,000
Revised Payments Scheduled (15 Sep 200Y)	N/A	400,000

G. Revision Example No.6 – Upward Adjustment via Modification (Note 5); Collections Less Than Revised Case Value

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
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Previous Payments Scheduled (15 Sep 200X)	N/A	\$460,000
<u>Current USG Financial Requirements</u>		<u>460,000</u>
Amount Received from Purchaser	\$460,000	\$460,000
Revised Payments Scheduled (15 Sep 200Y)	N/A	460,000
15 Dec 200Y	40,000	500,000

Notes:

1. In Revision No.1 (due at the DFAS-AY/DE not less than 10 Dec 200X), the Previous Payments Scheduled amount of \$340,000 corresponds to the 15 Dec 200X cumulative amount on the original payment schedule. An amount due with amendment acceptance (reflected on the LOA amendment) is requested and is, therefore, shown.
2. Uses the same expenditure forecast as Revision No.1, in order to identify how the overcollection status on a case influences the future payment requirements as reflected on the schedule. In this instance, the Purchaser does not need to resume payments until such time as the USG's financial requirements warrant.
3. Uses the same expenditure forecast as Revision No.1, in order to identify how the undercollection status on a case influences the future payment requirements as reflected on the schedule. In this instance, the Purchaser must "catch up" on its payments with the amount due with amendment acceptance (or, in the event of an LOA Modification, with the next quarterly payment due).
4. In Revision No.5 (due at the DFAS-AY/DE not later than 10 Sep 200X), the Previous Payments Scheduled amount of \$460,000 corresponds to the 15 Sep 200X (previous) entry contained in Revision No.1. Since the implementing agency desires to reduce this amount by \$60,000, a Revised Payments Scheduled entry (\$400,000) is shown. Based on the revised case value equaling \$400,000, this results in an overpayment status by \$25,000. The Purchaser may elect to request from DFAS-AY/DE a transfer of these funds to another case or holding account.
5. In Revision No.6, the case value is being increased from \$460,000 to \$500,000 via a Modification. Given the collections to date match the previous case value, the case requires additional funds. The Purchaser must remit those additional funds with the next appropriate quarterly payment due date. The "Revised Payments Scheduled" amount equals the "Previous Payments Scheduled" because there is no payment due upon processing of a Modification.

Attachment 2E

Payment Schedule Matrix

<u>LOA Stage/Bucket</u>	<u>Relevant Issues</u>	<u>Inherent USG Actions</u>
Pre-LOR	<ul style="list-style-type: none"> • Clear definition of scope • Clear delineation of desired schedules • Customer budget issues • Sole source, as appropriate • Type of FMS case desired (defined/blanket/CLSSA) 	<ul style="list-style-type: none"> • Work with customer as required to clearly define scope and requirements • Ensure adequate organizational support and resources
Case Development	<ul style="list-style-type: none"> • Precedent – history of like cases • Obtaining accurate contractor input prior to contract award • Type of case developed • Customer identify any budgetary constraints, type of funding, requested payment schedule if applicable • Case execution plan • SBLC format 	<ul style="list-style-type: none"> • Ensure accurate pricing methodologies are utilized • Select an appropriate payment schedule curve or develop manual schedule • Develop accurate T/L worksheets • For amendments/mods: review payments and performance to date • Consider customer unique schedules, budgetary constraints • Ensure adequate org support and resources
Case Execution (includes Reconciliation)	<ul style="list-style-type: none"> • Balance need to be accurate with need for payment schedule stability • Accuracy vs. resources • Performance vs. billing • Develop thresholds for reviewing and changing 	<ul style="list-style-type: none"> • Act on variance reports issued to flag execution vs. payment schedule discrepancies • Verify pricing accuracy; alter LOA values and schedules as appropriate • Review whether curve used

	<p>payment schedules</p> <ul style="list-style-type: none"> • Revised case execution plan 	<p>remains adequate</p> <ul style="list-style-type: none"> • Adhere to financial policies for reviewing and changing payment schedules • Consider case-level collection status when processing amendments & modifications • Ensure adequate org support and resources
Case Supply Complete Reconciliation & Closure	<ul style="list-style-type: none"> • Consider final payment schedule notice • Final payment on schedule vs. final payment required 	<ul style="list-style-type: none"> • Modify payment schedules to reflect final expenditure requirement profile • Ensure adequate org support and resources

*** In this example, the Initial Deposit covers the period from 30 November 2001 thru 31 Mar 2002

Attachment 3

FMS Case Closure Reviews DSCA Proposal

BACKGROUND

As of 30 Jun 2001, approximately 940 FMS cases were open and supply complete (S/C) for more than two years. The current EACC methodology, in which cases are selected each quarter for closure by a targeted suspense date, is effective when a limited number of cases apply. However, the EACC approach can realistically address at most 150 or so cases each quarter. In the meantime, additional cases are becoming EACC-eligible. The net EACC backlog appears not to be diminishing to a level where the current process can realistically cover all eligible cases. A more radical approach must be considered to liquidate the backlog of several hundred cases that comprise the bulk of EACC-eligible cases. In the 27-29 March FMS Closure Conference, DSCA outlined a proposal that is described in greater detail here.

RECOMMENDATION

DSCA envisions the following timeline to apply to this EACC backlog liquidation proposal:

<u>Timeline</u>	<u>Event</u>
□ 10 Aug 01:	DSCA publishes the list of cases to be reviewed. This list will be sorted by MILDEP and comprise those open supply complete cases > 2 years. See Section 1 of the attached.
□ T-90 days to T:	MILDEPs analyze case records and develop proposed values. See Section 3 of attached.
□ T-45 days:	DSCA will obtain updated DIFS values for the cases being reviewed.
□ T-30 days:	DSCA formulates its proposed values. See Section 2 of attached.
□ T-30 days:	DSCA issues a detailed agenda for each closure review.
□ T:	Closure review with each MILDEP. Minutes will be signed between DSCA and MILDEPs prior to meeting adjournment that confirm agreements reached and outstanding actions. See Section 4 of attached.
□ T to T+180 days:	MILDEPs process transactions/documents necessary to align cases with the values agreed upon (or later amended via T+45 day notice).
□ T+30 days:	DSCA and MILDEPs issue separate after-action report to include status of its outstanding actions.
□ T+30 days:	DSCA to send to MILDEPs a report validating agreements reached and associated values as regards the impacted cases designated for closure.
□ T+45 days:	MILDEPs send to DSCA a reply confirming values shown or, as appropriate, changing values to reflect updated status.
□ T+180 days:	Targeted closure date for all cases as agreed during closure review (and amended per T+45 day notice). As many cases as possible should close at C3 (final) status; at a minimum, close at C2 (interim) status.
□ T+210 days:	DSCA issues force closure directive for all cases not otherwise interim or final closed by DFAS as reflected in DIFS.
□ T+240 days:	DSCA issues final report to FMS customers on closure review results.

CLOSURE REVIEW PROCESS

Attendees

The meeting will be co-chaired between DSCA and the host MILDEP. DSCA/COMPT (Financial Policy) will be the DSCA rep. MILDEP reps should consist of those who routinely work closure/reconciliation issues, case/program managers from both the host MILDEP component and other commands/centers that have cases being discussed. Access to case files and/or system databases to verify values should be readily available.

Meeting Format

The attached document displays the decision-making process during these closure reviews. Essentially, this will be a comparison between the DSCA records and the MILDEP records. Each case will be reviewed in detail to determine:

- . That it is supply complete and, if so, the month/year it became supply complete.
- . Whether any of the following closure inhibitors exist: open SDRs; litigation; customer request to keep the case open; MILDEP desire to keep the case open (with justification); and/or excessive out-of-balance conditions (with supporting documentation).
- . The estimated timeframe during which closure inhibitors are anticipated to be resolved.
- . Any ULO value that applies.
- . The estimated closure value.
- . Confirmation as to whether it will be final closed (preferred) or interim closed.

TENTATIVE PLANNING SCHEDULE:

- | | |
|------------------------------------|---|
| <input type="checkbox"/> Army | 22-26 October/New Cumberland, PA (USASAC NC) |
| <input type="checkbox"/> Navy | 11-12 October/Pensacola, FL (NETSAFA) |
| | 19-20 November/Washington, DC (IPO, SPAWAR, NAVICP, NALC) |
| | 4-5 December/Washington, DC (NAVSEA) |
| | 6-7 December/Patuxent River, MD (NAVAIR) |
| <input type="checkbox"/> Air Force | 13-16 November/WPAFB, OH (AFSAC) |
| | 26-27 November/Randolph AFB, TX (AFSAT) |

Prepared by: David A. Rude, DSCA/COMPT-FM, Last Revised 13 September 2001

SECTION 1: What DSCA Sends to MILDEPs (10 August 2001)

Case ID	Supply Complete Date

SECTION 2: What DSCA Prepares for Closure Review (T-90 to T-30)

Case ID	Supply Complete Date	Last Performance Date to DIFS	DSCA Proposed Closure Value	DSCA Proposed ULO Value	Discernable Closure Inhibitors (text field)

SECTION 3: What MILDEPs Prepare for Closure Review (T-90 to T)

Case ID	Supply Complete Date	Last Performance Date to DIFS	MILDEP Proposed Closure Value	MILDEP Proposed Closure Value	MILDEP Closure Inhibitors (text field)	MILDEP Estimated Inhibitor Clearance Date

SECTION 4: Closure Review Decisions (T)

Case ID	Supply Complete Date	Closure Value	ULO Value	Closure Inhibitors (text field)	Estimated Inhibitor Clearance Date

Attachment 4

Finance IPT Participants (USG Officials)

DSCA

David Rude
Vanessa Glascoe
Patricia Higgins
Brenda Hablutzell
Pete Kambe
Fred Beauchamp
Sally Liberty

ARMY

Sherry Ownby, DUSA-IA
Bob Gilman, USASAC
Diane Brown, AMCOM
Chuck Tasin, TACOM
Debbie Vogel, AMCOM
Lemar Sheaffer, USASAC
Rhode Chung, USASAC
Reggie Graham, USASAC

NAVY

Larry Baillie, IPO
Chris Chaikowski, IPO
David Molyneaux, NAVICP
Kathy Truesdale, NAVSEA
Saadiq Sadruddin, NAVAIR

AIR FORCE

Colleen Henson, SAF-IAPX
Shirley Lessey, SAF-FMBIS
Betty Shearill, AFSAC
SuEllen Gill, Eglin AFB
Holly Taylor, AFSAT