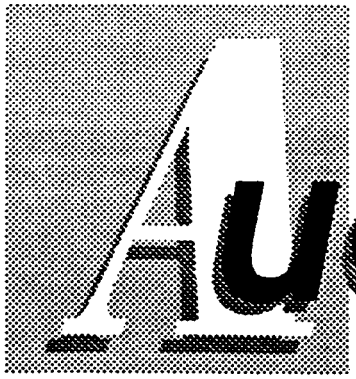

OFFICE OF THE INSPECTOR GENERAL

INTERNAL CONTROLS AND COMPLIANCE WITH LAWS AND REGULATIONS FOR THE FY 1995 FINANCIAL STATEMENTS OF THE DEFENSE SECURITY ASSISTANCE AGENCY

Report No. 96-187 June 28, 1996

Department of Defense

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Acronyms

DFAS-DE	Defense Finance and Accounting Service, Denver Center
DIFS	Defense Integrated Financial System
DSAA	Defense Security Assistance Agency
FMS	Foreign Military Sales
GAO	General Accounting Office
OMB	Office of Management and Budget

INSPECTOR GENERAL
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June 28, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

SUBJECT: Audit Report on Internal Controls and Compliance with Laws and Regulations for the FY 1995 Financial Statement of the Defense Security Assistance Agency (Report No. 96-187)

We are providing this report for your review and comment. Financial statement audits are required by the Chief Financial Officers Act of 1990, as amended. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General, DoD, to report on the adequacy of internal controls and compliance with laws and regulations and express an opinion on the fairness of the presentation of the financial statements. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Under Secretary of Defense (Comptroller) provide additional comments on Recommendations A.1.a., A.1.b., C.2.b., and E.1. by August 30, 1996.

We were unable to render an opinion on the statement of financial position for the Defense Security Assistance Agency, because the internal control structure was not effective to provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. Our disclaimer of opinion was based on the statement of financial position as of September 30, 1995. Our disclaimer of opinion and the financial statements audited are included in Appendix A.

We appreciate the courtesies extended to the audit staff. If you have any questions about this audit, please contact Ms. Evelyn R. Klemstine, Audit Program Director, at (703) 604-9172 (DSN 664-9172) or Mr. Hassan A. Soliman, Audit Project Manager, at (703) 604-9615 (DSN 664-9615). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 96-187 **June 28, 1996**
(Project No. 5LG-2029.01)

Internal Controls and Compliance with Laws and Regulations for the FY 1995 Financial Statements of the Defense Security Assistance Agency

Executive Summary

Introduction. The Defense Security Assistance Agency (DSAA) administers the security assistance program under the Foreign Assistance Act of 1961, as amended; the Arms Export Control Act, as amended; and other statutes, Executive Orders, and Directives. The September 30, 1995, principal financial statements of DSAA reported $27.4 billion of assets, of which $15.8 billion was for the Foreign Military Sales (FMS) trust fund, $8.5 billion for the Foreign Military Loan Liquidating Account, $2.4 billion for the Foreign Military Financing Direct Loan Financing Account, and $0.7 billion for the Special Defense Acquisition Fund. Generally, funds in the FMS Trust Fund are owned by foreign customers, and managed by the U.S. Government in a fiduciary capacity. We limited our detail review to the FMS Trust Fund that represented about 58 percent of the DSAA reported assets. DSAA, as the funds manager, is responsible for establishing and maintaining an internal control structure and complying with laws and regulations applicable to those funds. The Defense Finance and Accounting Service, Denver Center (DFAS-DE) is responsible for maintaining the accounting system for the funds managed by DSAA.

Audit Objectives. The primary audit objective was to express an opinion on whether the financial statements were presented fairly in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. As part of that process, we reviewed internal controls and compliance with laws and regulations. We also followed up on corrective actions resulting from previous audits of the financial statements of DSAA.

Disclaimer of Opinion. We were unable to render an opinion on the financial statements of DSAA because DSAA did not ensure that DFAS-DE had established adequate audit trails from the account balances to underlying transactions used to support the FY 1995 statement of financial position for the FMS Trust Fund.

Internal Controls. The DSAA and DFAS-DE internal control structure for the FMS Trust Fund needed improvement because it did not provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. Also, controls over transaction processing and general ledger recording did not provide reasonable assurance of accurate account balances reported.

o DoD policy does not permit DFAS-DE to account for the revenues and expenses in the FMS Trust fund financial statements. As a result, those financial statements were noncompliant with Office of Management and Budget Bulletin No. 94-01, and there was no assurance that those statements presented fairly the financial condition of the fund (Finding A).

o The DFAS-DE did not have reasonably accessible audit trails to track $13.4 billion of disbursements, and $370.5 million of undistributed disbursements to supporting source documents. As a result, there was no assurance that the $5.5 billion reported in the fund balances with the treasury were accurate (Finding B).

o The DFAS-DE did not have an adequate audit trail for the accounts payable and unearned revenue accounts. As a result, there was no assurance that the reported $182 million accounts payable and $13.1 billion unearned revenue were accurate (Finding C).

o The DFAS-DE erroneously classified overcollections from customers as receivables and did not age accounts receivable. As a result, there was no assurance that the reported accounts receivable balance of $2.5 billion was accurate (Finding D).

o The DFAS-DE did not adequately restrict user and programmer access to the accounting system, and did not follow up to verify that all transactions rejected by the Defense Integrated Financial System were corrected. As a result, unauthorized users had access to sensitive financial information, which may affect the integrity of the data (Finding E).

Findings on Compliance With Laws and Regulations. Instances of noncompliance with laws and regulations that materially affected the reliability of the statement of financial position for the FMS Trust Fund existed. Except for laws and regulations dealing with the form and content of financial statements, all instances of material noncompliance and their effect on the statement of financial position are discussed in Part I.A. Part I.B. contains our report on compliance with laws and regulations.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) and Chief Financial Officer require the recognition of the FMS Trust Fund revenues and expenses, or obtain a waiver from compliance with Office of Management and Budget Bulletin No. 94-01. Additionally, we recommend that DSAA adjust the surcharge rates and redistribute the account balances annually. We recommend that DFAS-DE establish reasonably accessible audit trails and subsidiary ledgers to support the processing and recording of transactions of the FMS Trust Fund, report accounts receivable with credit balances as a liability of the FMS Trust Fund, age accounts receivable, and strengthen the general application controls regarding electronic data processing access to the Defense Integrated Financial System by limiting access to the financial management ledger software and implementing its Departmental Instruction 177-39. We recommend that the Navy report FMS accounts payable to DFAS-DE for inclusion in the DSAA financial statements.

Management Comments. The Under Secretary partially concurred with obtaining a waiver from compliance with the Office of Management and Budget requirement to prepare, and have audited, financial statements for the FMS Trust Fund; disclosing the attrition account balance as U.S. Government equity; and analyzing the surcharge accounts. The Under Secretary of Defense (Comptroller) concurred with retaining the disbursement date and voucher number in the applicable Defense Integrated Financial System feeder subsystems, and establishing procedures to control the undistributed disbursements including a time-phased resolution plan and identification of applicable foreign customers or surcharge accounts before payment. The Under Secretary also concurred with DFAS-DE including the Navy accounts payable in the financial statements, maintaining and reconciling subsidiary ledgers for the accounts payable and the unearned revenue - advances from public - other non-Federal (government) account as part of the audit trail. The Under Secretary stated that the audit trail existed for the accounts payable and the unearned revenue account, and additional information can be

obtained from the installation level accounting systems. The Under Secretary also partially concurred that DFAS-DE request, and analyze, accounts payable aging information from DoD organizations implementing Letters of Offer and Acceptance, and to accrue accounts payable associated expenses. Finally, the Under Secretary partially concurred with aging accounts receivable, stating that although accounts receivable are being aged, applicable policy will be clarified. The Under Secretary concurred with DFAS-DE recording country level credit accounts receivable as a liability, limiting programmers access to production and test versions of applications software, and monitoring suspended performance transactions.

The Navy agreed to report the Navy FMS accounts payable. The DSAA concurred with adjusting the surcharge rates and redistributing the balances as required by the DoD policy, and with establishing a time-phased plan to resolve the undistributed disbursements. See Part I for a complete discussion of management comments and Part III for the complete text of those comments.

Audit Response. Management comments were generally responsive. However, additional information is needed on requesting a waiver from the Office of Management and Budget, improving accounts payable audit trails, and restructuring programmer access. We request that the Under Secretary and the DSAA provide the additional information by August 30, 1996

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Part I - Audit Results

Audit Background and Objectives

Audit Background. The Chief Financial Officers Act of 1990 (the Act), Public Law 101-576, requires executive departments and agencies to prepare financial statements for each of their trust funds, revolving funds, and commercial activities. The Act also requires Inspectors General to audit or arrange for the audit of all financial statements prepared under the Act. The resulting audit reports must include an audit opinion of the statements, a report on the adequacy of internal controls of the reporting entity, and a report on compliance with laws and regulations that could have a material effect on the financial statements. The Act, as amended by the Federal Financial Management Act of 1994, prescribes the responsibility of management regarding the financial statements, internal controls, and compliance with laws and regulations. The Defense Security Assistance Agency (DSAA), as the funds manager, is responsible for establishing and maintaining an internal control structure and complying with laws and regulations applicable to those funds. The Defense Finance and Accounting Service, Denver Center (DFAS-DE), is responsible for maintaining the accounting system[1] for the funds managed by DSAA.

The principal financial statements of DSAA comprised statements for four funds with total assets of $27.4 billion. The $27.4 billion included $15.8 billion for the Foreign Military Sales (FMS) Trust Fund, $8.5 billion for the Foreign Military Loan Liquidating Account, $2.4 billion for the Foreign Military Financing Direct Loan Financing Account, and $0.7 billion for the Special Defense Acquisition Fund. We performed our audit on one of those four funds, the FMS Trust Fund. On September 30, 1995, the FMS Trust Fund assets comprised 58 percent of the overall financial statement of DSAA.

[1]An accounting system includes the methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities.

Table 1 shows the FMS Trust Fund balances of assets and liabilities reported as of September 30, 1995.

Table 1. FMS Trust Fund Statement of Financial Position

Assets	Account Balance (billions)
Fund balances with the treasury	$ 5.500
Cash	7.800
Accounts receivable - transactions with non-Federal (governmental) entities	2.500
Total Assets	**$15.800**
Liabilities	
Accounts payable - transactions with Federal (governmental) entities	$ .065
Accounts payable - transactions with non-Federal (governmental) entities	.117
Liability for deposit funds/suspense account other non-Federal (governmental) liabilities	2.500
Unearned revenue - advances from public- other non-Federal (governmental) liabilities	13.100
Total Liabilities	**$15.800**

Audit Objectives. The primary audit objective was to express an opinion on whether the financial statements were presented fairly in accordance with Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. As part of that process, we reviewed internal controls and compliance with laws and regulations. An additional objective was to provide positive assurance on compliance with laws and regulations for the items tested, and provide negative assurance on compliance with laws and regulations for items not tested. We also followed up on corrective actions resulting from previous audits of the financial statements of DSAA. See Appendix C for a discussion of the scope and methodology, and Appendix D for a discussion of prior audit coverage related to the audit objectives.

Part I.A. - Review of Internal Control Structure

Introduction

Management Responsibilities. The DSAA and DFAS-DE management are jointly responsible for establishing and maintaining a management control structure. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of management control structure policies and procedures. Specifically, DoD Financial Management Regulation 7000.14, volume 15, "Financial Management Regulation; Security Assistance Policy and Procedures," March 1993 (DoD Financial Regulation, volume 15), states that DFAS-DE is responsible for conducting an annual review of the DoD security assistance accounting system, including the development of an annual Management Control Program to test internal controls and measure the quality of DoD security assistance accounting systems and the operations of DoD organizations performing security assistance functions. DSAA, as the funds manager, is responsible for establishing and maintaining an internal control structure and complying with laws and regulations applicable to those funds; however, DFAS-DE is responsible for maintaining the accounting system for the funds managed by DSAA.

Control Structure Elements and Objectives. The internal control structure for management's accounting of financial information comprises the accounting and related systems, control environment, and control procedures. The objectives of a management control structure (United States Code, title 31, section 3512) are to provide management with reasonable but not absolute assurance that the following are met:

o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and maintain accountability over assets.

o Funds, property, and other assets are safeguarded against loss, misappropriation, unauthorized use, and waste.

o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that OMB, entity management, or the Inspector General, DoD, have identified as being significant for which compliance can be objectively measured and evaluated.

o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

o Performance measures exist and are adequate to enable the fund's management to identify and correct problems.

Controls Reviewed. We reviewed the internal control structure for the fund balances with Treasury,[2] cash, accounts receivable, accounts payable, and unearned revenue - advances from public (unearned revenue) of the FMS Trust Fund to express an opinion on the financial statements for the year ended September 30, 1995. We were unable to review the statement of operations and changes in net position for the FMS Trust Fund because the statement reported zeros for all accounts.

Reportable Conditions not Noted. Our review provides a reasonable basis for conclusion on the internal control structure, and compliance with laws and regulations as they relate to the financial statements of DSAA. Our review would not necessarily disclose all internal control and compliance reportable conditions that might also be considered material weaknesses.

Reportable Conditions and Material Weaknesses. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the management control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure accurate and reliable financial information needed to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the management control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and would not be detected within a timely period by employees in the normal course of performing their functions. Material internal control weaknesses existed in the internal control structure at DSAA and DFAS-DE.

[2]The FMS Trust Fund had two cash accounts in the statement of financial position, fund balances with the Treasury, which is cash with the U.S. Treasury; and cash, which is cash on deposit with commercial banks and the Federal Reserve Bank.

Finding A. Accounting for Revenues and Expenses

The DFAS-DE did not account for revenues and expenses in the FMS Trust Fund. The statement of operations and changes in net position, as of September 30, 1995, reported zeros for all revenue and expense accounts. The revenues and expenses were not accounted for because DoD Financial Regulation volume 15, did not allow revenue and expense recognition. As a result, the FY 1995 financial statements for the FMS Trust Fund were noncompliant with OMB Bulletin No. 94-01, and there was no assurance that those statements presented fairly the financial condition of the FMS Trust Fund. Specifically,

o the overall performance of the FMS Trust Fund could not be measured,

o analyzing the unearned surcharge revenues and expenses and redistributing the balances were not accomplished, and

o profits and losses to the U.S. Government from the attrition fees paid by the foreign customers were not disclosed in the financial statements.

Regulatory and Legal Requirements

OMB Bulletin No. 94-01 and General Accounting Office (GAO) "Policy and Procedures Manual for Guidance of Federal Agencies," Title 2, "Accounting," November 14, 1984. The OMB Bulletin No. 94-01 requires Federal agencies to prepare annual financial statements, which includes a statement of financial position and a statement of operations. The bulletin allows a variance in implementing the guidance if the operations of the agency or the program warrant a variance to allow the financial statements to reflect more fully financial operations and condition to improve disclosure. GAO title 2 requires that financial statements be prepared and issued in accordance with the accounting standards promulgated by the guidance. Further, it requires that independent agencies prepare a statement of operations that reports expenses, losses, gains, and financing sources (including revenues).

Arms Export Control Act (Public Law 90-629) and the Letter of Offer and Acceptance[3] Provisions. Sections 21 and 22 of the Arms Export Control Act require the foreign customer to pay the full cost of the articles or services

[3]A Letter of Offer and Acceptance is a contract between the U.S. Government and a foreign government, in which the foreign government agrees to allow U.S. Government representatives to act on its behalf to procure defense articles and services.

provided. Provisions of the Letter of Offer and Acceptance further state that the U.S. Government will execute the offer and acceptance on a non-profit basis. Section 21 of the Arms Export Control Act also requires that after September 30, 1976, letters of offer shall include appropriate charges for administrative services, calculated on an average percentage basis to recover the full estimated costs, excluding a share of fixed base operations costs.

FMS Surcharges

In providing FMS goods and services, the U.S. Government incurs costs that are directly identifiable to a country, case, and line in a Letter of Offer and Acceptance, and surcharges[4] that are charged based on a predetermined standard rate. The funds recovered through standard surcharge rates were expected to approximate, but not equal, the actual costs incurred and, therefore, a difference between the cost charged to the customer and the cost incurred by the U.S. Government is expected. The surcharge accounts comprise administrative surcharge; transportation surcharge; contract administration services; General Services Administration packing, crating, and handling; and attrition surcharges.

Administrative Surcharge. The administrative surcharge is added to the cost of Defense articles and services to recoup the full cost associated with the administration of FMS. Standard clauses of a Letter of Offer and Acceptance require the initial deposit from a foreign customer to include 50 percent of the total estimated administrative surcharge, and the remaining 50 percent included within each of the scheduled payments at equal percentages. The administrative surcharge is also intended to recoup the administrative costs of providing FMS logistics support, such as spares and other items required to maintain a weapon system.

Transportation Surcharge. The transportation surcharge applies when Defense Transportation Service is approved and used. Transportation surcharges do not apply to items drawn from a stock fund or the Defense Business Operation Fund. The transportation surcharge rates applied are based on the delivery terms code and the destination. For items such as an airplane, for which actual transportation costs would be significantly different from the estimated charge using the standard rate, DSAA established special tables to provide a more accurate estimate.

[4] A FMS surcharge is used to recover an expense incident to issues, sales, and transfers of materiel that are not included in the standard price or contract cost of materiel.

Contract Administration Service. The contract administration service surcharge is applied to all FMS procurements to cover the cost of contract administration services functions. Those functions include quality assurance and inspection, contract audits, and other contract administration services. DSAA may waive all or part of those charges.

General Services Administration Packing, Crating, and Handling. The packing, crating, and handling surcharge is designated by the General Services Administration to recoup the costs associated with shipments from the General Services Administration inventories.

Attrition Surcharge. The U.S. Government charges foreign countries procuring training services an attrition surcharge to cover potential damage to the training equipment. As a result, the risk of damage or loss for training equipment was with the U.S. Government. Before October 1, 1995, the attrition charge for FMS training was 4 percent for flying and 1 percent for nonflying training. Effective October 1, 1995, the attrition rate was changed to 1 percent for all FMS training. When equipment is damaged beyond repair due to FMS student error, a report of the loss and request for attrition funds to cover procurement of the replacement items are submitted to DSAA for approval.

Revenue and Expense Account Balances

DoD policy does not permit DFAS-DE to account for revenues and expenses of the FMS Trust Fund. As of September 30, 1995, the statement of operations and changes in net position reported zeros for all revenue and expense accounts. DSAA earned revenues and incurred expenses of at least $10 billion each, for the FMS Trust Fund during the fiscal year, which should have been reported. The FMS customers made payments in advance of receipt of the Defense articles and services. Revenues were earned when delivery of a service or item was made. Expenses were incurred when payments were made, or when a liability was established for acquired Defense articles or services. However, instead of recognizing revenues and expenses in accounts in the statement of operations and changes in net position, DFAS-DE recorded the affect of revenue and expense transactions (such as changes in unearned revenue account) in the statement of financial position accounts.

Accounting Entries Under the Present System. DoD Financial Regulation, volume 15, does not require a complete accounting system for the FMS Trust Fund where revenues, expenses, and net results are readily determinable. Paragraph 030207 states:

> The Arms Export Control Act requires that the FMS program be operated at no cost to the U.S Government. The provisions of the Letter of Offer provide that USG [U.S. Government] will execute the Offer and Acceptance on a non-profit basis. Therefore, recognition of

an equity balance in the FMS Trust Fund is prohibited. The Foreign Military Sales Trust Fund Financial Statements will not include equity, revenue or expense accounts.

Collections of the FMS Trust Funds were credited to the unearned revenue account of the statement of financial position, and disbursements were debited to that same account. Examples of transactions and the corresponding entries under the present accounting system are in Appendix B.

Accounting Entries Under the Recommended System. Because we are recommending recognition of the FMS Trust Fund revenues and expenses, revisions are required to the present accounting system. The unearned revenue account would not be used to accumulate expenses and earned revenues. The new accounting entries would include, for example, accounts for expenses, costs, revenues, and sales. Examples of transactions and the corresponding accounting entries are in Appendix B.

Accounting and Related Systems

The FY 1995 financial statements were noncompliant with OMB Bulletin No. 94-01, which requires that revenues, expenses, and net position be accounted for and presented in the financial statements. The Under Secretary of Defense (Comptroller) and the Chief Financial Officer had not obtained a waiver from the requirements of OMB Bulletin No. 94-01. DFAS-DE did not have features of an effective accounting system for the FMS Trust Fund to ensure presentation of a fair financial statement. Also, that accounting system did not ensure timely measurement of the FMS Trust Fund overall performance, analysis of the unearned surcharge revenues and expenses and redistributing the balances, and proper disclosure of the U.S. Government profits or losses from the attrition fees paid by the foreign customers.

Measurement of the FMS Trust Fund Overall Performance. Identifying the net operating results of the FMS Trust Fund would be in consonance with the principles of an effective control environment. Management control methods that identify the status of actual performance and exceptions from planned performance, as well as communicating them to the appropriate level of management, is one of those factors. Management would have better information to judge the overall performance of the FMS Trust Fund, in addition to examining the reasonableness of the standard surcharge rates. When revenues and expenses are matched, net result of operations would be identified, examined, and corrective actions taken if the net result is found unreasonable. Lack of revenue and expense recognition was first reported as a material internal control weakness in our audit of the FY 1992 financial statements of DSAA (see Appendix D).

Existence and Ownership of a Residual or Deficit. We believe achieving a breakeven in performing the FMS Trust Fund under the existing system may not occur. At case closure, DFAS-DE did not make adjustments

for the difference between the surcharges collected at standard rates, and the actual surcharge costs incurred by the U.S. Government. We further believe that generally, the ownership of that residual or deficit belongs to the foreign customer based on the breakeven requirement included in the Arms Export Control Act and the DoD Financial Regulation volume 15.

Analysis of the Surcharge Accounts. The DFAS-DE did not maintain subsidiary accounts for the revenues and expenses applicable to the FMS surcharges, thus the required analyses of the surcharge subsidiary accounts were not accomplished. Collections and matching disbursements for those FMS surcharges were to be recorded in subsidiary accounts in the unearned revenue account, general ledger account 2312, as required by DoD Financial Regulation volume 15. Instead, DFAS-DE maintained subsidiary cash accounts for the receipts and disbursements of the surcharge accounts. According to DoD Financial Regulation volume 15, DFAS-DE is required to analyze the surcharge subsidiary ledgers in the general ledger account 2312, and recommend to the DSAA rate changes and redistribution of surcharge account balances. To satisfy the requirement in DoD Financial Regulation volume 15, the surcharges residual or deficit must be determined. Table 2 shows the surcharge account balances as of September 30, 1995.

Table 2. FMS Trust Fund Surcharge Cash Account Balances

Surcharge Category	Surcharge Account	Balance as of September 30, 1995 (million)
Administrative	978242.00	$642.8
Transportation	978242.L0	25.9
Contract administration service	978242.80	115.1
General Services Administration packing, crating, and handling	978242.81	3.2
Attrition	978242.82	47.3
Total		**$834.3**

Attrition Surcharge Profit or Loss Disclosure. Because DFAS-DE was prohibited from recording the FMS Trust Fund revenues and expenses, DFAS-DE did not measure and disclose the net position of the attrition surcharge account. We believe that the net result of that surcharge belongs to the U.S. Government because the customer pays a fixed fee in exchange for transferring the risk of damage or loss of training equipment to the U.S. Government. The financial condition of the attrition surcharge was not disclosed in the financial statements.

Materiality and Impact on Financial Statements

The management controls over revenues, expenses, and residual or deficit were materially deficient. DoD Financial Management Regulation 7000.14, volume 1, "Financial Management Regulation; General Financial Management Information, Systems, and Requirements," May 1993 (DoD Financial Regulation volume 1) contains guidance on what constitutes a material deficiency in an accounting system. That regulation provides 13 key accounting requirements that systems must comply with to meet standards established by the General Accounting Office, OMB, the Department of the Treasury, and DoD.

First Key Accounting Requirement. The first key accounting requirement states that the general ledger accounts structure must include the general ledger accounts for equity, expense, losses, gains, and financing sources (including revenues). In addition, full financial disclosure, accountability, adequate financial information, and reports must be provided for management purposes, and for necessary external reporting to the OMB and the Treasury.

Calculating Material Deficiency. According to the regulation, a departure from a key accounting requirement is considered a material deficiency if it could result in loss of control over 5 percent or more of the measurable resources for which the accounting system is responsible. For the fiscal year ending September 30, 1995, the published FMS Trust Fund statement of operations reported zeros for all revenues and expenses accounts. Although there was no mathematical base against which to apply the regulation's materiality criteria of 5 percent, the zero balances represent a material deficiency.

Material Deficiencies in Revenues, Expenses, and Residual or Deficit. The DSAA did not report revenues, expenses, and residual or deficit in the FY 1995 Statement of Operations. In addition to not reporting the revenue and expenses of normal operations, DSAA did not report $47.3 million of U.S. Government equity in the attrition account. Therefore, the internal control structure was materially deficient.

Under Secretary of Defense (Comptroller) and Chief Financial Officer Opinion

The Director for Accounting Policy, Office of the Under Secretary of Defense (Comptroller) and Chief Financial Officer, believed the FMS Trust Fund did not have revenues and expenses because those revenues and expenses were realized and recorded at the Letter of Offer and Acceptance implementing agencies. Additionally, there was no cost accounting system to capture detailed expenses at the central accounting locations at DFAS-DE. Further, reporting net fund residual or deficit would not be an advisable management decision.

The Director stated that a waiver to exempt the FMS Trust Fund from the requirement to prepare financial statements would be sought from OMB because the funds involved were not owned by DoD and should not be consolidated with other DoD financial statements.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Under Secretary of Defense (Comptroller) and the Chief Financial Officer revise DoD Financial Management Regulation 7000.14, volume 15, "DoD Financial Management Regulation; Security Assistance Policy and Procedures," March 1993, to:

a. Require recognition and accounting for the revenues and expenses of the Foreign Military Sales Trust Fund, or obtain a waiver from compliance with the Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements."

Management Comments. The Under Secretary partially concurred. The Under Secretary stated that a waiver from the Office of Management and Budget requirement to prepare, and have audited, financial statements for the FMS Trust Fund would be requested.

Audit Response. We request that the Under Secretary provide the completion date for the planned action in response to the final report.

b. Require recognition and proper reporting of the U.S. Government equity in the attrition surcharge fund balance as a footnote to the financial statements, in a separate fund, or by other means of disclosure.

Management Comments. The Under Secretary partially concurred. The Under Secretary stated that if the Office of Management and Budget determines that the FMS Trust Fund should have audited financial statements, applicable guidance will be modified to provide for amounts in the attrition surcharge account to be disclosed as U.S. Government equity.

Audit Response. We request that the Under Secretary provide an estimated completion date for the planned action in response to the final report.

A.2. We recommend that the Director, Defense Finance and Accounting Service, Denver Center, analyze the surcharge subsidiary ledgers in the unearned revenue - advances from public account to recommend to the Defense Security Assistance Agency rate changes and redistribution of surcharge account balances.

Management Comments. The Under Secretary partially concurred. The Under Secretary stated that in February 1996, an agreement was reached with the Principal Deputy Under Secretary of Defense (Policy) that DSAA would conduct analyses of surcharge subsidiary ledgers in the unearned revenue - advances from public account.

A.3. We recommend that the Director, Defense Security Assistance Agency, adjust the surcharge rates and redistribute the surcharge account balances annually in coordination with the Under Secretary of Defense (Comptroller) and the Chief Financial Officer, using the actual surcharge data and analyses performed by the Defense Finance and Accounting Service, Denver Center to ensure the Foreign Military Sales Trust Fund operates at no cost or profit to the U.S. Government.

Management Comments. The Under Secretary and the DSAA Comptroller concurred. The DSAA Comptroller stated that DSAA will continue to analyze and monitor the surcharge account balances, and annually, review the rates for recommended rate adjustments or account balance redistribution.

Finding B. Fund Balances With the Treasury

The DFAS-DE did not have reasonably accessible audit trails to track about $13.4 billion of disbursements, and $370.5 million of undistributed disbursements. Audit trails were inadequate because the Defense Integrated Financial System (DIFS) did not have disbursement voucher numbers and dates traceable to DFAS, Columbus, records. Additionally, DFAS-DE did not follow up and research undistributed disbursements, and DSAA had not established a time-phased plan to resolve the undistributed disbursements. As a result, DFAS-DE internal controls were not adequate to provide reasonable assurance that the $5.5 billion reported in the fund balances with the Treasury was accurate; therefore, that account balance may be materially misstated.

Regulatory Requirements

Internal Control Standards and DoD Guidance. The specific internal control standard of documentation, included in GAO title 2 requires that support for transactions be readily available for examination, and easily accessible to allow tracking of a transaction through completion. Additionally, DoD Financial Management Regulation 7000.14, volume 5, "Financial Management Regulation; Disbursing Policy and Procedures," December 1993 (DoD Financial Regulation, volume 5), establishes the standards, responsibilities, and procedures for disbursements and requires that disbursement vouchers contain complete and accurate data to be considered valid. DoD Financial Regulation, volume 15, establishes the accounting, financing, and billing procedures for transactions of the FMS Trust Fund. That regulation requires, at a minimum, that the heads of the DoD implementing agencies identify disbursements to a specific FMS case and such other information as necessary to match disbursements to the applicable delivery transaction.

Under Secretary of Defense (Comptroller) and Chief Financial Officer Guidance. A memorandum from the Under Secretary of Defense (Comptroller), "DoD Accounting Policy and Procedures for Researching and Correcting Unmatched Disbursements and Negative Unliquidated Obligation Transactions," June 1995, includes policy and procedures for researching and resolving undistributed disbursements. That guidance requires charging the unmatched disbursements to the FMS administrative surcharge clearing account if, within 180 days from the start of the required research, the error was not corrected.

Disbursement Account Balance

The DSAA did not ensure that DFAS-DE had reasonably accessible audit trails to track about $13.4 billion of disbursements, and $370.5 million of undistributed disbursements. We attempted to test $13.4 billion of FMS Trust Fund disbursements using stratified random sampling techniques. Of the $13.4 billion, DFAS, Columbus, disbursed $6.6 billion. Additionally, we attempted to test the validity of the process used by DFAS-DE to account for the cash reported and reconciled with the Department of the Treasury through identifying the countries on whose behalf the payments were made. We were unable to readily obtain the documentation needed to validate the sample transactions. We concluded that the fund balances with the Treasury for the FMS Trust Fund balance may be materially misstated.

Accounting and Related Systems

Audit Trail and Validity of Recorded Transactions. The audit trail for the FMS Trust Fund disbursements was not readily available, and reliability of the accounting system was not assured. The specific internal control standard of documentation requires that support for transactions be readily available for examination, and easily accessible to allow tracking of a transaction through its completion. Additionally, a reliable accounting system should capture valid transactions.

Funds Disbursed. Disbursements of about $13.4 billion for the FMS Trust Fund were made through 1,203 of the DFAS-controlled disbursing stations. Through intermediate accounting systems, the disbursing stations input disbursement data into DIFS, which is the central security assistance accounting system used by DFAS-DE. For our sample, we selected DFAS, Columbus, because it accounted for the majority of the disbursements in the universe. However, documents to support FMS Trust Fund disbursement transactions needed to validate the 350 items contained in our sample of 1,750 vouchers were not readily available at DFAS, Columbus. Representatives of DFAS, Columbus, informed us that they did not have the resources to retrieve the supporting documents. The representatives indicated that the voucher numbers or the disbursement day, month, and year were needed to retrieve the supporting documents. Absence of the disbursing day, required DFAS, Columbus, to identify the voucher numbers manually and would require manual examination of an approximately 11,000-page report. Although DFAS, Columbus, reported the data to DFAS-DE through intermediate accounting systems, the DIFS truncated the disbursement day and did not capture the voucher number. As a result, we were unable to validate the accuracy of the funds disbursed reported by DFAS-DE in the fund balances with the Treasury account in the FMS Trust Fund statement of financial position.

Undistributed Disbursements. As of September 30, 1995, DFAS-DE did not have adequate controls or audit trails for $370.5 million of undistributed disbursements. Disbursements are made from the FMS Trust Fund in response to requests by the Military Departments and the State Department.[5] DFAS-DE, however, was unable to identify the specifics of $370.5 million of disbursements, to include voucher numbers and source, or how long those disbursements were outstanding. Neither could those undistributed disbursements be identified to a specific FMS country or surcharge account. The DoD implementing agencies[6] were responsible for assigning the correct foreign country or the surcharge account to be charged. However, some of the assigned codes did not represent a bona fide country or surcharge account. DFAS-DE was responsible for the FMS Trust Fund cash management; however, DFAS-DE management stated that they did not emphasize the research and follow up of undistributed disbursements because often they were a result of a timing difference and would self-correct within a few months. The undistributed disbursements have been steadily increasing as shown in Table 3.

Table 3. FMS Trust Fund Annual Balance of Undistributed Disbursements

	($Million)
End of FY 1989	$ 43.8
End of FY 1990	71.2
End of FY 1991	102.8
End of FY 1992	59.9
End of FY 1993	146.2
End of FY 1994	225.6
End of FY 1995	370.2

As of February 1996, the undistributed disbursements had decreased to $278 million. The reduction appeared in the Air Force share of the unmatched disbursements. DSAA did not establish a time-phased plan to resolve the undistributed disbursements; however, on February 6, 1996, DSAA requested that the Chief Financial Officer, DoD, provide a waiver for complying with the requirement to research and resolve undistributed disbursements recorded in the FMS Trust Fund, because the applicable funds were owned by foreign countries. DSAA requested that if after 180 days the research did not resolve

[5]The State Department incurred costs for support of overseas activities performed by the Security Assistance Organization/Office. Those costs included, but were not limited to, administrative charges to the FMS surcharge account, and direct charges (for example, payroll; temporary duty; and office support) to FMS cases.

[6]For the purposes of this report, the DoD implementing agencies include the Army, the Navy, the Air Force, and any other DoD organization that executes a Letter of Offer and Acceptance.

the undistributed disbursements, then the amount (valued at $10,000 or less) would be charged to the FMS administrative surcharge fund. Charging the unresolved, undistributed disbursements to the administrative fund, results in charging countries that do not benefit from the unresolved disbursements. In response to the DSAA request for a waiver, the Chief Financial Officer in a May 6, 1996 memorandum, stated that a delay until September 30, 1996, for complying with the requirement to research and resolve undistributed disbursements would be granted. However, an exemption from the requirement for the FMS Trust Fund to obligate amounts for problem disbursements that are in excess of 180 days would not be authorized.

Control Procedures

The undistributed disbursements for the FMS Trust Fund were not included as an action item in the annual Management Control Program prepared by DFAS-DE. DoD Financial Regulation volume 15, states that DFAS-DE, as the central site for security assistance accounting within DoD, is responsible for the development of an annual Management Control Program to test internal controls and to measure the quality of DoD security assistance accounting systems and operations of the DoD implementing agencies. That regulation also requires DoD implementing agencies to fully support the DFAS-DE Management Control Program, and that tests or reviews involving the DoD implementing agencies shall be jointly accomplished by DFAS-DE and the agencies involved. DFAS-DE personnel informed us that they have authority over neither the DoD implementing agencies and the disbursing stations nor all the Defense Accounting Offices.

Materiality and Impact on Financial Statements

The internal accounting controls over fund balances with Treasury were materially deficient. DoD Financial Regulation volume 1, contains guidance on what constitutes a material deficiency in an accounting system. That regulation provides 13 key accounting requirements that systems must reasonably comply with to meet standards established by the GAO, OMB, the Department of the Treasury, and DoD.

Key Accounting Requirements. The seventh key accounting requirement states that the system must have good fund control procedures to prevent untimely liquidation of obligations, unmatched expenditures, and undistributed disbursements. The eighth key requirement deals with audit trails and provides that a system should ensure that transactions are correctly classified, coded, and recorded in all affected accounts. Also, the financial transactions that the system is accounting for must be adequately supported with pertinent documents and source records. All transactions, including those that are computer-generated and computer-processed, must be traceable to individual source

records. The ninth key accounting requirement deals with cash and specifies that a system should be designed to ensure timely payments based on properly approved disbursement documents.

Calculating Material Deficiency. According to the regulation, a departure from a key accounting requirement is considered a material deficiency if that departure could result in loss of control over 5 percent or more of the measurable resources for which the accounting system is responsible. As of September 30, 1995, the statement of financial position reported a cash balance of $5.5 billion in the fund balances with Treasury for the FMS Trust Fund. Applying the regulation's materiality criteria of 5 percent to the fund balances with Treasury would mean that a material deficiency would occur if cash were $275 million more or less than the reported amount.

Material Deficiencies in Fund Balances With Treasury. The inability of DFAS-DE to provide supporting documentation to allow us to audit $13.4 billion of disbursements for the FMS Trust Fund, and the missing original voucher numbers in the accounting system were reasons for concern. The internal control structure was materially deficient, because the potential loss of control due to inadequate audit trails and computer interface may exceed the $275 million criteria for materiality, especially given that the balance includes $370.5 million of undistributed unidentifiable disbursements. As such, the cash balance of $5.5 billion presented in the statement of financial position cannot be relied upon.

Additional Data Provided by DFAS-DE

Disbursements Audit Trails. On March 15, 1996, after we completed our audit field work, DFAS-DE provided new data to support availability of disbursements audit trail. The DFAS-DE accounting director stated that using the data he provided required a sampling plan different from the one our statisticians designed. The proposed sampling plan required a smaller sample, and the selection would be by month. The accounting director also stated that directions had been given to add the voucher number to a report that would facilitate tracking the disbursement vouchers in the future. Our examination of the data DFAS-DE provided showed no evidence to support auditability of the FMS Trust Fund disbursements of FY 1995. However, for future audits, including the voucher number and the complete disbursement date should make it possible to attempt the disbursement verifications.

On April 15 and 16, 1996, DFAS-DE provided additional data to support availability of disbursements audit trail. DFAS-DE personnel stated that they were able to track about 250 of the 350 vouchers in the initial sample using the existing audit trail. Three DFAS-DE personnel retrieved the documents in 3½ days. However, those personnel identified the supporting vouchers through the process of trial and error and elimination whenever identical amounts were disbursed. We believe voucher numbers, as unique identifiers of transactions, should represent the audit trail leading to the disbursement supporting

documents. DFAS-DE initiated an action to ensure the voucher numbers are reported in the accounting systems of the Army, the Navy, and the Air Force. DFAS-DE actions are commendable because the changes should result in a reasonably accessible audit trail for future audits.

Undistributed Disbursements Audit Trails. On April 15 and 16, 1996, DFAS-DE provided additional data that showed that efforts were underway to address vigorously the issue of the problem disbursements. Those efforts included the assignment of a special project office in May 1995 to contact the implementing agencies to resolve the undistributed disbursements. However, DFAS-DE personnel believed that they did not have the authority to enforce corrective actions over all the Defense Accounting Offices because not all those offices were part of DFAS-DE. As a result of DFAS-DE efforts, the balance of the undistributed disbursement was reduced from $370.2 million at the end of September 1995, to $278 million as of February 1996. However, DFAS-DE personnel believed that although they can provide the detailed transactions comprising the $370.2 million reported as of September 1995, the detailed transactions occurred over several years and were comprised of numerous positive and negative transactions with little to relate them to each other, which could make a reconciliation impractical.

Management Comments on Finding and Audit Response

Management Comments. The Under Secretary disagreed with our finding that the balance of the Fund Balances With the Treasury account may be materially misstated, because the account was reconciled to the Treasury to the penny. The Under Secretary stated that the fact that some disbursements were not distributed to a specific country or case for a period of time, and the lack of an easily accessible audit trail, did not support the conclusion that the account balance may be materially misstated.

Audit Response. Reconciling the Fund Balances With the Treasury account with the Treasury by itself would not preclude misstatement because the reconciliation was completed with the undistributed disbursements included. The $370.5 million of undistributed disbursements represented a material problem because it was the net difference between an unknown large number of positive and negative transactions, propriety of the disbursements was not established, DFAS-DE was unable to provide reliable records to identify how long transactions were outstanding, and the records provided by DFAS-DE disclosed that those undistributed disbursements occurred annually beginning in 1988. Additionally, because we were unable to obtain the supporting documents for the disbursements, we believe the account balance may be materially misstated.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Director, Defense Finance and Accounting Service, Denver Center:

a. Modify the applicable subsystems of the Defense Integrated Financial System to retain the disbursement voucher number and the disbursement day that are transmitted to the Defense Finance and Accounting Service, Denver Center by disbursing stations.

b. Establish management controls to ensure that the Defense Finance and Accounting Service, Denver Center identify the agencies causing the undistributed disbursements, follow up with those agencies to resolve the amounts in suspense, and implement guidance contained in the memorandum from the Under Secretary of Defense (Comptroller) "DoD Accounting Policy and Procedures for Researching and Correcting Unmatched Disbursements and Negative Unliquidated Obligation Transactions."

B.2. We recommend that the Director, Defense Finance and Accounting Service, establish management controls to ensure that disbursing stations identify a valid foreign military sales country, case, or surcharge account before processing a disbursement to the Foreign Military Sales Trust Fund.

Management Comments. The Under Secretary concurred with the recommendations. The Under Secretary stated that DIFS supporting feeder subsystems will be modified to retain the voucher number and disbursement date. In addition, actions were being taken to resolve problem disbursements, and policy guidance will be issued to disbursing activities directing that all FMS disbursements be identified to a valid foreign customer or surcharge account. Further, DSAA and DFAS were tasked in May 1996 to develop specific plans to better identify and resolve undistributed disbursements. Actions taken in response to the recommendations will be completed by September 30, 1996.

B.3. We recommend that the Director, Defense Security Assistance Agency, establish a time-phased plan to resolve the undistributed disbursements.

Management Comments. The DSAA Comptroller concurred, stating that as a minimum, final reconciliation of cost (including disbursements) and performance will be conducted at case closure.

Audit Response. The DSAA Comptroller did not specify the completion date for the time-phased plan. Therefore, we request that the DSAA Comptroller provide the completion date in response to the final report.

Finding C. Liabilities

The DFAS-DE did not have an adequate audit trail to track the accounts payable - transactions with Federal (governmental) entities, accounts payable - transactions with non-Federal (governmental) entities, and unearned revenue - advances from public - other non-Federal (governmental) liabilities, and did not properly accrue accounts payable. The audit trail was inadequate because DFAS-DE did not ensure inclusion of the Navy accounts payable in DIFS, maintain subsidiary ledgers for the accounts payable and the unearned revenue account, and perform monthly reconciliation with the general ledger. Additionally, DFAS-DE did not accrue incurred expenses because it was not required to maintain expense accounts for the FMS Trust Fund. As a result, DFAS-DE internal controls were not adequate to provide reasonable assurance that the $182 million of accounts payable, and $13.1 billion of unearned revenue were accurate; therefore, those account balances may be materially misstated.

Regulatory Requirements

Accounts Payable. DoD Financial Management Regulation 7000.14, volume 4, "Financial Management Regulation; Accounting Policy and Procedures," January 1995 (DoD Financial Regulation, volume 4), establishes the accounting policy for accounts payable. It requires that amounts recorded as payable be supported with proper documentation that clearly shows the basis for the amounts recorded and the terms by which payments are to be made. The balances in the accounts payable are to be reconciled to the supporting documentation at least annually. DoD Financial Regulation, volume 15, requires DFAS-DE to perform a continuous analysis of balances in accounts payable, to include aging, to ensure that timely payments are made. If payments are untimely, DFAS-DE is required to review internal payment procedures and implement necessary corrective action. Also, DFAS-DE is required to maintain a subsidiary ledger that is reconciled monthly with the general ledger, in addition to providing an audit trail for all posting in the system. GAO title 2 requires that accounts payable for goods and services be recorded as a liability after the goods or services are received. The liability reported in annual financial statements should reflect invoices received, and the estimated amounts for invoices not yet received.

Unearned Revenue. For the FMS Trust Fund, DoD Financial Regulation, volume 15, requires that the unearned revenue account includes subsidiary ledgers for each of the FMS surcharges. To provide an audit trail of all posting, the subsidiary ledgers are maintained in the DIFS. Extracts of the ledgers are made available to the Security Assistance Program Managers as required for management purposes. DoD Financial Regulation, volume 15, requires that DFAS-DE analyze activity in the surcharge accounts. The analysis

should include recommendations on rate changes and redistribution of surcharge account balances for DSAA coordination with the Under Secretary of Defense (Comptroller) and Chief Financial Officer.

Accounts Payable and Unearned Revenue Account Balances

The DFAS-DE did not have an adequate audit trail to track the accounts payable - transactions with Federal (governmental) entities, accounts payable - transactions with non-Federal (governmental) entities, and unearned revenue - advances from public - other non-Federal (governmental) liabilities. Of the $15.8 billion total liabilities shown in Table 1, $13.3 billion was attributed to those three accounts. To determine the accuracy of the $182 million accounts payable balance as of September 30, 1995, we requested a subsidiary ledger by vendor, listing unpaid vouchers to support the yearend adjustments, and the accounts payable reconciliation records. DFAS-DE was unable to provide the detail by vendor and the accounts payable reconciliation records. To establish the reasonableness of the $13.1 billion reported in the unearned revenue account as of September 30, 1995, we requested DFAS-DE to provide an analysis of the subsidiary ledgers for that account. DFAS-DE attempted a number of times but was unable to provide the detail for the unearned revenue. In addition to the unauditability of those accounts, there was no assurance that the DSAA was using accurate information in its management of the surcharges. The unearned revenue account should be used to review the surcharge accounts as required by the DoD Financial Regulation, volume 15.

Accounting and Related Systems

The DFAS-DE did not comply with the attributes of an effective accounting system because the FMS Trust Fund accounting system did not record all valid accounts payable transactions, maintain adequate audit trails, and capture transactions on the accrual basis of accounting.

Navy Accounts Payable. Accounts payable of the FMS Trust Fund were incomplete. Specifically, the Navy accounts payable related to FMS were not included in the statement of financial position for FY 1995. DIFS and the Navy system, the Management Information System for International Logistics, and the Standard Accounting and Reporting System were not compatible to capture the accounts payable of the Navy. The Navy did not submit its accounts payable data to DFAS-DE. Additionally, DFAS-DE management had not required the Navy to report its FMS accounts payable manually to allow incorporation of those payable into the DFAS-DE accounting system. DFAS-DE management stated that the Navy did not have a separate tracking system for the FMS accounts payable from its normal accounts

payable, which made it difficult to separate the FMS portions. Without such a break-out, we would be unable to identify the universe to test the fairness of the accounts payable presented in the financial statements.

Audit Trail for Accounts Payable. The FMS Trust Fund accounts payable were unauditable because DFAS-DE did not have an audit trail by vendor or major command, and the reports provided by DFAS-DE did not agree with the accounts payable general ledger balance. DFAS-DE personnel stated that their responsibilities only required them to compile data provided by the DoD implementing agencies. The specific internal control standard of documentation, included in the GAO title 2, requires that support for transactions be readily available for examination and easily accessible to allow tracking a transaction through its completion. DoD Financial Regulation, volume 15, requires DFAS-DE to maintain audit trails between source documents and entries to the mechanized accounting system. That audit trail is to be used to track and verify the origin of the data.

To validate the accuracy and completeness of accounts payable at the implementing agency level, we requested from DFAS-DE a schedule of accounts payable by vendor. DFAS-DE had access to the Case Management Control System[7] which handled the Air Force case performance data. DFAS-DE was unable to provide the schedule of accounts payable by vendor. We then contacted one of the DFAS field offices, the Defense Accounting Office (which supported the Air Force operating agencies at Bolling Air Force Base), to inquire about the availability of the data by vendor. The representatives of that DFAS Defense Accounting Office stated that to provide the data by vendor, they would need the element of expense data. The listing we had obtained from DFAS-DE did not contain the element of expense. DFAS-DE could not provide the Air Force accounts payable by element of expense because the Case Management Control System could not produce a report with the element of expense code information. As a result of the nonavailability of an adequate audit trail, we were unable to verify the asserted completeness and accuracy of the $182 million accounts payable reported in the statement of financial position.

Audit Trail for Unearned Revenue. The DFAS-DE did not have adequate audit trails to identify the contents of the unearned revenue account. Subsidiary ledgers for that account were not maintained and the audit trail was never tested. The general ledger balance did not agree with either the detail extract provided by DFAS-DE or the corresponding surcharge cash account balances. That condition occurred because DFAS-DE did not maintain subsidiary accounts and could not identify an appropriate audit trail between source documents and entries to the mechanized accounting system, as required by DoD Financial Regulation volume 15. As a result, we were unable to review $13.1 billion of the $15.6 billion reported for unearned revenue in the statement of financial position.

[7]The Case Management Control System is an Air Force interactive financial management system designed to manage and control Air Force FMS operations.

Accrual Basis of Accounting. The DFAS-DE did not properly accrue the cost of known accounts payable at the end of each month. The accounts payable of the Navy were not accrued. Further, based on our review of the disbursed contract administration costs for October and November 1995 and the actual period of performances for the services provided, $24.3 million was not accrued in FY 1995. That occurred because no local procedures existed at DFAS-DE to implement the requirement of DoD Financial Regulation volume 15 to ensure that the accounting system be conducted on the accrual basis of accounting.

Control Procedures

One of the features of an effective internal control structure is the existence of control procedures that ensure independent checks on performance and proper valuation of recorded amounts. Those procedures include reconciliations and management review of reports that summarize the detail of account balances, such as an aged accounts payable listing. DFAS-DE did not maintain effective control procedures.

Accounts Payable Reconciliation. The DFAS-DE did not test audit trails for the accounts payable and did not reconcile or age balances before the preparation of the trial balance, as required by DoD Financial Regulation volume 15. DFAS-DE personnel stated that neither monthly nor yearly reconciliations were performed. The only time a reconciliation of detailed and general ledger accounts payable had been performed was during the initial conversion of the accounts payable data into DIFS. Because those reconciliations and analysis were not performed, accounts payable balances cannot be relied upon. Additionally, DFAS-DE did not perform the accounts payable aging and analysis required by DoD Financial Regulation volume 15 to ensure timely payments were made to the implementing agencies and contractors. DFAS-DE personnel informed us that they cannot perform accounts payable aging and analysis because the source documents were maintained by the implementing agencies. We believe DFAS-DE can discharge its assigned responsibilities by requesting the needed accounts payable data from the implementing agencies and then performing the required analysis.

Unearned Revenue Reconciliation. The DFAS-DE did not implement DoD Financial Regulation volume 15, which requires that the account be supported by subsidiary ledgers and reconciled monthly with the control account in the general ledger. Maintaining those subsidiary ledgers and performing monthly reconciliations provide required accurate audit trails. Without such reconciliations, there was no assurance that this account accumulated accurate financial data. DFAS-DE did not maintain audit trails to identify the contents

of the unearned revenue account and did not analyze the account. DFAS-DE used the unearned revenue account as a contraaccount[8] in a number of transactions:

o Cash was debited and the unearned revenue account was credited as a contraaccount when cash was collected from a customer.

o Cash was credited and the unearned revenue account was debited as a contraaccount when cash was paid to an implementing agency for its administrative expenses.

o Accounts payable were credited and the unearned revenue account was debited as a contraaccount when funds were payable to an implementing agency or a defense contractor.

Materiality and Impact on Financial Statements

The internal accounting controls over the liabilities were materially deficient. DoD Financial Regulation, volume 1, contains guidance on what constitutes a material deficiency in an accounting system. That regulation provides 13 key accounting requirements that systems must reasonably comply with to meet standards established by the GAO, OMB, the Department of Treasury, and DoD.

Key Accounting Requirements. The first key states that the system must list control and subsidiary general ledger accounts by title and numbers along with a definition of each account. Subsidiary accounts are to be reconciled to the control accounts at least monthly. The eighth key accounting requirement pertains to audit trails and states that the accounting system should ensure that transactions are correctly classified, coded, and recorded in all affected accounts. Also, the financial transactions that the system is accounting for must be adequately supported with pertinent documents and source records. All transactions, including those that are computer-generated and computer-processed, must be traceable to individual source records. The ninth key accounting requirement pertains to accounts payable and specifies that payables should be recorded in the proper accounting period and that the liability reported in annual financial statements shall reflect amounts due for goods and services received.

Calculating Material Deficiency. According to the DoD Financial Regulation, volume 1, a departure from a key accounting requirement is considered a material deficiency if that departure could result in loss of control over 5 percent or more of the measurable resources for which the accounting system

[8]Under the double entry accounting concept, an accounting entry must have a debit and a credit side. DFAS-DE used contraaccounts to provide the balancing side of the accounting entries, not to provide usable accounting information.

is responsible. As of September 30, 1995, the statement of financial position for the FMS Trust Fund reported a balance of $15.8 billion in total liabilities. Applying the regulation's materiality criteria of 5 percent to that balance would mean that a material deficiency would occur when liabilities were $790 million more or less than the reported amount.

Material Deficiencies in Liabilities. The DFAS-DE failure to report the Navy FMS accounts payable, report accrued accounts payable, and maintain and reconcile subsidiary ledgers were reasons for concern. The internal control structure was materially deficient, because the lack of an accurate and reliable audit trail in DIFS; the potential loss of control from not adhering to the DoD Financial Regulation volume 15; and not conducting an annual reconciliation may result in exceeding the $790 million criteria for materiality. The unauditable accounts payable and unearned revenue accounts reported $182 million and $13.1 billion, respectively. As such, $13.3 billion of the $15.8 billion of liabilities presented in the statement of financial position of the FMS Trust Fund may not be relied upon.

Additional Data DFAS-DE Provided

Audit Trail for Accounts Payable. On March 15, 1996, after we completed our audit field work, DFAS-DE provided new data to support completeness of the accounts payable balance reported in the September 30, 1995, financial statements for the FMS Trust Fund. The additional data included accounts payable reconciliation with trial balance, a list of accounts payable at case and country levels, December 1995 accounts payable summary by command code, and December 1995 accounts payable summary by country. Our examination of that data showed no evidence to support completeness and auditability of the FMS Trust Fund accounts payable. The total provided did not match the total in the financial statements, and the Navy accounts payable were still missing.

On April 15 and 16, 1996, DFAS-DE personnel provided additional data to support availability of audit trails for accounts payable. DFAS-DE personnel also believed that the DoD Financial Regulation, volume 15, should be changed to relieve DFAS-DE from the requirement to age accounts payable to ensure timely payments to vendor because the supporting documents were maintained at the installation level accounting systems. We do not expect the vendor supporting documents, such as contracts and delivery reports, to be available at DFAS-DE. However, summary level reports should be available at DFAS-DE. We still believe that neither a complete universe, nor adequate audit trails of the accounts payable, were available to allow tracking the balances from DIFS to the Military Departments accounting systems, to the installation level accounting

systems, and finally to the supporting source documents. The Navy accounts payable were not available, and the reports provided by DFAS-DE did not agree with the general ledger balances.

Audit Trail for Unearned Revenue. On March 25, 1996, DFAS-DE provided us additional information to support availability of an audit trail for the unearned revenue account. The data provided were a summary reconciliation including the sum of cash with the Treasury account balance and cash with commercial banks, subtracting the accounts payable balance, thus producing the unearned revenue account balance. The data DFAS-DE provided did not show the applicable subsidiary accounts. Instead, balances of four asset and liability accounts reported in the FMS Trust Fund statement of financial position were added together to derive the balance reported for unearned revenue in the statement of financial position. On April 15 and 16, 1996, we met with DFAS-DE personnel to further discuss the audit trails for the unearned revenue account. We explained to DFAS-DE personnel our concerns about the audit trail, considering DoD Financial Regulation, volume 15, requirement of maintaining reconcilable subsidiary ledgers for that account. DFAS-DE personnel maintained their position that the account was only a contraaccount. We believe the resolution of the issue of recognizing the FMS Trust Fund revenues and expenses would result in a different purpose for the unearned revenue account. For example, the unearned revenue account would not be debited by funds payable to the implementing agencies and defense contractors, instead an expense account would be debited.

Management Comments on Finding and Audit Response

Management Comments. The Under Secretary stated that audit trails for the accounts payable were in place and were adequate, and the auditors attempted to audit the accounts by looking only at the Departmental level systems and not the feeder systems. The auditors were given a list of summary accounts payable transactions that identified payables to country, case, line, and activity where the detail data were located. Also, the auditors were given a reconciliation of the unearned revenue - advances from public-other non-Federal (governmental) liabilities account that reconciled to the penny.

Audit Response. The audit trail for the accounts payable was not adequate because the data that DFAS-DE provided during the audit, and on two subsequent occasions, did not prove that an adequate audit trail existed. The data provided were incomplete thus unreliable. The totals did not agree with the trial balance, and the data did not have a unique identifier to follow the audit trail through the supporting documents. In all the accounts we attempted to verify, including the accounts payable, we requested the amounts reported in the trial balance (Departmental level) be detailed to ultimately identify the organizations holding the supporting documents regardless of the number of the intermediate organizations involved between the Departmental level and the source documents. Although the reconciliation that DFAS-DE provided agreed with the trial balance, it did not provide the universe of each subsidiary

surcharge accounts involved. DFAS-DE derived the balance of the unearned revenue account by calculating the difference between the asset and liability accounts excluding the unearned revenue account. DFAS-DE was unable to provide the audit trails for the accounts payable and the unearned revenue accounts.

Recommendations, Management Comments, and Audit Response

C.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) report to the Defense Finance and Accounting Service, Denver Center, the Navy's foreign military sales accounts payable applicable to transactions with Federal (governmental) entities, and transactions with non-Federal (governmental) entities, in compliance with DoD Financial Management Regulation 7000.14, volume 15, "Financial Management Regulation; Security Assistance Policy and Procedures," March 1993.

Management Comments. The Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) concurred. Actions to meet the recommendation will be completed by July 30, 1996.

C.2. We recommend that the Director, Defense Finance and Accounting Service, Denver Center:

a. Report the Navy accounts payable in the Defense Integrated Financial System, and in the financial statements.

Management Comments. The Under Secretary concurred, stating that action is being taken to receive the Navy accounts payable data by September 30, 1996.

b. Maintain a subsidiary ledger for the accounts payable to allow identification and testing of audit trails, as required by DoD Financial Management Regulation 7000.14, volume 15.

Management Comments. The Under Secretary concurred, stating that an audit trail exists for the accounts payable, and by September 30, 1996, DoD Financial Management Regulation 7000.14, volume 15 will be changed to recognize that vendor identification is at the installation level.

Audit Response. We maintain that, based on the documents reviewed, adequate audit trails leading to the source documents at accounting systems below DIFS did not exist at DFAS-DE. We request that the Under Secretary provide additional comments in response to the final report.

c. Request accounts payable aging lists by vendor from those DoD organizations implementing Letters of Offer and Acceptance, summarize those lists at the FMS Trust Fund level, and perform needed analysis to ensure fulfillment of the task assigned by DoD Financial Management Regulation 7000.14, volume 15.

Management Comments. The Under Secretary partially concurred. The Under Secretary stated that accounts payable aging information can be obtained from the installation level accounting systems, and by September 30, 1996, DoD Financial Management Regulation 7000.14, volume 15, will be changed to recognize that aging of the accounts payable is an installation level function.

Audit Response. Changing DoD policy to assign the task of aging accounts payable to installation level organizations satisfies the intent of the recommendation.

d. Reconcile accounts payable balances with the supporting documentation or subsidiary records before the preparation of the trial balance as required by DoD Financial Management Regulation 7000.14, volume 15.

Management Comments. The Under Secretary concurred, stating that procedures have been changed to ensure that the accounts payable account is reconciled to supporting subsidiary data on a regular basis beginning in May 1996.

e. Implement the DoD Financial Management Regulation 7000.14, volume 15, requirement that subsidiary ledgers be maintained and reconciled monthly for the unearned revenue-advances from public-other non-Federal (governmental) liabilities account.

Management Comments. The Under Secretary concurred, stating that beginning in June 1996, the unearned revenue account will be reconciled with the existing subsidiary data.

Audit Response. The Under Secretary comments met the intent of the recommendation. If the Office of Management and Budget will not grant a waiver from preparing, and have audited, financial statements for the FMS Trust Fund, DoD will account for surcharge revenues and expenses in the FMS Trust Fund. When that happens, the function of the unearned revenue advances from public-other non-Federal (governmental) liabilities account will have to be determined (see management comments on Recommendation A.1.a.). The existing DoD policy requires that the account include subsidiary ledgers for the surcharge accounts.

f. Establish procedures at the Defense Finance and Accounting Service, Denver Center, to properly accrue the anticipated expenses attributable to the accounts payable at the end of each month.

Management Comments. The Under Secretary partially concurred, stating that DoD policy is that there are no expenses in the FMS Trust Fund. DFAS will take action to obtain data on accrued accounts payable at each month end. Procedures will be issued and implemented by September 30, 1996.

Audit Response. The Under Secretary comments met the intent of the recommendation. Under the existing DoD policy, the unearned revenue - advances from public-other non-Federal (governmental) liabilities account is charged, instead of an expense account, when DFAS-DE recognize accounts payable. If the Office of Management and Budget will not grant the waiver from preparing, and have audited, financial statements for the FMS Trust Fund, DoD will account for surcharge revenues and expenses in the FMS Trust Fund as stated in management comments on Recommendation A.1.a. If that occurs, expense accounts will be used to properly capture accrued expenses.

Finding D. Accounts Receivable

The DFAS-DE erroneously classified overcollections from customers as negative accounts receivable - transactions with non-Federal (governmental) entities, and did not age accounts receivable. The conditions occurred because DFAS-DE did not periodically review country accounts receivable balances to identify credit balances, and did not implement DoD Financial Regulation volume 15, regarding aging of receivables. As a result, DFAS-DE internal controls were not adequate to provide reasonable assurance that the $2.5 billion of accounts receivable reported in the FY 1995 statement of financial position was accurate; therefore, that account balance may be materially misstated.

Regulatory Requirements

DoD Financial Regulation. DoD Financial Regulation volume 15, includes guidance on billing case performance costs. DD Form 645, "Foreign Military Sales Billing Statement," represents the official claim for and an accounting of costs incurred on behalf of the FMS customers. That FMS billing statement also is the source document for entries into the accounts receivable - transactions with non-Federal (governmental) entities account. The FMS billing statement is produced quarterly.

DoD Financial Regulation, volume 4 and volume 15, require DFAS-DE to age delinquent accounts receivable. A delinquent account receivable is defined by the DoD Financial Regulation volume 15, as that receivable which remains unpaid after its due date, and for which total accrued costs exceed total available cash. A delinquent account receivable becomes in arrearage when the amounts for delivered materiels, performed services, and progress payments made to contractors on behalf of a customer are past due.

GAO Title 2. The GAO title 2 requires that accounts receivable balances are analyzed to determine collectibility. If accounts receivable are not collectible within 1 year of the date of the financial statements, that amount will be disclosed in a footnote to the financial statements.

Accounts Receivable Balance

For the FMS Trust Fund, DFAS-DE erroneously classified overcollections from customers as accounts receivables, and did not age delinquent accounts receivable. The DFAS-DE management control structure over transaction processing and general ledger recordings in the FMS Trust Fund did not provide reasonable assurance of an accurate accounts receivable balance. To establish the reasonableness of the FMS Trust Fund accounts receivable, we compared

the general ledger figures with supporting subsidiary ledger balances. We also verified DFAS-DE and DSAA process of aging accounts receivable. The accounts receivable balance was understated by the overcollections, and aging of the accounts receivable was not performed. We concluded that the accounts receivable balance of $2.5 billion may be materially misstated.

Accounting and Related Systems

Proper Measurement of Transactions Value and Presentation in the Financial Statements. The DFAS-DE actions to classify overcollections from customers as accounts receivable, and to not age delinquent accounts receivable were not in consonance with the attributes of an effective accounting system. An effective accounting system has the ability to properly measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements along with proper disclosure.

Country Overpayments. The DFAS-DE inappropriately reduced the FMS Trust Fund accounts receivable balance in the statement of financial position by the excess of customer payments over total performance costs. In cases where collections from customers exceed their accounts receivable, the FMS billing statement reported zero as the amount receivable, and DFAS-DE reduced the accounts receivable balance by the overcollection in the general ledger based on other DIFS reports. Some countries have net negative accounts receivable across all cases. On September 30, 1995, DFAS-DE reduced the accounts receivable balance by $930 million for overpayments from 12 FMS customers. Those overpayments should have been recorded as a liability of the FMS Trust Fund to properly reflect the financial position of the fund. The practice of netting payables and receivables by DFAS-DE distorted the statement of financial position because the true balance of the DoD receivables from the foreign customers and the liabilities of the Trust Fund were obscured.

Aging of Accounts Receivable. The DFAS-DE did not age accounts receivable as required by DoD Financial Regulation volume 15, and GAO title 2 to determine collectibility and proper valuation. Aging of the accounts receivable is a feature of an effective accounting system, as it assists in determining the proper monetary value of that asset in the financial statements. DoD Financial Regulation volume 15 requires aging of delinquent accounts receivable with accrued expenditures less than the cash available from all sources. Aging of those accounts receivable commences at the beginning of the month following the date the payment was due. DFAS-DE personnel believed that the accounts receivable were always current because every 3 months, the accounts receivable balances were recalculated to include cumulative incurred costs, estimated termination liability, and payment forecast for the next 3 months less cumulative collections. We believe recalculating the accounts receivable every 3 months does not guarantee that customer payment of the billed amount would be in full and on time, and that the accounts receivable would always be current.

Control Procedures

Procedures for Independent Checks on Performance and Proper Valuation of Recorded Amounts. One aspect of an effective internal control structure is to properly design and execute procedures that provide reasonable assurance that the objectives of a specific entity will be achieved. A category of those procedures is designed to verify proper valuation of recorded amounts. We noted material internal control weaknesses that made existing procedures ineffective in handling accounts receivable. The procedures available for DSAA and DFAS-DE were included in DoD Financial Regulation volume 15. Our tests of those procedures on aging showed that DFAS-DE did not implement those procedures.

Materiality and Impact on Financial Statements

The internal accounting controls over accounts receivable were materially deficient. DoD Financial Regulation volume 1, contains guidance on what constitutes a material deficiency in an accounting system. It provides 13 key accounting requirements that systems must reasonably comply with to meet standards established by the GAO, OMB, the Department of the Treasury, and DoD.

Third Key Accounting Requirement. The third key accounting requirement covers accounts receivable. It states that accounts receivable shall be recorded accurately to provide reliable financial status. Uncollectible accounts must be established to provide full financial disclosure.

Calculating Material Deficiency. According to DoD Financial Regulation volume 1, a departure from a key accounting requirement is considered a material deficiency if that departure results in a loss of control of 5 percent or more of the measurable resources for which the accounting system is responsible. As of September 30, 1995, the statement of financial position of the FMS Trust Fund reported an accounts receivable balance of $2.5 billion. Applying the regulation's materiality criteria of 5 percent to the accounts receivable balance would mean that a material deficiency would occur if accounts receivable were $127 million more or less than the reported amount.

Material Deficiencies in Accounts Receivable. The DSAA and DFAS-DE internal control structure was materially deficient, because the potential loss of control may well exceed the $127 million criteria for materiality. The customers overcollections recorded in the accounts receivable instead of a liability account was $930 million, and aging the accounts receivable may disclose that part of those receivables should be written off. As such, the accounts receivable balance of $2.5 billion presented in the statement of financial position may not be relied upon.

Management Comments on Finding and Audit Response

Management Comments. The Under Secretary nonconcurred with the finding, stating that DFAS-DE did age accounts receivable. The aging technique, as described in DoD Financial Management Regulation 7000.14, volume 15, needed to be changed to more clearly identify a true receivable and a delinquent receivable. Estimates for future cash needs were always current and should not be aged or considered as part of a delinquent account. The Under Secretary further stated that there were only two delinquent countries whose debts were aged and reported as of September 30, 1995.

Audit Response. The DoD Financial Management Regulation 7000.14, volume 15, requires two types of aging covering delinquent accounts and accounts in arrears. DSAA determined the countries in arrears; however, DFAS-DE did not age delinquent accounts receivable. We agree that estimates for future cash needs are always a current period value.

Recommendations, Management Comments, and Audit Response

D. We recommend that the Director, Defense Finance and Accounting Service, Denver Center:

1. Review the accounts receivable - transactions with non-Federal (governmental) entities subsidiary balances periodically, as required by DoD Financial Management Regulation 7000.14, volume 15 "DoD Financial Management Regulation; Security Assistance Policy and Procedures," March 1993, to ensure net overcollections from customers are reported as a liability of the Foreign Military Sales Trust Fund at the general ledger level.

Management Comments. The Under Secretary concurred with the recommendation, stating that DFAS will post credit accounts receivable at the country level as a liability, effective June 1996, but adjustments will be made within a country account when some cases show negative accounts receivable.

2. Implement DoD Financial Management Regulation 7000.14, volume 15, requirement to age accounts receivable.

Management Comments. The Under Secretary partially concurred, stating that a policy change will be reflected in DoD Financial Management Regulation 7000.14, volume 15, by September 30, 1996, to clarify the aging criteria.

Audit Response. The proposed change and clarification of DoD policy meet the intent of the recommendation (see management comments on the finding and audit response).

Finding E. Electronic Data Processing Controls

The DFAS-DE did not adequately restrict user and programmer access to the accounting system, and did not follow up to verify that all transactions rejected and suspended by a performance control subsystem of the DIFS were corrected. The review and follow-up were inadequate because DFAS-DE did not periodically review eligibility for access, and because managers in charge of monitoring case performance did not implement the policy requiring follow up and resolution of suspended transactions. As a result, unauthorized users had access to sensitive financial information, which may diminish the ability of the internal control structure to provide reasonable assurance of financial and case data processing integrity. Additionally, there was no assurance that reported case performance data were accurate.

DFAS-DE Electronic Data Processing Environment

The internal control structure for electronic data processing systems takes many forms. One form is access to the computer system itself and functions within the computer system. Another form is subsystems within the computer system used to edit transactions before they are processed by the system. DIFS is the computer system used to record financial information for the FMS program. The Deputate for Security Assistance, DFAS-DE, is responsible for the day-to-day operation of DIFS. The Financial System Agency-Denver is an organization located at DFAS-DE, but organizationally reports to DFAS Headquarters. The Financial System Agency-Denver is responsible for programming the DIFS, for managing user access, and for entering user information into the DIFS security software.

Access to the Electronic Data Processing System. The Defense Information Technology Services Organization Regulation 630-230-19-R, "Automated Information Systems Security," June 1993, implements DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988, (DoD Directive 5200.28), and governs security for automated information systems at DFAS-DE. One of the major concepts of DoD Directive 5200.28 is the least-privilege principle, which means that users should have access to only the minimum amount of information needed to successfully perform their duties. The DIFS handbook also describes the functions accessible by various categories of users.

Transaction Validation by the DIFS. The Positive Transaction Control subsystem of DIFS edits transactions submitted by the DoD implementing agencies before DIFS processes those transactions. DIFS transactions include budget, cash, performance reporting, and case initialization and control functions. If the transaction does not successfully pass through the Positive Transaction Control subsystem, it is written to a suspense file where the

transaction remains until the implementing agency submits a transaction that either corrects or deletes the rejected transaction. If the implementing agency does not correct or delete the rejected transaction, the rejected transaction remains suspended indefinitely. Only the originating implementing agency can correct or delete the rejected transaction. DFAS-DE Departmental Operating Instruction 177-39, "Suspended Disbursement, Budget, Performance, and Notification Transactions," March 4, 1992, establishes responsibility within DFAS-DE for monitoring reports that list transactions suspended by the Positive Transaction Control subsystem, and for contacting the originating implementing agency for clearing the rejected transactions.

Control Environment and Procedures

An attribute of an effective internal control structure is adequate control procedures that provide reasonable assurance that specific entity objectives will be achieved. Another attribute is a control environment that enhances the effectiveness of those control policies and procedures. An element of the control procedures is the segregation of duties that reduce the opportunities to allow any person to be in a position to perpetrate and conceal errors or irregularities during the normal course of their duties. An element of the control environment that makes that control procedure effective is the methods of assigning authority and responsibility in the electronic data processing area. Those methods include computer systems documentation, indicating the procedures for authorizing transactions, and approving systems changes. Electronic data processing controls regarding the access privileges, and the segregation of duties in the electronic data processing area at DFAS-DE needed improvement.

Controls Over Access to DIFS. The DFAS-DE did not periodically review eligibility of user and programmer access to the DIFS, which resulted in unauthorized access by remote users and application software programmers. To test the adequacy of controls over access to DIFS, including adequacy of application-related general controls, we obtained a listing of users for selected DIFS functions involved in financial management. We evaluated the appropriateness of access for those users by using the access criteria in the DIFS handbook. We also determined the appropriateness of the programmers access to the test and production versions of the application software.

Access to the Electronic Data Processing System. The DFAS-DE did not apply the least-privilege principle for user and programmer access to DIFS. For instance, remote users had access to the DIFS financial management ledger inquiry function, which allowed those users to inquire about the financial status of every FMS customer's cases. According to the instructions in the DIFS handbook, no remote users were to be allowed access to the financial management ledger function of DIFS. Further, programmers at the Financial System Agency-Denver had access to update the test and production versions of application programs of DIFS. The nonrestricted access occurred because DFAS-DE did not periodically review eligibility for access to the DIFS. Access

to both versions of the program weakens electronic data processing security controls because those programmers can alter the actual data. As a result, there was no assurance that unauthorized personnel did not have access to sensitive information.

Management Actions Taken. Management at DFAS-DE agreed to clarify written policies and procedures governing the granting of access to functions within DIFS by remote users, including periodic reviews of eligibility, and instructed the Financial System Agency-Denver to remove the financial management ledger inquiry function from the functions accessible by the remote users. However, DFAS-DE management stated that they needed to grant programmers access to both the test and production versions of application software to assist in resolving program execution problems promptly.

Controls of the Positive Transaction Control Subsystem. The DFAS-DE did not follow up to ensure transactions rejected and suspended by a control subsystem of the DIFS were corrected. To evaluate the effectiveness of the DIFS Positive Transaction Control subsystem, we examined DFAS-DE Departmental Operating Instruction 177-39 for sufficiency, and reviewed suspended transaction reports for the four functions tested by the Positive Transaction Control subsystem to determine the length of time the rejected transactions remained uncorrected.

Effectiveness of the DIFS Positive Transaction Control Subsystem. The DFAS-DE did not follow up to ensure that all transactions rejected and suspended by the performance[9] control subsystem of the DIFS were corrected. As of January 25, 1996, the Army had 114 suspended performance transactions, and the Navy had 223 suspended performance transactions that were more than 15 months old. The Air Force did not have any suspended performance transactions. Since these transactions were not corrected, there was no assurance that the controls expected from the DIFS Positive Transaction Control subsystem were effective in ensuring that the recorded case performance data were accurate or complete. Performance data directly impacted cash and receivables management. DFAS-DE personnel were aware of the requirement in DFAS-DE Departmental Operating Instruction 177-39 that they follow up those suspended performance transactions. However, those personnel did not monitor rejected performance transactions or contact the DoD implementing agencies to request that the rejected transactions be either corrected or deleted. DFAS-DE personnel stated that they did not have the resources to monitor the rejected transactions, and made no commitment to do so in the future.

[9]Performance transactions processed by the performance (delivery) reporting include reporting of materiel, services, or progress payments that demonstrate deliveries or performance against FMS cases by the Military Departments.

Management Comments on Finding and Audit Response

Management Comments. The Under Secretary nonconcurred with the finding, stating that trusted employees do have limited access to production data files for the purpose of providing production support. The Under Secretary also stated that only 10 remote users access the DIFS financial management module. Those 10 users were high level DSAA employees.

Audit Response. We discussed the finding with management at DFAS-DE during our audit field work. As a result of those discussions, DFAS-DE management took action to determine the proper number of programmers who needed access to production data. Regarding the need for remote users to access DIFS, our discussion with DFAS-DE management and our review of documents we obtained during the audit disclosed that a significant number of remote users, other than DSAA personnel, had access to the DIFS financial management module. However, during our audit, DFAS-DE management removed remote users' access to the module, including DSAA employees. Subsequently, DFAS-DE reinstated DSAA employees' access permission; a move that we agree with.

Recommendations, Management Comments, and Audit Response

E. We recommend that the Director, Defense Finance and Accounting Service, Denver Center establish control procedures to:

1. Limit the number of programmers at the Financial System Activity, Denver, with access to the production version of the application software of the financial management ledger, to the minimum number needed to service the software as required by DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988.

Management Comments. The Under Secretary concurred, stating that DIFS programmers at the Financial Systems Activity, Denver, are restricted from general access to both production program source code and production data sets.

Audit Response. After we discussed the issue of programmers' access to production data with DFAS-DE supervisory personnel, DFAS-DE removed programmers' access to those data sets. The issue that remained was a determination by DFAS-DE on the limited number of programmers that should have access to production data sets to assist in resolving processing problems. We do not know whether DFAS-DE had reversed its action of removing programmers' access to production data. We request that the Under Secretary provide additional comments on this issue in response to the final audit report.

2. Ensure implementation of Departmental Operating Instruction 177-39, "Suspended Disbursement, Budget, Performance, and Notification Transactions," March 4, 1992, to monitor lists of suspended transactions and contact and follow up on actions by DoD implementing agencies to clear performance transactions rejected by the Positive Transaction Control subsystem of the Defense Integrated Financial System.

Management Comments. The Under Secretary concurred, stating that procedures are being changed to ensure that performance rejects are monitored and corrected by September 30, 1996.

Part I.B. - Review of Compliance With Laws and Regulations

Introduction

Management Responsibilities. The DSAA administers the security assistance responsibilities of the Secretary of Defense under the Foreign Assistance Act of 1961, as amended; the Arms Export Control Act, as amended; and other applicable statutes, Executive orders, and directives. DSAA is primarily a policy and management oversight organization; and the Military Departments actually implement and execute the FMS program. DFAS-DE, has provided centralized accounting services for DSAA since March 1993. Compliance with laws and regulations is the responsibility of the Chief Financial Officer of the Department of Defense; the Director, DSAA; the Director, DFAS; the Directors of other Defense agencies; and the Secretaries of the Army, the Navy, and the Air Force.

Objective and Scope of Review. The audit was conducted under the Chief Financial Officers Act of 1990, as amended. We reviewed DSAA and DFAS-DE compliance with provisions of laws and regulations that may directly affect the financial statements to obtain reasonable assurance that the financial statements were free of material misstatements. Our objective was not to provide an opinion on overall compliance with such provisions. The statement accounts on which we based our evaluation are presented in the statement of financial position, and the statement of operations and changes in net position of the FMS Trust Fund, as of September 30, 1995. The statements were submitted to us on January 31, 1996. The FY 1995 combined statement of financial position of the DSAA reported assets of $27.4 billion, of which $15.8 billion was for the FMS Trust Fund. A list of laws and regulations reviewed is in Appendix E of this report.

Reportable Conditions

Material instances of noncompliance are failures to follow requirements and violations of prohibitions in laws and regulations. Such failures and violations caused us to conclude that the aggregation of the misstatements resulting from those failures and violations is material to the principal statements, or those for which a sensitive nature would cause them to be perceived as significant. Instances of noncompliance with laws and regulations that materially affected the reliability of the statement of financial position existed. The instances of noncompliance were considered when forming our disclaimer of opinion on the DSAA financial statements. The results of our test of the FMS Trust Fund accounts disclosed the following instances of noncompliance.

United States Code, Title 31, Section 3512, and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. United States Code, title 31, section 3512, and DoD Directive 5010.38 were not fully complied with in establishing and assessing internal controls. United States Code, title 31, section 3512, requires agencies to establish internal accounting and administrative controls in accordance with standards instituted by the

Comptroller General. United States Code, title 31, section 3512, also requires agencies to establish a comprehensive system of internal control management to properly record and account for revenues and expenditures, prepare reliable financial and statistical reports, and maintain accountability over assets. DoD Directive 5010.38 provides the management control system for achieving the objective of United States Code, title 31, section 3512.

Implementation of the Management Control Program. The DSAA and DFAS-DE reported that they achieved the objectives of United States Code, title 31, section 3512, in their FY 1995 Annual Assurance Statement. The positive assurance provided by their annual statements did not represent the true control environment of the FMS Trust Fund. DSAA did not ensure that DFAS-DE had implemented an effective management control program that assessed the adequacy of management controls over the assets and liabilities of the FMS Trust Fund. For example, DFAS-DE identified accounting and reporting as a high risk assessable unit. Management control reviews, conducted by DFAS-DE for that unit, reported that controls were in place for two major functions. Those functions were the general ledger analysis and reconciliation of cash collections and disbursements.

Material Weaknesses not Reported by DSAA and DFAS-DE. We identified internal control weaknesses in that the FMS Trust Fund revenues and expenses were not reported, $370.5 million in disbursements were not matched with applicable customers, accounts payable and $930 million in accounts receivable were not properly recorded and reported, and the unearned revenue general ledger account was not supported by subsidiary ledgers. None of those weaknesses were identified during the DSAA and DFAS-DE management control reviews. Consequently, the weaknesses we identified were not reported in the DSAA and DFAS-DE annual statements of assurance.

OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements." The DSAA and DFAS-DE did not fully comply with OMB Bulletin No. 94-01. The Bulletin requires that revenues, expenses, and net position be accounted for and presented in the financial statements. DSAA did not ensure that DFAS-DE accounted for the FMS Trust Fund revenues and expenses, and reported all zeros in the applicable statement of operations because the two organizations were precluded from such action by DoD Financial Regulation volume 15.

GAO "Policy and Procedures Manual for Guidance of Federal Agencies," Title 2, "Accounting" and DoD Financial Management Regulation, 7000.14. The requirements of GAO title 2 are incorporated in the DoD Financial Management Regulation. The accounts affected by the noncompliance were cash disbursements, accounts receivable, liabilities, and revenues and expenses.

Cash Disbursements. The GAO title 2 and DoD Financial Regulation volume 5, were not fully complied with in maintaining an audit trail for disbursements. GAO title 2 and DoD Financial Regulation, volume 5, require that financial transactions be supported with pertinent documents and source records. Both further require that transactions be referenced to individual source records. Referencing must be achieved in a manner that enables tracking

or replicating a transaction from the resulting record or report to the source, or by tracking indirectly to source records through summaries contained in the general and specific journals. Supporting documents for $13.1 billion of the FMS Trust Fund disbursements were not readily available at DFAS, Columbus, because DIFS omitted the voucher number and the day of the disbursement when processing the data DFAS, Columbus transmitted. Without the voucher number and day, tracking the disbursements at DFAS, Columbus, was not efficiently feasible (see Finding B).

FMS Trust Fund Liabilities. The GAO title 2 and DoD Financial Regulation, volume 15 were not fully complied with in accounting for accounts payable and unearned revenue transactions. DoD Financial Regulation, volume 15, requires that subsidiary ledger records for reconciling with the general ledger accounts and supporting documentation are to be maintained. However, DFAS-DE did not maintain subsidiary records and did not perform monthly reconciliations. The GAO title 2 and DoD Financial Regulation, volume 4, require invoices received and estimated amounts for invoices not yet received to be reported in annual financial statements. However, DFAS-DE did not report the Navy FMS accounts payable, and did not accrue contract administrative services costs applicable to FY 1995. The noncompliance resulted in the general ledger accounts for accounts payable and unearned revenue being unverifiable and potentially materially misstated (see Finding C).

FMS Trust Fund Accounts Receivable. The GAO title 2 and DoD Financial Regulation, volume 15, were not fully complied with in recording accounts receivable. Accounts receivable were required to be recorded and accounted for properly to disclose their net realizable value, and allow for the preparation of reliable financial statements. DoD Financial Regulation, volume 15, also defines a delinquent account receivable as a receivable that remains unpaid after its due date. DSAA did not ensure that DFAS-DE implemented the aging policy in the DoD regulation to determine the accounts receivable value. Noncompliance with DoD Financial Regulation volume 15, for accounts receivable and the general ledger accounts may materially misstate those accounts (see Finding D).

DoD Accounting Policy and Procedures for Researching and Correcting Unmatched Disbursements and Negative Unliquidated Obligation Transactions. The DSAA and DFAS-DE did not comply with DoD policy to research and correct unmatched disbursements. DFAS-DE did not follow up on the accumulated undistributed disbursements, and DSAA did not provide DFAS-DE the policy and guidance for notifying the fund holder and for assigning undistributed disbursements to the FMS administration surcharge account. DoD policy requires DSAA to establish notification and approval procedures when an undistributed disbursement has not been resolved within 120 days. The policy also requires DFAS-DE to notify the fund holder to resolve problem transactions. Additionally, the policy requires that undistributed disbursements be assigned to the FMS administration surcharge account when the transaction has not been resolved within 180 days. DSAA has not provided the required policy and guidance because it was waiting for the

Under Secretary of Defense (Comptroller) and Chief Financial Officer response to its request for a waiver from complying with the DoD policy on resolving undistributed disbursements (see Finding B).

Reportable Conditions Noted in Prior Audit

The reportable conditions identified during this audit for the FMS Trust Fund, which were also identified in prior audits, are lack of recognition of the revenues, expenses, and net position; nonreporting of the accounts payable for the Navy in the financial statements; and the need for improvements of the internal management control program. Those conditions were identified in the Inspector General, DoD, Report No. 93-123, "Consolidating Financial Statements of the Foreign Military Sales Trust Fund - FY 1992," June 24, 1993 (see Appendix D).

Reportable Conditions Not Noted

Our evaluation of laws and regulations would not necessarily disclose all instances of noncompliance considered to be material and reportable. With respect to items not tested, nothing came to our attention that caused us to believe that DSAA and DFAS-DE had not complied, in all material respects, with those laws and regulations identified above.

Part II - Additional Information

Appendix A. Disclaimer of Opinion and Financial Statements Audited

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

February 29, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

SUBJECT: Disclaimer of Opinion on the Defense Security Assistance Agency Financial Statements for FY 1995 (Project No. 5LG-2029)

Introduction

The Chief Financial Officer (CFO) Act of 1990, as amended by the Federal Financial Management Act of 1994 requires financial statement audits by statutory Inspectors General. That Act prescribes the responsibility of management and auditors with respect to the financial statements, internal controls, and compliance with laws and regulations. The Defense Security Assistance Agency (the Agency), as the funds manager, is responsible for establishing and maintaining an internal control structure and complying with laws and regulations applicable to those funds. The Defense Finance and Accounting Service, Denver Center is responsible for maintaining the accounting system for the funds managed by the Agency. Our responsibility was to express an opinion on the financial statements based on our audit and determine whether internal controls were adequate and whether the Agency complied with applicable laws and regulations.

Disclaimer of Opinion

We were unable to render an opinion on the Agency's financial statements because the Agency did not have sufficient audit trails to identify the contents of the $13.1 billion (83 percent of total liabilities) reported as Other Non-Federal (Government) Liabilities of the Foreign Military Sales Trust Fund. Supporting documentation to allow us to audit $13.4 billion of disbursements for the Foreign Military Sales Trust Fund was unavailable. Additionally, the reported accounts payable of the Foreign Military Sales Trust Fund was unauditable because the Agency did not have an audit trail by vendor or major command. Although a Management Representation Letter was provided to us, the Agency could not attest to the accuracy or completeness of the financial data.

Our review provides a reasonable basis for conclusion on the internal control structure, and compliance with laws and regulations as they relate to the financial statements of the Agency. Our review would not necessarily disclose all internal control and compliance reportable conditions that might also be considered material weaknesses. Reportable internal control and compliance conditions are summarized in this report and will be further addressed in our internal control and compliance report to be published.

Internal Controls

We reviewed the internal control structure of the Agency and obtained an understanding of the internal control policies and procedures. In addition, we reviewed the implementation of the Management Control Program by the Agency managers. We performed applicable tests of the internal control structure to determine whether the controls were effective and working as designed.

The internal control structure was not effective in accounting for and managing resources, ensuring compliance with laws and regulations, and ensuring that the financial statements are free of material misstatements. Management actions are needed to improve the internal controls relating to cash disbursements including transportation disbursements and unmatched disbursements, supporting the general ledger by subsidiary accounts, recording and reporting accounts receivable and accounts payable, accounting for revenues and expenses, follow up on errors reported by the Positive Transaction Control system (a module that verifies the validity of processed transactions), strengthening the electronic data processing security controls, and implementing the Management Control Program.

The Agency and the Defense Finance and Accounting Service, Denver Center Annual Statements of Assurance did not identify any material weaknesses as related to the Agency's activities. Some of the internal control weaknesses or noncompliance with laws and regulations that we identified may result in material misstatements in the financial statements.

Compliance with Laws and Regulations

We tested compliance with material provisions of laws and regulations, such as the Arms Export Control Act, the Federal Managers' Financial Integrity Act, the CFO Act of 1990, and DoD Financial Management Regulations, as they pertain to the accuracy of the financial statements. Compliance issues identified during our review may have a material impact on the financial statements. Those issues pertain to accounting for the Foreign Military Sales Trust Fund accounts receivable, accounts payable, and revenues and expenses and implementing Management Control Program.

Robert J. Lieberman
Assistant Inspector General
for Auditing

DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

26 FEB 1996

In reply refer to
I-002506/96

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Management Assurance Concerning Defense Security Assistance Agency Financial Statement for FY 1995

Reference: DoDIG Memorandum dated January 18, 1995, Subject: Management Assurance Concerning Defense Security Assistance Agency Financial Statement for FY 1995

In response to the referenced memorandum, we assure the Financial Statement for this Agency is presented in the format and content as described by the Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statement," November 16,1993, and other guidance issued by the Office of the Under Secretary of Defense, Comptroller (OUSD(C)) as described in the footnotes accompanying the statement.

We have concerns with the accuracy of the Defense Security Assistance Agency (DSAA) FY 1995 Financial Statement(s) as its accuracy may be in question. To the best of our knowledge the following is a fair representation of the Financial Statement(s) as prepared by Defense Finance and Accounting Service (DFAS).

- Although DSAA is responsible for the presentation of the Agency Financial Statement according to OMB Bulletin No. 94-01 and other DoD policies, we cannot attest to the accuracy or completeness of the data presented as prepared by DFAS.

- The Financial Statement for DSAA is prepared by DFAS from their Defense Integrated Financial System (DIFS). The DIFS is a repository of data that is as accurate and complete as the data supplied by multitude of financial and logistical systems throughout the Department. Numerous GAO, DoDIG and Departmental audits and reports, and reviews by DSAA have identified deficiencies within these systems and/or operating procedures which also affect the accuracy and completeness of the DSAA Financial Statement.

- Although DFAS has attested to the accuracy of the various account balances maintained for the Services which were used to prepare the DSAA Financial Statement,

there have been communications received from regulatory agencies, DFAS, and auditors, as well as DSAA internal reviews., concerning noncompliance with, or deficiencies in, financial practices that could have a material effect on the Financial Statement.

- There are material transactions not properly recorded in the accounting and/or logistical records and subsequently reflected in the DSAA Financial Statement(s).

- Based on information provided by DFAS, we are not aware of any other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Financial Accounting Standards Board Statement No. 5, "Accounting for Contingencies," March 1975.

- All financial records and related data available to DSAA were provided to you.

- There are no plans or intentions, other than those previously discussed with you, that will materially affect the value or classification of assets and/or liabilities.

- There are no irregularities involving DSAA management or employees who have significant roles in the internal management control structure.

- There are no irregularities that could materially affect the Financial Statement involving other employees or management.

- There are no violations or possible violations of laws or regulations that should be considered for disclosure in the Financial Statement or for recording a loss contingency.

- There are no unasserted claims or assessments that our legal representative believes must be disclosed in accordance with the Financial Accounting Standards Board Statement No. 5.

- There are no liens or encumbrances on fund assets, nor have any assets been pledged. The Fund has satisfactory title to all assets.

- There were no events occurring after the balance sheet date that require adjustments to, or a disclosure in, the Financial Statement.

- All adjustments that DSAA or the DFAS made to account balances are fully documented and were made in accordance with applicable accounting standards and DoD policies.

Attached is the FY 1995 Legal Representation Letter for the DSAA Financial Statement(s).

H. Diehl McKalip
Acting Director

Attachments:
As Stated

cc:
OUSD(C)

GENERAL COUNSEL
DEFENSE SECURITY ASSISTANCE AGENCY
WASHINGTON DC 20301-2800

DEFENSE LEGAL SERVICES

February 5, 1996

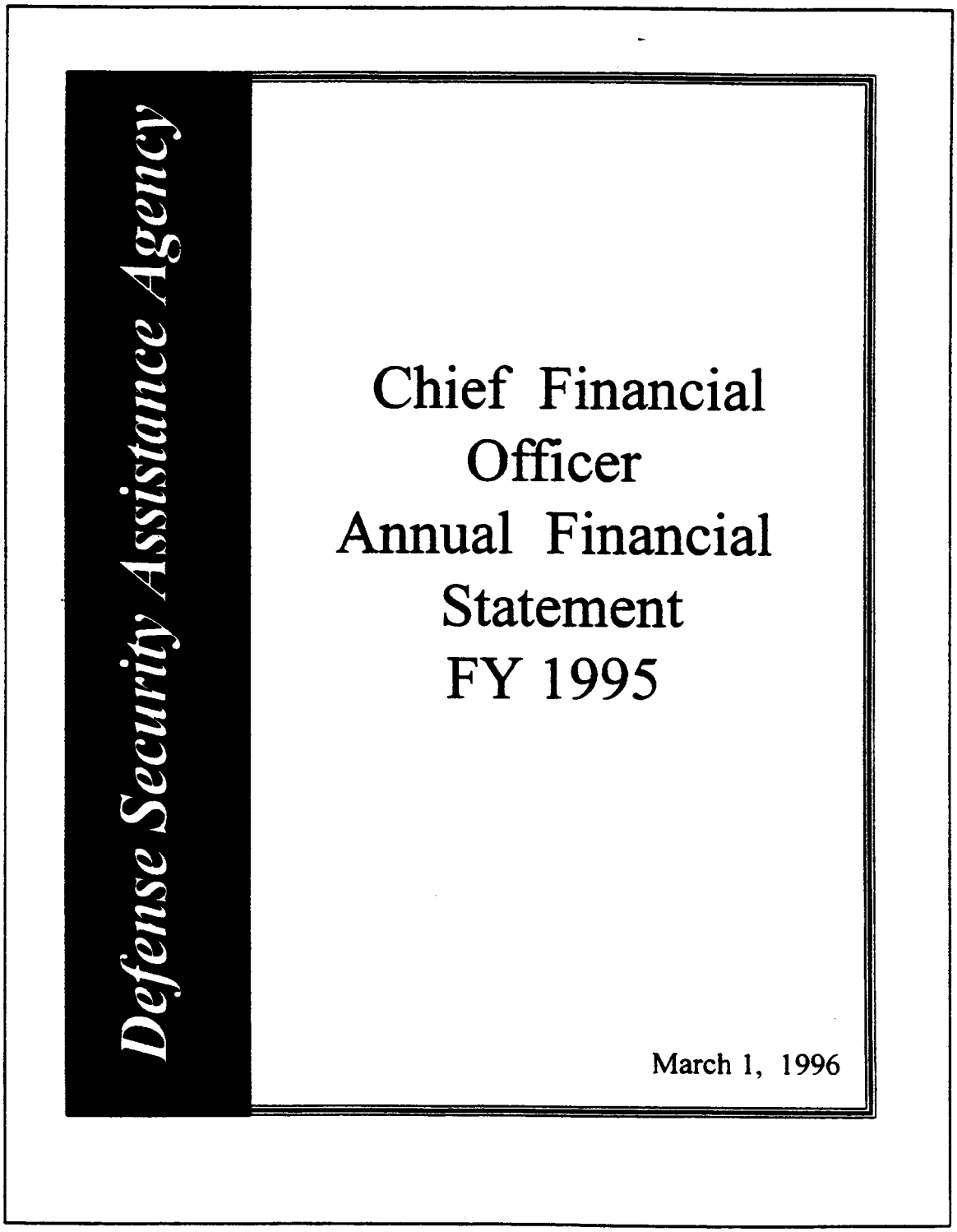
MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Legal Representation Letter

During the period September 30, 1995 to February 2, 1996, in the course of performing legal services for the Defense Security Assistance Agency, I have become aware of no legal claims or assessments against the agency nor of any legal claims or assessments which probably will be asserted.

While in 1981 the Government of Iran filed a claim against the Government of the United States concerning unresolved issues involved in Iran's Foreign Military Sales program, the claim is not against the Defense Security Assistance Agency. The extent of the liability of the FMS Trust Fund in that claim will be the same as if there were no claim - at the final closure of Iran's FMS program, the residual amount in Iran's FMS Trust Fund account will be returned to Iran. Any additional sums which might be adjudged due to Iran by the Iran-U.S. Claims Tribunal at the Hague would only be payable from the Judgment Fund, just as the settlement of one piece of said claim has already been paid. The Department of State represents the United States before the Tribunal.

Susan C. Ludlow-MacMurray


Defense Security Assistance Agency
Chief Financial Officer Annual Financial Statement FY 1995
March 1, 1996

DEFENSE SECURITY ASSISTANCE AGENCY

FY 1995 ANNUAL FINANCIAL STATEMENT

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DEFENSE SECURITY ASSISTANCE AGENCY

PART I

OVERVIEW

OF THE

REPORTING ENTITY

Overview

FY 1995 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

PART I - OVERVIEW OF THE REPORTING ENTITY

A. OVERVIEW

The Defense Security Assistance Agency (DSAA) administers the security assistance responsibilities of the Secretary of Defense under the Foreign Assistance Act (FAA), of 1961 as amended, the Arms Export Control Act (AECA), as amended, and other applicable statutes, Executive Orders, and Directives

SECURITY ASSISTANCE DEFINED

Security assistance is an instrument of foreign policy that supports U.S national security by providing a broad range of programs employing both authorizations to transfer defense equipment, services, and training to national governments and international organizations, as well as providing funding to pay for such transfers. Security assistance is authorized by the FAA, and the AECA The security assistance program helps friends and allies deter and defend against aggression, contribute to sharing the common defense burden and participate in multinational security efforts, such as coalition warfare and peacekeeping operations

Security assistance also promotes the national military strategies for active engagement and forward presence by improving the defense capabilities of our allies and friends, while demonstrating U S commitment to defending common interests. As an integral part of forward presence, security assistance programs enhance deterrence, encourage defense responsibility sharing, support U.S readiness, and increase interoperability with potential coalition defense partners

Programs included in the military segment of security assistance include Foreign Military Sales (FMS), Foreign Military Financing (FMF), International Military Education and Training (IMET), Military-to-Military Contact Program (MMCP), grants of Excess Defense Articles (EDA), Presidentially-directed drawdowns of defense inventories, and Special Defense Acquisition Fund (SDAF). The structure of each program provides the capability to respond to the needs of friends and allies by addressing their security concerns while supporting U.S armed forces and promoting U.S. foreign policy and national security interests Security assistance programs promote regional stability through arms transfer controls on the volume and types of weaponry provided to recipients and foster respect for human rights, democratic values, and institutions

Overview

A brief description of each of the above programs follows

Foreign Military Sales (FMS)

The FMS program is the government-to-government channel for selling U.S defense equipment, services, and training FY 1995 sales were $9.1 billion and FY 1994 sales totaled $12.9 billion Sales in FY 1993 exceeded $33 0 billion, the largest sales year in U S history and significantly above the historical annual average (See Table I-1, page 13) Future FMS levels for the remainder of the decade are expected to average under $10 0 billion annually

FMS provides direct benefits by enhancing U.S armed force's readiness posture and by supporting and encouraging interoperability among potential coalition defense partners Additional national benefits derived from these sales include a more favorable balance of trade, sustainment of highly skilled jobs, and generation of revenue for U.S companies Department of Defense (DoD) benefits from FMS through extension of production lines and lowering of unit costs for key weapon systems, such as the M1A2 tank, F-16 and F/A-18 aircraft, and AH-64 (Apache) helicopters

Foreign Military Financing (FMF)

FMF is the primary financing program for military security assistance The Congress appropriates funds in the Foreign Operations Appropriation Act and DoD executes the program The majority of FMF grants are designated to meet the continuing security needs of allies in the Middle East, but funding is also provided to support security assistance initiatives in Central Europe (CE) and assist counternarcotics and demining efforts FMF in FY 1995 totaled $3 154 billion, roughly equal to the FY 1994 level After funding Israel and Egypt ($3 1 billion) and other earmarked programs, less than $32 million in discretionary FMF funding was distributed to Jordan, counternarcotic country programs, Haiti, demining, and the Baltic Peacekeeping Battalion Greece and Turkey received market rate loans through FMF

International Military Education and Training (IMET)

The IMET program is a low cost grant program that provides professional military education and training to national military and civilian personnel This training, through attendance at IMET sponsored courses in the United States and programs conducted in-country by various training teams, exposes future leaders of defense and related establishments to our values regard for human rights, democratic institutions, and civilian control of a professional military Over 3,000 military and civilian personnel from over 100 countries participated in IMET in FY 1995 at an end-of-year program value of $26 35 million Over 3,000 participated in the FY 1994 IMET program

To meet the challenges posed by recent transitions to democracy in countries in the former Soviet Union, CE, Africa, the Pacific, and Latin America, IMET has been expanded to include programs focusing on human rights, effective defense resources management, military justice, and civil-military relations The IMET program remains one of the least costly and most effective programs for maintaining U S influence and assisting countries in their transition to and maintenance of democracy During the last three decades over half a million foreign personnel have received training through IMET sponsorship

Military-to-Military Contact Program (MMCP)

The MMCP was designed to encourage a democratic orientation of defense establishments and military forces of other countries While IMET focuses on individual training, the MMCP is directed towards foreign defense establishments as institutions to assist them in understanding the role of military forces in a democratic society To accomplish this goal, MMCP relied on direct, in-country interaction between small, well-trained U S contingents and their host-nation counterparts The MMCP process began with a Military Liaison Team (MLT), assigned to the national Ministry of Defense, working in-country to determine the functional needs of the host government Traveling Contact Teams were then organized and sent in-country to provide expertise in specific functional needs identified by the MLT and the host country The MMCP also provided familiarization tours, conferences, and exchange of military and civilian personnel to accomplish its objectives For FY 1995, Congress appropriated $12 0 million in the 150 budget function for this program, of which $2 0 million was earmarked to initiate programs under the U S Pacific Command's area of responsibility, and the balance to continue programs in CE traditionally funded with DoD or CINC funds The Administration did not request funding for the MMCP in FY 1996 MMCP type activities will be continued in the future as part of a broader program of traditional CINC military-to-military programs, outside of security assistance channels

Excess Defense Articles (EDA)

EDA are equipment (other than military construction equipment) which are in excess of the Approved Force Acquisition Objective and Approved Force Retention Stock at the time such articles are dropped from the DoD inventory These articles may be sold to eligible countries and international organizations under the FMS program, or transferred under the provisions of Sections 516 through 520 of the FAA During FY 1995, $504 0 million in current value of EDA grant and sale transfers were notified to Congress, compared to the FY 1994 total of $267 0 million Bahrain, Turkey, Greece, Egypt, and Spain were the largest recipients of EDA Several CE countries are now eligible to receive non-lethal EDA grants, trucks and uniforms were provided to Estonia, Latvia, Lithuania, and Albania under the program

Overview

Emergency Drawdown Authorities.

Section 506, FAA authorizes the President, on a grant basis, to draw down defense articles from DoD inventories and to provide defense services to national governments and international organizations in response to military emergencies or to provide assistance for international narcotics control, international disaster relief, or refugee assistance In FY 1995, Section 506(a)(1) FAA, drawdowns for military emergencies totaling $32 0 million were executed to provide equipment and transportation in support of the UN Rapid Reaction Force in Bosnia Section 552(c)(2), FAA authorizes drawdowns for Peacekeeping Operations In FY 1995, Section 552 Peacekeeping Drawdowns for commodities and services were $5 0 million to equip the Palestinian Police Force, and $7 0 million to support accelerated training of the new Haitian National Police Force

Special Defense Acquisition Fund (SDAF)

SDAF is a revolving fund used to acquire defense articles and services in anticipation of later sales through FMS to national governments and international organizations The Administration decided to phaseout the SDAF program beginning in FY 1994 and use incoming sales receipts to further reduce the budget deficit Due to the decapitalization of the fund, $282 0 million was returned to the Treasury (Revolving Fund Capital Transfer Account, 112814) in FY 1995

Peacekeeping Operations

The number of situations requiring peacekeeping operations has risen dramatically in the past few years and can be expected to increase further in the years ahead Military equipment and services may be provided to individual countries or international organizations participating in selected regional peacekeeping operations through security assistance sale and lease programs or grant authorities During FY 1995, military equipment was provided to member nations of the Economic Community of West African States involved in a peacekeeping effort in Liberia, and to the nations comprising the Baltic Peacekeeping Battalion, using FMS procedures and funding provided by the Department of State The United Nations (UN) has also obtained a variety of military and support equipment on reimbursable lease and purchase agreements in support of peacekeeping programs in Somalia, Rwanda, Bosnia, and Haiti

SECURITY ASSISTANCE RESPONSIBILITIES

Within the Executive Branch, the National Security Council, the Office of Management and Budget (OMB), the Department of the Treasury, the Department of Commerce, and others have responsibilities related to security assistance However, the principal responsibilities fall to the Department of State and the DoD

The Secretary of State has statutory responsibility for security assistance policy The State Department has overall responsibility and authority for security assistance programs and determines what security assistance will be provided or what sales will be made to which countries or international organizations The Secretary of Defense has statutory responsibility for determining what defense articles or services are available for sale or transfer abroad and for implementing the military segment of security assistance programs The DoD also has significant input into the Department of State's policy decision making The security assistance functions delegated to the Secretary of Defense have been redelegated to the Director, DSAA The Director, DSAA reports to the Secretary of Defense and Deputy Secretary of Defense through the Assistant Secretary of Defense for International Security Affairs and the Under Secretary of Defense for Policy

DSAA is primarily a policy and management oversight organization, the Military Departments actually implement and execute programs DSAA functions include the following supervise formulation and execution of security assistance within DoD, including the development of DoD regulations governing security assistance programs and the DoD position on security assistance budget and legislative matters, monitor major weapons system sale competitions and technology transfer issues, manage all budgetary and financial arrangements associated with FMS on a cash or FMF basis, manage the IMET program, maintain the FMS and IMET data bases, implement drawdown authority transfers to countries from DoD stocks and transfers of excess defense articles, manage the SDAF, serve as DoD focal point for liaison with other Executive Branch agencies, and supervise the organization, training, administrative support and staffing of DoD elements in countries which are responsible for managing security assistance programs

Overview

Accomplishing DSAA's management responsibilities with notable effectiveness would not be possible without clearly focused centralized program management supported by the decentralized logistics and services organizations of DoD. Security assistance is multi-functional, requiring extensive interagency and intradepartmental coordination and management outside of the security assistance management structure DSAA provides the central focus, working directly with Congress, OMB, Department of State, Department of Treasury, National Security Council and other Executive Agencies This central management is supported by decentralized operational activities The respective Military Department program office provides a subordinate structure to manage the interface for logistics, training, transportation, technology and program management of Military Department-unique weapons system and organizational performance These program offices work directly with over 100 FMS customers and with their counterpart field activities to structure the respective Military Department's security assistance program within DSAA guidance.

IMPLEMENTATION OF U.S. SECURITY ASSISTANCE POLICY AND OBJECTIVES

DSAA's position and role in the U S Government is unique DSAA is positioned to convert defense-related national security policy goals into reality, as evidenced by the broad array and large quantities of fielded weapons systems in friendly and allied military units, the ongoing execution of logistical support, defense training, and other service projects, and the myriad of cooperative programs which foster continuous interaction among the U S and other countries The linkages between broad national policy goals, military-to-military relationships, and consequential development and implementation of concrete plans can only be accomplished through the centralized management, coordination, and control capabilities offered by DSAA

DSAA continues to play a central role in support of Administration policies and Congressional legislated actions for international security assistance In addition to ongoing support to long established countries and international organizations, more recent examples include United Nations peacekeeping efforts in various regions of the world, such as efforts in the former Yugoslavia, Haiti, and Rwanda and support to emerging democracies in CE DSAA has also been a key player in the establishment of the Baltic Peacekeeping Battalion, consisting of troops from Estonia, Latvia, and Lithuania. In critical international situations, past and ongoing international security relationships have proven to be essential in providing the foundation for implementation of U S foreign policy and national security objectives

Overview

FMS sales for FY 1995 totaled $9 1 billion. over $3 0 billion less than FY 1994. The decrease is attributed to the fact that ongoing changes in worldwide defense budgets that have emerged following the end on the Cold War In FY 1995. $2 4 billion (26%) consisted of sales of Major Defense Equipment. (See Table I-1. page 13. for the FMS sales history for the past five years.)

Major aircraft system sales made up more than 20% of the FY 1995 sales These were the sale of 12 AH-64s to Egypt for $256.1 million. 30 AH-64s to the Netherlands for $669 4 million. 8 AH-1Ws to Taiwan for $101 1 million. 2 E2-Cs to France for $561 8 million. and 7 refurbished KC-135s to Turkey for $299.0 million. and 30 F/A-18As to Spain for $275 8 million (EDA).

In FY 1995. Congress funded the full Administration request for IMET resulting in a modest increase to $25 5 million An additional $850 0 thousand was added to IMET during the year. for an end-of-year total value of $26 35 million In FY 1994. the IMET program appropriation was reduced drastically from FY 1993 funding This required major restructuring of the IMET program and very close focus on the utility of our funding allocations We distributed program shortfalls as equitably as possible to maintain viable security assistance relationships.

DSAA continued to manage the EDA program during FY 1995 This program saves the American taxpayer money by transferring excess defense equipment to other countries. saving the U S Government the cost of transporting. demilitarizing. and disposing of the equipment At the same time. it furthers the national security and foreign policy interests of the United States by enhancing the defense capabilities of our friends and allies DSAA notified Congress of potential transfers of over $504 0 million in current value during FY 1995

During FY 1995. the Foreign Military Loan Liquidating Account (FMLLA) disbursed $421 9 million of loan funds on behalf of national purchases and $72 6 million in guaranty payments on defaulted loans During the same period. $1.699 3 million in principal. interest and late charges on all receivables was collected $1.052 8 million was returned to the Treasury $613 0 million was paid to the Federal Financing Bank (FFB). and $33 3 million of collections into 11X4121 was disbursed for new default payments $440 1 million in accrued interest and penalty revenue was recognized

Based on audits of the FMF direct commercial contract program. through which approximately $1 0 billion of FMF funds are used each year. changes were made to the program in FY 1995 DSAA took steps to use FMF funds through the FMS program. which utilizes the DoD acquisition rules and regulations to purchase FMS customer requirements After consulting with customers. Congress. industry. and others concerning the proposed changes. revised guidelines for continuing the program on an exception basis were issued in January 1995

Overview

The drawdown of U S forces and increasing emphasis on disposal of assets, led DSAA to sponsor a Logistics Management Institute study of DoD disposal policy Preliminary results indicate substantial net dollar returns to the Defense Business Operations Fund can be realized through a business-based approach to retention, with concurrent improvement of support to both DoD and security assistance customers The study was completed in FY 1994 and action was taken in FY 1995 to test the conclusions reached and refine DoD spare parts retention policies DSAA will continue consultations with other DoD offices to implement changes which will improve support to U S and to security assistance customers.

DSAA'S EVOLVING INTERNATIONAL SECURITY ASSISTANCE ROLE

DSAA is working closely with other DoD components to develop a coherent strategy with respect to conventional arms transfers The laws, policies, regulations and procedures governing the current U S system of arms export controls are being carefully examined to determine the changes necessary to enhance their relevance to new world realities As the DoD focal point for administering the multi-billion dollar security assistance program, DSAA is uniquely qualified to provide valuable advice to senior DoD policy makers on security assistance matters

During FY 1995, DSAA successfully managed two major attack helicopter competitions in the Netherlands and the United Kingdom with an aggregate value of approximately $2 1 billion Such sales are critical to the maintenance of a prudent level of military production during a period of reduced DoD budgetary resources

DSAA has provided essential leadership in maintaining the bridge between foreign nation security assistance requirements and maintenance of U S production capability The continued long-term operation of numerous production and rebuild lines for major items of defense equipment are heavily impacted by, or dependent on, continued international security agreements The following list of systems for which sales totaled over $2 26 billion in FY 1995 are representative of those programs which tangibly extend U S production lines

AH-64 Attack Helicopters
AH-1W Attack Helicopters
AIM-120 AMRAAM Missiles
E2-C Aircraft
F/A-18 Aircraft
Multiple Launch Rocket Systems

SALES, REVENUE, AND COST MANAGEMENT

The final FY 1995 FMS sales totaled $9.1 billion as compared to the FY 1994 FMS sales of $12 9 billion The FY 1995 major defense equipment sales were 26%, or $2 4 billion, of the $9 1 billion total (see Table 1-1, page 13 for prior year FMS Sales and Deliveries)

During FY 1995, the Foreign Military Loan Liquidating Account (FMLLA) had reimbursements of $442.2 million, consisting of $292 3 million of receipts on FFB guaranteed FMF loans, and $149 8 million of reimbursements on defaulted and rescheduled guaranteed FMF loans The $292 2 million was transferred to the FFB, and the $149 9 million of reimbursements on defaulted and rescheduled loans was partially reused to offset the $72 6 million of new defaults paid to lenders covered by DoD guarantees

COMMERCIAL FUNCTIONS, REVOLVING FUNDS, AND TRUST FUNDS REPORTED

DSAA was established as a separate agency of the DoD to administer the military assistance component of the nation's security assistance programs In fulfilling this mission, DSAA has managerial and administrative responsibility for the FMS Trust Fund, the Foreign Military Financing Program Account (FMFPA), the FMLLA, the Foreign Military Financing Direct Loan Financing Account (FMFDLFA), the SDAF, and the former Guaranty Reserve Fund (GRF)

FOREIGN MILITARY SALES (FMS) TRUST FUND This account (8242), was established as a means of facilitating the purchases of U S defense articles and services by countries, as authorized in the AECA The Trust Fund provides a vehicle through which the United States Government processes national funds required for FMS case payments to U S contractors for new procurement, and to DoD components for sales from DoD stocks Table 1-2, page 13, provides information about receipts and disbursements The performance measurements in the overview and the performance indicators in the supplemental section are indicative of the FMS business process, however, they are not directly linked to the Agency's plans, goals, and objectives The role of the USG, and therefore DSAA, is to respond to requests for purchases As such, we don't link a certain level of sales (or most other financial measurements) to the effective accomplishment of the Agency's mission Tables 1-3 and 1-4, page 14, indicate the value and number of active FMS agreements as of September 30, 1991 through 1995

Overview

SPECIAL DEFENSE ACQUISITION FUND (SDAF) This account (4116), was authorized by the International Security and Development Cooperation Act of 1981 The SDAF is a revolving fund under the control of the DoD which finances the acquisition of defense articles and services in anticipation of their transfer (pursuant to AECA), to eligible nations and international organizations The SDAF account is replenished from the proceeds of sales of items purchased by the account The Administration is phasing out this program SDAF performance measurements are presented in the overview and in the supplemental section of this report

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (FMFPA) This account is being reported as part of the FMF Direct Loan Financing Account (FMFDLFA) (Account 4122) The following narrative is provided to reflect its relationship to the FMFDLFA The FMFPA Account 1085, was established by the Credit Reform Act as an appropriated fund account to provide the funding necessary to finance the subsidy element of the loan program Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the FMFDLFA to make the required loan disbursements for approved FMS or commercial sales
Management has taken action to establish performance indicators on this account See the overview and supplemental sections for FMFDLFA performance measures

GUARANTY RESERVE FUND (GRF) This account (4121), was established by Congress to provide a guaranty against country loan arrearages or defaults on the repayment of loans due to the FFB and commercial banks The nature and purpose of this account was changed on October 1, 1991, by implementation of the Credit Reform Act It has now been replaced by the FMLLA (4121)

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (FMLLA) This account (4121) was established under Credit Reform Act Consolidated into this symbol were all assets, liabilities, and equities for loan balances previously recorded in accounts 11-1082, 11M1083, 11M1084, and 11X4121 This account disburses loan funds previously made available and accounted under the previously mentioned accounts FMLLA performance measurements are shown in the overview and in the supplemental section of this report

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA) This account (4122) was established under the Credit Reform Act The establishment of this account provides the vehicle for making disbursement of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans The account uses permanent borrowing authority from the Treasury, combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury FMFDLFA performance measurements are shown in the overview and in the supplemental section of this report

ACCOUNTING RESPONSIBILITIES FOR THE FUNDS

The Defense Finance and Accounting Service (DFAS), Denver Center, Deputate for Security Assistance, has provided centralized accounting services to DSAA since 7 March 1993

KEY ACCOUNTING CHANGES

SDAF ACCOUNTING The DFAS, Denver Center has continued to implement, within its existing accrual accounting process, an accounting procedure that more closely matches the actual operation of the fund This procedure, known as the completed contract method of accounting, recognizes that a single procurement contract represents a discrete aggregation of effort which best embodies the recordable activity of the fund, and the final costs on a procurement contract cannot be determined until the contract is legally complete and closed Upon contract closure, all expenses are matched with the appropriate revenue The DoD Accounting Manual prescribes the accrual basis as the basis of the accounting to be used by DoD Components However, due to the decision to phase out the SDAF, it was determined that it was not cost effective to change the existing accounting process at that time

SDAF INVENTORY The SDAF inventory valuation was based on actual amounts reported by the Military Departments since these assets are controlled and managed by these agencies

OTHER

In Fiscal Year 1995, for the first time, the dollar value of FMS cases closed ($10 074B) exceeded the dollar value of new cases implemented and amendments processed ($9 054B) This is the result of DSAA emphasizing closure of cases that have been supply complete for more than two years This emphasis will continue into Fiscal Year 1996 and beyond (See Tables I-5 and I-6, page 15)

Overview

REPORT PREPARATION

The financial statements have been prepared to report the financial position and results of operation for the entity, pursuant to the requirements of the CFO Act of 1990 The financial statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB DSAA is included in the DoD Five Year Financial Management Plan This report does not identify any separate funding needs

TABLE I-1

FOREIGN MILITARY SALES AND DELIVERIES

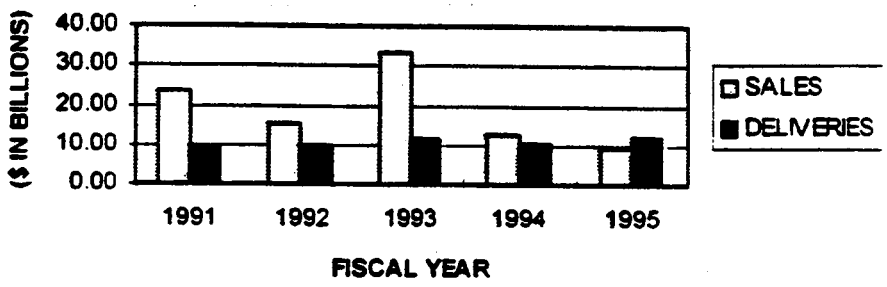

TABLE I-2

FMS TRUST FUND ACTIVITY

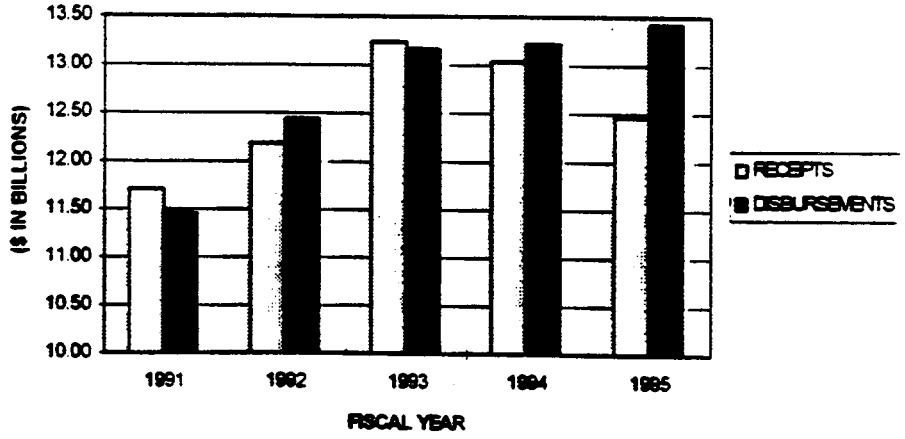

TABLE I-3

NUMBER OFOPEN CASES BY FISCAL YEAR

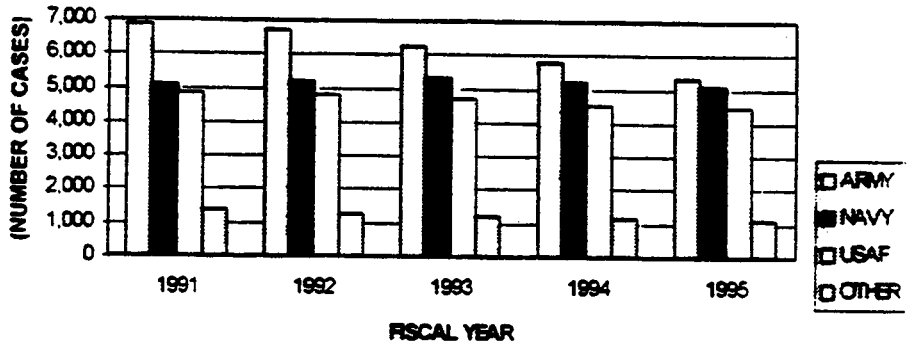

TABLE I-4

VALUE OF OPEN CASES BY FISCAL YEAR

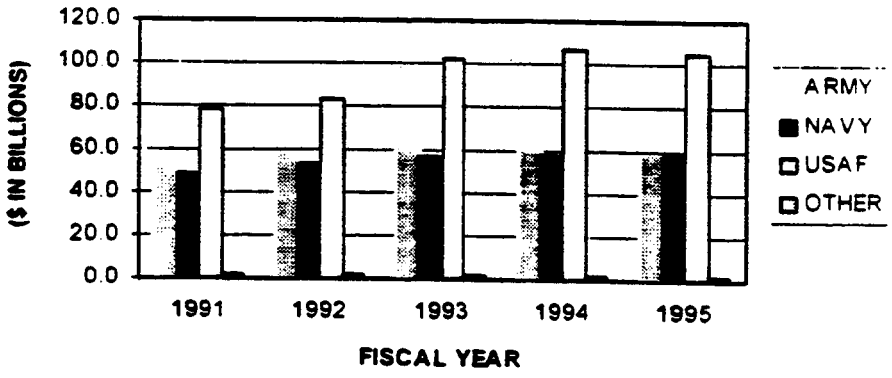

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TABLE I-5

NEW vs CLOSED CASES BY FISCAL YEAR

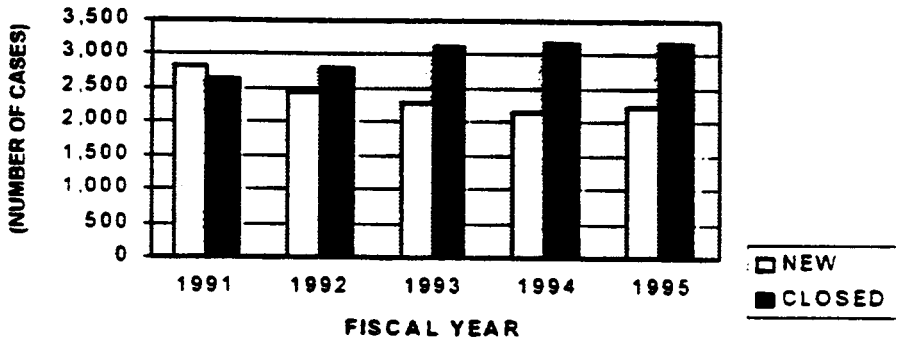
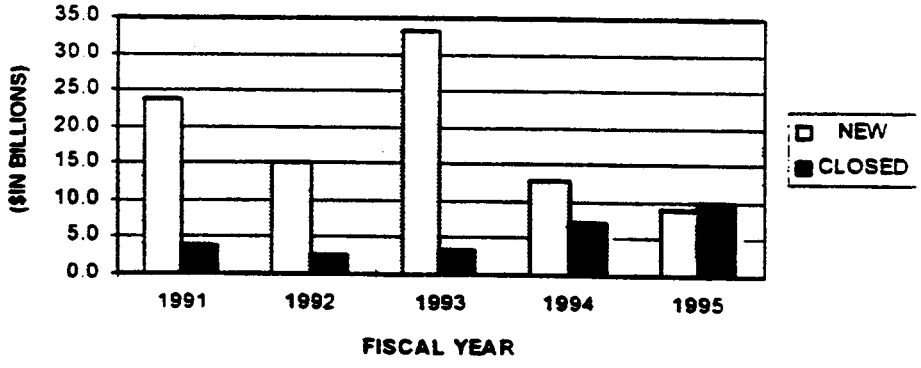


TABLE I-6

NEW vs CLOSED CASES BY FISCAL YEAR



Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

PROGRAM: Number of Purchase Orders Issued, New and Revised

FY 1995 ACTIVITY	TOTAL
TOTAL MILITARY INTERDEPARTMENTAL PURCHASE REQUESTS (MIPRs) ISSUED	200

FY 1994 ACTIVITY	TOTAL
TOTAL MILITARY INTERDEPARTMENTAL PURCHASE REQUESTS(MIPRs) ISSUED	166

NARRATIVE:

This performance measure reflects the number of MIPRs that were issued with current and prior year obligation authority and the number of revisions to existing MIPRs

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

PROGRAM: Number of Purchase Orders Closed

FY 1995 ACTIVITY

Age in Years	TOTAL
0-3	1
4-6	24
7-9	35
10-	10
TOTAL	70

FY 1994 ACTIVITY

Age in Years	TOTAL
0-3	61
4-6	46
7-9	12
10-	4
TOTAL	123

NARRATIVE:

This performance measure shows the number of purchase orders that were closed and their relative age

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Gain or Loss on Cases Closed

(Whole Dollars)

FY 1995 ACTIVITY	TOTAL
Net Gain Returned to U S Government Treasury	$0 0

FY 1994 ACTIVITY	TOTAL
Net Gain Returned to U S Government Treasury	$0 0

NARRATIVE:

This performance measure reflects the dollar amounts returned to the U S Treasury There were no funds returned to Treasury in Fiscal Year (FY) 1994 Due to the decapitalization of the fund, a FY 1995 gain of $15,545,063 03 was used to write-off unsalable equipment

SOURCE:

Financial Statements

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Financial Performance

THOUSANDS ($ X 000)

FY 1995 END OF YEAR POSITION	TOTAL
Assets	$656,074 0
Liabilities	134,074 0
Equity	$522,000 0
Current Ratio (Current Assets to Current Liabilities)	4 9 1

FY 1994 END OF YEAR POSITION	TOTAL
Assets	$962,391 0
Liabilities	158,391 0
Equity	$804,000 0
Current Ratio (Current Assets to Current Liabilities)	6 1

NARRATIVE:

This performance measure compares assets to liabilities For a breakout of the FY 1995 Liabilities amount see the "Statement of Financial Position" for 11X4116 in Part II and Footnote 17 B Of the total "Liabilities amount of $134,074 0 for FY 1995, $124,982 0 applies to "Other non-Federal Liabilities " This amount ($124,982 0) was computed by using "Advances to Contractors" (GLAC 1400) and "Unearned Revenue" (GLAC 2310) in accordance with the "Completed Contract Method" of accounting This fund has more than enough assets to cover its liabilities The FY 1994 amounts are presented for comparison

SOURCE:

SDAF General Ledger

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Operating Costs

THOUSANDS ($ X 000)

FY 1995 End of Year Position	TOTAL
Net Operating Costs	
Revenues and Reimbursements	307,606 0
Less Total Expenses and Losses	307,606 0
Results of Operations (Gain)	0 0

FY 1994 End of Year Position	TOTAL
Net Operating Costs	
Revenues and Reimbursements	$211,109 0
Less Total Expenses and Losses	211,109 0
Results of Operations (Gain)	0 0

NARRATIVE

This performance measure presents the annual results of operation The total earnings for Fiscal Year (FY) 1995 was $307,606,000 00 To arrive at the FY 1994 results of operations amount, an adjustment to prior years' revenues ($387,178 49) and applicable contract administration costs ($8,779 28) had to be subtracted During FY 1994, and before the September 30, 1994 accounting position was determined, $22,256,908 81 of gain was used to write-off unsalable equipment During FY 1995, and before the September 30, 1995 accounting position was determined, $15,545,063 03 of gain was used to write-off unsalable equipment

SOURCE:

Statement of Operation, Costs and Changes in Net Position

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

OPERATING RESULTS: Reimbursement of DoD for Articles and Services

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
COLLECTIONS	$245,452 6
DISBURSEMENTS	$159,873 0

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
COLLECTIONS	$275,600 0
DISBURSEMENTS	$179,288 0

NARRATIVE:

This performance measure presents the annual receipts and outlays for the fund These collections were received through the Foreign Military Sales Trust Fund from foreign customers and from DoD agencies for articles and services sold from the fund Disbursements were to commercial contractors or DoD agencies The FY 1994 amounts are presented for comparison

SOURCE:

SDAF General Ledger and September 1995 Acct Rpt(M)1176 (Report on Budget Execution)

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Financial Condition

THOUSANDS ($ X 000)

FY 1995 YEAR END POSITION	TOTAL
ASSETS	
Cash/Fund Balance with Treasury	$453,988
Inventory	152,885
Advances and Prepayments	0
Accounts Receivable, Federal	49,201
TOTAL ASSETS	$656,074
LIABILITIES	
Accounts Payable, Non-Federal	$7,039
Other Liabilities	124,982
Accounts Payable, Federal	2,053
TOTAL LIABILITIES	$134,074
Current Ratio (Current Assets to Current Liabilities)	4.9 1

FY 1994 YEAR END POSITION	TOTAL
ASSETS	
Cash Fund Balance with Treasury	$650,408
Inventory	286,449
Advances and Prepayments	0
Accounts Receivable, Federal	25,534
TOTAL ASSETS	$962,391
LIABILITIES	
Accounts Payable, Non-Federal	$8,357
Other Liabilities	142,280
Accounts Payable, Federal	7,754
TOTAL LIABILITIES	$158,391
Current Ratio (Current Assets to Current Liabilities)	6·1

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Financial Condition (Continued)

NARRATIVE:

This performance measure shows the year end position of this fund All assets and liabilities are considered "current" and there are no "long term" accounts The Fiscal Year (FY) 1994 amounts are presented for comparison

SOURCE:

SDAF General Ledger

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, ACCOUNT 4121:

FINANCIAL PERFORMANCE: Reimbursement of DoD Articles and Services

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION		TOTAL
11X4121	Principal and interest collections on defaulted Federal Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans	149,870
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans	673,622
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Federal Financing Bank and Commercial Guaranteed Loans	262,683
11X4121	Principal on Federal Financing Bank loans - transferred to 20X4521 097	292,387
11X4121	Interest on Federal Financing Bank loans transferred to 20X4521	320,763
TOTAL COLLECTIONS		1,699,325

FY 1994 ACTIVITY, END OF YEAR POSITION		TOTAL
11X4121	Principal and interest collections on defaulted Federal Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans	34,423
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans	544,704
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Federal Financing Bank and Commercial Guaranteed Loans	273,480
11X4121	Principal on Federal Financing Bank loans - transferred to 20X4521.097	297,949
11X4121	Interest on Federal Financing Bank loans transferred to 20X4521	346,131
TOTAL COLLECTIONS		1,496,687

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Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, ACCOUNT 4121:

FINANCIAL PERFORMANCE: Reimbursement of DoD Articles and Services (continued)

NARRATIVE:

This performance measure compares the collections made to various accounts for several types of loans. The collections are made for: (a) repayments of guaranty disbursements made by DSAA for defaults or reschedulings and collected back into 11X4121 for new default disbursements, (b) repayments for direct loans and deposited into Treasury's miscellaneous receipt accounts 2968 and 1468; (c) repayments for Federal Finance Bank (FFB) loans and returned to FFB for borrowings from FFB. Collections of miscellaneous receipts (2968 and 1468) have increased over the past two years due to increased principal collections for direct loans. Collections into 11X4121 have decreased the past two years due to reschedulings of certain countries which were primarily in arrears.

SOURCE:

General ledgers, Undisbursed Appropriation Account Report (TFS 6653), and Undisbursed Appropriation Accounts - Trial Balance (TFS 6654)

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, ACCOUNT 4121:

FINANCIAL CONDITION: Assets to Liabilities Ratio

MILLIONS ($ X 000,000)

FY 1995 END OF YEAR POSITION	TOTAL
Assets	8,501
Liabilities	7,882
Equity	619
Assets to Liabilities Ratio 1.07 1	

FY 1994 END OF YEAR POSITION	TOTAL
Assets	9,559
Liabilities	7,995
Equity	1,564
Assets to Liabilities Ratio 1.2 1	

NARRATIVE:

This performance measure represents the asset to liability ratio Included in the asset balance are receivables for Federal Financing Bank (FFB) loans which equal the total liabilities which are borrowings from FFB

SOURCE:

General ledgers

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, ACCOUNT 4121:

Operating Costs

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
Interest Expense on Federal Finance Bank Borrowings	(316,554)
Total Operating Expenses	(316,554)

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
Interest Expense on Federal Finance Bank Borrowings	(341,535)
Total Operating Expenses	(341,535)

NARRATIVE:

This performance measure represents the costs associated with the liquidating account The only cost was interest expense paid to the Federal Financing Bank (FFB) for borrowings on FFB loans administered by DSAA The drop in interest expense from FY 94 to FY 95 is due to the decrease in loan principal as FFB loans are paid off by the customers There are no new FFB loan receivables to increase the principal balance thus increasing the interest expenses

SOURCE:

General ledgers

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, ACCOUNT 4121:

Operating Results

THOUSANDS ($ X 000)

FY 1995 ACTIVITY	TOTAL
Revenues less Funds Returned to Treasury	(105,367)
Less Expenses	(364,832)
Operating Results	$(470,199)

FY 1994 ACTIVITY	TOTAL
Revenues less Funds Returned to Treasury	(125,713)
Less Expenses	(341,535)
Operating Results	$(467,248)

NARRATIVE:

This performance measure represents the difference between revenues and expenses in the account The revenue is offset by the amount of collections that was returned to the Treasury which includes principal and interest The difference between FY 1994 and FY 1995 operating results is due to the increase in funds returned to the Treasury in FY 1995 over FY 1994

SOURCE:

General ledgers

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, ACCOUNT 4121:

FINANCIAL CONDITION: Asset and Liability Account Balances and Ratio

MILLIONS ($ X 000,000)

FY 1995 YEAR END POSITION	**TOTAL**
ASSETS	
Cash/Fund Balance with Treasury	11
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	579
Loans Receivable	7,911
TOTAL ASSETS	8,501
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,882
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,882
Assets to Liabilities Ratio	1.07:1

FY 1994 YEAR END POSITION	**TOTAL**
ASSETS	
Cash/Fund Balance with Treasury	433
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	499
Loans Receivable	8,627
TOTAL ASSETS	9,559

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, ACCOUNT 4121:

FINANCIAL CONDITION: Asset and Liability Account Balances and Ratio (Continued)

LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,996
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,996

Assets to Liabilities Ratio 1.2 1

NARRATIVE:

This performance measure shows the make up of the assets and liabilities of the account The fund balance with Treasury decreased from FY 1994 to FY 1995 due to disbursements made for direct loans The loan receivables are lower due to the increase in principal collections in FY 1995.

SOURCE:

General ledgers

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT, ACCOUNT 4122:

FINANCIAL PERFORMANCE: Reimbursement for Articles and Services

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
Total Collections	$93,698

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
Total Collections	$50,666

NARRATIVE:

This account was established in FY 1992

SOURCE:

General ledgers, Undisbursed Appropriation Account Report (TFS 6653), and Undisbursed Appropriation Accounts - Trial Balance (TFS 6654)

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT, ACCOUNT 4122:

FINANCIAL CONDITION: Assets to Liabilities Ratio

THOUSANDS ($ X 000)

FY 1995 END OF YEAR POSITION	TOTAL
Assets	2,465,785
Liabilities	2,465,739
Equity	46
Asset to Liabilities Ratio	1:1

FY 1994 END OF YEAR POSITION	TOTAL
Assets	1,946,779
Liabilities	1,946,733
Equity	46
Asset to Liabilities Ratio	1:1

NARRATIVE:

This performance measure represents the difference between assets and liabilities. The ratio remains constant from FY 1994 to FY 1995. The dollars increased by the new loan agreements signed in FY 1995. Equity consists of unobligated appropriated funds.

SOURCE:

General ledgers.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT, ACCOUNT 4122:

Operating Costs

	THOUSANDS ($ X 000)
FY 1995 ACTIVITY, END OF YEAR POSITION	**TOTAL**
Subsidy Expense	42.774
Administrative Expenses	0
Total Operating Expenses	42.774

FY 1994 ACTIVITY, END OF YEAR POSITION	**TOTAL**
Subsidy Expense	38.118
Administrative Expenses	0
Total Operating Expenses	38.118

NARRATIVE:

This performance measures shows the operating expenses for the account

SOURCE:

General ledgers

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT, ACCOUNT 4122:

Operating Results

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	98,243
Less Operating Expenses	(98,243)
Operating Results	0

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	65,566
Less Operating Expenses	(65,566)
Operating Results	0

NARRATIVE:

This performance measures shows the operating results of the account Net results from operations must equal zero for credit reform loans

SOURCE:

General ledgers

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA), ACCOUNT 4122:

FINANCIAL CONDITION: Assets and Liabilities Account Balances and Ratio

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
ASSETS	
Fund Balance with Treasury	500,186
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal-Intra-government	1,487,195
Non-Federal Accounts Receivable	9,355
Credit Program Receivables	469,049
Total Assets	2,465,785
LIABILITIES	
Accounts Payable, Non-Federal	0
Debt	788,328
Other Liabilities	0
Accounts Payable, Federal	1,677,411
Total Liabilities	2,465,739
Assets to Liabilities Ratio	1.1

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
ASSETS	
Fund Balance with Treasury	357,397
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal-Intra-government	1,339,104
Non-Federal Accounts Receivable	4,151
Credit Program Receivables	246,127
Total Assets	1,946,779

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA), ACCOUNT 4122:

FINANCIAL CONDITION: Assets and Liabilities Account Balances and Ratio (Continued)

LIABILITIES	
Accounts Payable, Non-Federal	0
Debt	413,167
Other Liabilities	0
Accounts Payable, Federal	1,533,566
Total Liabilities	1,946,733

Assets to Liabilities Ratio 1:1

NARRATIVE:

This performance measure compares the makeup of the assets and liabilities in the account. The dollar figures increased from FY 1994 to FY 1995 due to the new loan agreements signed in FY 1995.

SOURCE:

General ledgers

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

PROGRAM: New Sales Cases Accepted and Amendments Processed

FY 1995 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1995 SALES CASES	745	625	600	250	2,220
CASE AMENDMENTS-ALL YEARS	246	159	151	20	576
TOTAL	991	784	751	270	2,796

FY 1994 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1994 SALES CASES	732	632	556	228	2,148
CASE AMENDMENTS-ALL YEARS	194	109	133	7	443
TOTAL	926	741	689	235	2,591

NARRATIVE:

This performance measure shows the number of new sales cases implemented and the number of case amendments processed to existing cases during each fiscal year. While amendments are identified to the original case, they are not identified to the fiscal year of the original case sale. Several amendments during the multiple-year life of any case is considered reasonable.

SOURCE:

DSAA 1200 System

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

PROGRAM: Sales Cases Closed

FY 1995 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
CASES CLOSED FOR ALL YEARS	1,299	809	736	323	3,167

FY 1994 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
CASES CLOSED FOR ALL YEARS	1,301	763	774	346	3,184

NARRATIVE:

This measure demonstrates the number of sales cases "closed" during the fiscal year. The "closure" of a sales case, like the completion of a legal contract, occurs when all the terms have been met. Sales cases must be legally, logistically, and financially "complete" prior to closure.

SOURCE:

DSAA 1200 System

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

PROGRAM: Ordered Value of New & Amended Sales Cases By Major Category

THOUSANDS ($ X 000)

FY 1995	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	958,217	704,069	1,036,860	381	2,699,526
Missiles	213,719	506,127	261,747	0	981,594
Ships	1,223	165,292	0	651	167,166
Veh & Wpns	112,767	186,228	145,916	127	445,039
Ammunition	57,460	123,480	55,120	976	237,036
Training	105,128	116,097	198,456	5,725	425,405
Misc/Other	1,186,779	1,554,265	1,290,045	67,362	4,098,452
TOTAL	2,635,293	3,355,558	2,988,144	75,222	9,054,218

FY 1994	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	374,306	1,081,437	4,074,339	2,376	5,532,458
Missiles	326,507	670,295	367,869	721	1,365,392
Ships	538	187,630	0	2,616	190,784
Veh & Wpns	310,128	81,344	196,315	6,131	593,918
Ammunition	154,499	149,370	52,893	4,545	361,370
Training	57,345	273,770	192,795	542	524,452
Misc/Other	790,559	1,101,949	2,061,897	342,520	4,296,925
TOTAL	2,013,882	3,545,795	6,946,108	359,451	12,865,236

NARRATIVE:

This measure classifies the various kinds of execution activities and shows the distribution of major weapons sales cases among the implementing agencies.

SOURCE:

DSAA 1200 System.

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

PROGRAM: Aged Number of Sales Cases Closed

FY 1995 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE 0-5 Years	463	172	222	239	1,096
AGE 6-10 Years	584	377	350	67	1,378
AGE 11-15 Years	196	198	131	16	541
AGE 16-20 Years	50	51	29	1	131
AGE 20+ Years	6	11	4	0	21
TOTAL	1,299	809	736	323	3,167

FY 1994 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE 0-5 Years	518	210	247	253	1,228
AGE 6-10 Years	619	352	369	79	1,419
AGE 11-15 Years	130	154	135	13	432
AGE 16-20 Years	29	39	20	1	89
AGE 20+ Years	5	8	3	0	16
TOTAL	1,301	763	774	346	3,184

NARRATIVE:

This performance measure reveals the age or "life cycle" of the sales cases closed. The average 6+ year life of a case is directly attributable to it's complexity. Major weapon systems procurements, such as aircraft and construction cases, require more time to execute and complete financial close-out than do logistics and training cases.

SOURCE:

DSAA 1200 System

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

PROGRAM: Number of Open Cases as of Fiscal Year End

SEPTEMBER 30, 1995 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN (BASIC)	5,333	5,070	4,436	1,077	15,916

SEPTEMBER 30, 1994 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN (BASIC)	5,757	5,210	4,536	1,142	16,645

NARRATIVE:

This performance measure shows the number of active FMS sales cases at the end of each fiscal year

SOURCE:

DSAA 1200 System

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

FINANCIAL PERFORMANCE (OBLIGATIONS): Assets to Liabilities Ratio

THOUSANDS ($ X 000)

FY 1995 END OF YEAR POSITION	TOTAL
Assets	$15,794,364
Liabilities	$15,794,364
Equity	0
Assets to Liabilities Ratio	1.1

FY 1994 END OF YEAR POSITION	TOTAL
Assets	$17,168,478
Liabilities	$17,168,478
Equity	0
Assets to Liabilities Ratio	1.1

NARRATIVE:
This performance measure reflects the relationship between assets and liabilities

SOURCE:
FMS Trust Fund General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

FINANCIAL: Operating Costs

MILLIONS ($ X 000)

FY 1995 End of Year Position	**TOTAL**
Net Operating Costs	
Revenues and Reimbursements	$0
Less Total Expenses and Losses	$0
Cost of Operating a Program	$0

FY 1994 End of Year Position	**TOTAL**
Net Operating Costs	
Revenues and Reimbursements	$0
Less Total Expenses and Losses	$0
Cost of Operating a Program	$0

NARRATIVE:

This performance measure reflects no gain or loss to operate the program

SOURCE:

FMS Trust Fund General Ledger

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

FINANCIAL: Operating Results

THOUSANDS ($ X 000)

FY 1995 ACTIVITY	TOTAL
Funds Appropriated Total Revenues and Financing Sources	$0
Less Net Operating Costs Total Expenses	0
Operating Results Net Position, Ending Balance	$0

FY 1994 ACTIVITY	TOTAL
Funds Appropriated Total Revenues and Financing Sources	$0
Less Net Operating Costs Total Expenses	$0
Operating Results Net Position, Ending Balance	$0

NARRATIVE:

This performance measure shows the operating results; however, the FMS Trust Fund accounts only for amounts on a cash basis in a fiduciary capacity on behalf of its clients

SOURCE:

FMS Trust Fund General Ledger

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

FINANCIAL CONDITION: Financial Solvency Condition - Trust Fund and Interest Bearing Account Balances

MILLIONS ($ X 000,000)

BALANCES AS OF SEPTEMBER 30, 1994	**TOTAL**
Treasury Cash Balance for Account 8242	$5,462 0
Cash and Other Monetary Assets	7,794 1
Non-Federal Accounts Receivable	2,538 1
Accounts Payable	-182 1
TOTAL	$15,612 1

BALANCES AS OF SEPTEMBER 30, 1994	**TOTAL**
Treasury Cash Balance for Account 8242	$6,409.6
Interest Bearing Accounts	6,641 0
Accounts Receivable	4,117 8
Accounts Payable	-142 5
TOTAL	$17,025 9

NARRATIVE:

Foreign Military Sales (FMS) Trust Fund Accounting is managed by the Defense Finance and Accounting Service (DFAS), Denver Center to ensure sufficient customer funds are on hand to meet the daily cash requirements of the military departments

During FY 1995, approximately $13,417.0 million was disbursed to implement customers' orders. This requirement, compared to the cash and interest bearing account balances, yields a "quick cash ratio" of 1.01:1 for the fund (cash to requirements) The liquidity ratio was 1.19:1 and was calculated as total cash available, plus receivables, minus payables, compared to FY 1995 cash disbursements requirements The change in accounts receivable is due to a significant increase in collections on receivables ($4 3 Billion) from 3rd Quarter to 4th Quarter of FY 1995.

SOURCE:

FMS Trust Fund General Ledger.

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

FINANCIAL PERFORMANCE: Reimbursement of DoD Articles and Services

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY	TOTAL
COLLECTIONS IN U S DOLLARS	$12,469 4

FY 1994 ACTIVITY	TOTAL
COLLECTIONS IN U S DOLLARS	$13,035 8

NARRATIVE:

This measure shows the dollar value of all collections into the FMS Trust Fund during the fiscal year Collections into the Fund for FY 1995 were less than anticipated due to a decrease in the number and amount of FMS cases and their required initial cash deposits Arrearages for FY 1995 were $585,912 and arrearages for FY 1994 were $492,895

SOURCE:

FMS Trust Fund General Ledger

Overview

Principal Statements

DEFENSE SECURITY ASSISTANCE AGENCY

PART II

PRINCIPAL STATEMENTS

AND

RELATED NOTES

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DEFENSE SECURITY ASSISTANCE AGENCY

PART II

A.

PRINCIPAL STATEMENTS

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4116,11X4121,11X4122,11X8242)
As of September 30, 1995
(In Thousands)

	1995	1994
ASSETS		
1. ENTITY ASSETS		
a. Transactions With Federal (Intra-Governmental) Entities:		
(1) Fund Balances With Treasury (Note 2)	$6,427,268	$7,850,406
(a) Funds Collected	$13,250,837	$13,694,418
(b) Funds Disbursed	($14,440,311)	($14,276,912)
(c) Funds With Treasury	$7,616,742	$8,432,900
(2) Investments, Net (Note 4)	$0	$0
(3) Accounts Receivable, Net (Note 5)	$49,201	$25,534
(4) Interest Receivable	$0	$0
(5) Advances and Prepayments	$0	$0
(6) Other Federal (Intragovernmental) (Note 6)	$1,487,195	$1,339,104
b. Transactions With Non-Federal (Governmental)Entities:		
(1) Investments (Note 4)	$0	$0
(2) Accounts Receivable, Net (Note 5)	$3,126,141	$4,621,650
(3) Credit program Receivables/Related Foreclosed Property, Net (Note 7)	$0 $8,380,406	$0 $8,875,240
(4) Interest Receivable, Net	$0	$0
(5) Advances and Prepayments	$0	$0
(6) Other Non-Federal (Governmental) (Note 6)	$0	$0
c. Cash and Other Monetary Assets (Note 3)	$7,794,198	$6,641,127
d. Inventory, Net (Note 8)	$152,885	$286,449
e. Work In Progress (Note 9)	$0	$0
f. Operating Materials/supplies, Net (Note 10)	$0	$0
g. Stockpile Materials, Net (Note 11)	$0	$0
h. Seized Property (Note 12)	$0	$0
i. Forfeited Property, Net (Note 13)	$0	$0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	$0	$0
k. Property, Plant and Equipment, Net (Note 15)	$0	$0
l. Other Entity Assets	$0	$0
m. TOTAL ENTITY ASSETS	$27,417,294	$29,637,510
2. NON-ENTITY ASSETS		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance With Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	$0	$0
(3) Interest Receivable, Net	$0	$0
(4) Other (Note 6)	$0	$0
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	$0	$0
(3) Other (Note 6)	$0	$0
c. Cash and Other Monetary Assets (Note 3)	$0	$0
d. Other Non-Entity Assets	$0	$0
e. TOTAL NON-ENTITY ASSETS	$0	$0
3. TOTAL ASSETS	$27,417,294	$29,637,510

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4116,11X4121,11X4122,11X8242)
As of September 30, 1995
(In Thousands)

	1995	1994
LIABILITIES		
4. LIABILITIES COVERED BY BUDGETARY RESOURCES:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Accounts Payable	$67,435	$32,557
(2). Interest Payable	$0	$0
(3). Debt.(Note 16)	$4,281,355	$4,198,581
(4). Other Federal (Intragovernmental) Liabilities (Note 17)	$1,733,393	$1,593,757
b. Transactions With Non-Federal (Governmental) Entities:		
(1). Accounts Payable	$123,813	$126,099
(2). Accrued Payroll and Benefits		
(a) Salaries and Wages	$0	$0
(b) Annual Accrued Leave	$0	$0
(c). Severance Pay and Separation Allowance	$0	$0
(3) Interest Payable	$0	$0
(4). Liabilities For Loan Guarantees (Note 7)	$0	$0
(5) Lease Liabilities (Note 18)	$0	$0
(6). Pensions and Other Actuarial Liabilities (Note 19)	$0	$0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	$20,070,569	$21,318,469
c.TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES:	$26,276,565	$27,269,463
5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES		
a Transactions With Federal (Intragovernmental) Entities		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	$0	$0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	$0	$0
b Transactions With Non Federal Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	$0	$0
(3) Lease Liabilities (Note 18)	$0	$0
(4) Pensions and Other Actuarial Liabilities (Note 19)	$0	$0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	$0	$0
c.TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:	$0	$0
6. TOTAL LIABILITIES	$26,276,565	$27,269,463
NET POSITION (Note 20)		
7. BALANCES:		
a. Unexpended Appropriations	$11,149	$433,072
b. Invested Capital	$1,129,580	$1,934,975
c Cumulative Results of Operations	$0	$0
d Other	$0	$0
e Future Funding Requirements	$0	$0
f. TOTAL NET POSITION	$1,140,729	$2,368,047
8. TOTAL LIABILITIES AND NET POSITION	$27,417,294	$29,637,510

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Operations and Changes in Net Position (11X4116,11X4121,11X4122,11X8242)
for Period Ended September 30, 1995
(In Thousands)

	1995	1994
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	($379,148)	$38,118
2. Revenues from Sales of Goods and Services		
a To the Public	$306,827	$209,940
b Intragovernmental	$0	$0
3. Interest and Penalties, Non-Federal	$680,380	$719,919
4 Interest, Federal	$31,533	$0
5 Taxes (Note 21)	$0	$0
6 Other Revenues and Financing Sources (Note 22)	$597,195	$1,169
7. Less Taxes and Receipts Transferred to the Treasury or Other Agencies	($936,305)	($818,184)
8. Total Revenues and Financing Sources	$300,482	$150,962
EXPENSES		
9 Program or Operating Expenses (Note 23)	$91,052	$38,118
10 Cost of Goods Sold (Note 24)		
a To the Public	$292,061	$188,852
b Intragovernmental	$0	$0
11 Depreciation and Amortization	$0	$0
12 Bad Debts and Write-offs	$15,545	$22,257
13 Interest		
a Federal Financing Bank Treasury Borrowing	$372,023	$368,983
b Federal Securities	$0	$0
c Other	$0	$0
14 Other Expenses (Note 25)	$0	$0
15. Total Expenses	$770,681	$618,210
16 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($470,199)	($467,248)
17 Plus (Minus) Extraordinary Items (Note 26)	$0	$0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($470,199)	($467,248)
19 Net Position, Beginning Balance as Previously Stated	$2,368,047	$7,209,090
20 Adjustments (Note 27)	($397,908)	($4,150,256)
21 Net Position, Beginning Balance as Restated	$1,970,139	$3,058,834
22 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($470,199)	($467,248)
23 Plus (Minus) Non Operating Changes (Note 28)	($359,211)	($223,539)
24. Net Position, Ending Balance	$1,140,729	$2,368,047

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The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4116,11X4121,11X4122)
As of September 30, 1995
(In Thousands)

	1995	1994
ASSETS		
1. ENTITY ASSETS		
a. Transactions With Federal (Intra-Governmental) Entities.		
(1). Fund Balances With Treasury (Note 2)	$965,277	$1,440,831
(a). Funds Collected	$781,408	$658,638
(b). Funds Disbursed	($1,023,298)	($1,056,137)
(c). Funds With Treasury	$1,207,167	$1,838,330
(2). Investments, Net (Note 4)	$0	$0
(3). Accounts Receivable, Net (Note 5)	$49,201	$25,534
(4). Interest Receivable	$0	$0
(5). Advances and Prepayments	$0	$0
(6). Other Federal (Intragovernmental) (Note 6)	$1,487,195	$1,339,104
b. Transactions With Non-Federal (Governmental)Entities.		
(1). Investments (Note 4)	$0	$0
(2). Accounts Receivable, Net (Note 5)	$587,966	$503,874
(3). Credit program Receivables/Related Foreclosed Property, Net (Note 7)	$0 $8,380,406	$0 $8,873,240
(4). Interest Receivable, Net	$0	$0
(5). Advances and Prepayments	$0	$0
(6). Other Non-Federal (Governmental) (Note 6)	$0	$0
c. Cash and Other Monetary Assets (Note 3)	$0	$0
d. Inventory, Net (Note 8)	$152,885	$286,449
e. Work In Progress (Note 9)	$0	$0
f. Operating Materials/supplies, Net (Note 10)	$0	$0
g. Stockpile Materials, Net (Note 11)	$0	$0
h. Seized Property (Note 12)	$0	$0
i. Forfeited Property, Net (Note 13)	$0	$0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	$0	$0
k. Property, Plant and Equipment, Net (Note 15)	$0	$0
l. Other Entity Assets	$0	$0
m. TOTAL ENTITY ASSETS	$11,622,930	$12,469,032
2. NON-ENTITY ASSETS		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Fund Balance With Treasury (Note 2)	$0	$0
(2). Accounts Receivable, Net (Note 5)	$0	$0
(3). Interest Receivable, Net	$0	$0
(4). Other (Note 6)	$0	$0
b. Transactions With Non-Federal (Governmental) Entities:		
(1). Accounts Receivable, Net (Note 5)	$0	$0
(2). Interest Receivable, Net	$0	$0
(3). Other (Note 6)	$0	$0
c. Cash and Other Monetary Assets (Note 3)	$0	$0
d. Other Non-Entity Assets	$0	$0
e. TOTAL NON-ENTITY ASSETS	$0	$0
3. TOTAL ASSETS	$11,622,930	$12,469,032

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4116,11X4121,11X4122)
As of September 30, 1995
(In Thousands)

	1995	1994
LIABILITIES		
4. LIABILITIES COVERED BY BUDGETARY RESOURCES:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Accounts Payable	$2,053	$7,754
(2). Interest Payable	$0	$0
(3). Debt,(Note 16)	$4,281,355	$4,198,581
(4). Other Federal (Intragovernmental) Liabilities (Note 17)	$1,733,393	$1,593,757
b. Transactions With Non-Federal (Governmental) Entities:		
(1). Accounts Payable	$7,039	$8,357
(2). Accrued Payroll and Benefits		
(a). Salaries and Wages	$0	$0
(b). Annual Accrued Leave	$0	$0
(c). Severance Pay and Separation Allowance	$0	$0
(3). Interest Payable	$0	$0
(4). Liabilities For Loan Guarantees (Note 7)	$0	$0
(5). Lease Liabilities (Note 18)	$0	$0
(6). Pensions and Other Actuarial Liabilities (Note 19)	$0	$0
(7). Other Non-Federal (Governmental) Liabilities (Note 17)	$4,458,361	$4,292,536
c.TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES:	$10,482,201	$10,100,985
5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Accounts Payable	$0	$0
(2). Debt (Note 16)	$0	$0
(3). Other Federal (Intragovernmental) Liabilities (Note 17)	$0	$0
b. Transactions With Non Federal Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	$0	$0
(3). Lease Liabilities (Note 18)	$0	$0
(4). Pensions and Other Actuarial Liabilities (Note 19)	$0	$0
(5). Other Non-Federal (Governmental) Liabilities (Note 17)	$0	$0
c.TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:	$0	$0
6. TOTAL LIABILITIES	$10,482,201	$10,100,985
NET POSITION (Note 20)		
7. BALANCES:		
a. Unexpended Appropriations	$11,149	$433,072
b. Invested Capital	$1,129,580	$1,934,975
c. Cumulative Results of Operations	$0	$0
d. Other	$0	$0
e. Future Funding Requirements	$0	$0
f. TOTAL NET POSITION	$1,140,729	$2,368,047
8. TOTAL LIABILITIES AND NET POSITION	$11,622,930	$12,469,032

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Operations and Changes in Net Position (11X4116,11X4121,11X4122)
for Period Ended September 30, 1995
(In Thousands)

	1995	1994
REVENUES AND FINANCING SOURCES		
1 Appropriated Capital Used	($379,148)	$38,118
2 Revenues from Sales of Goods and Services		
a To the Public	$306,827	$209,940
b Intragovernmental	$0	$0
3 Interest and Penalties, Non-Federal	$680,380	$719,919
4 Interest, Federal	$31,533	$0
5 Taxes (Note 21)	$0	$0
6 Other Revenues and Financing Sources (Note 22)	$597,195	$1,169
7 Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	($936,305)	($818,184)
8. Total Revenues and Financing Sources	$300,482	$150,962
EXPENSES		
9 Program or Operating Expenses (Note 23)	$91,052	$38,118
10 Cost of Goods Sold (Note 24)		
a To the Public	$292,061	$188,852
b Intragovernmental	$0	$0
11 Depreciation and Amortization	$0	$0
12 Bad Debts and Write-offs	$15,545	$22,257
13 Interest		
a Federal Financing Bank Treasury Borrowing	$372,023	$368,983
b Federal Securities	$0	$0
c Other	$0	$0
14 Other Expenses (Note 25)	$0	$0
15. Total Expenses	$770,681	$618,210
16 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($470,199)	($467,248)
17 Plus (Minus) Extraordinary Items (Note 26)	$0	$0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($470,199)	($467,248)
19. Net Position, Beginning Balance as Previously Stated	$2,368,047	$7,209,090
20. Adjustments (Note 27)	($397,908)	($4,150,256)
21 Net Position, Beginning Balance as Restated	$1,970,139	$3,058,834
22 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($470,199)	($467,248)
23 Plus (Minus) Non Operating Changes (Note 28)	($359,211)	($223,539)
24. Net Position, Ending Balance	$1,140,729	$2,368,047

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The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4116)
As of September 30, 1995
(In Thousands)

	1995	1994
ASSETS		
1. ENTITY ASSETS		
a Transactions With Federal (Intra-Governmental) Entities:		
(1). Fund Balances With Treasury (Note 2)	$453,988	$650,408
(a) Funds Collected	$245,453	$275,600
(b) Funds Disbursed	($159,873)	($179,288)
(c) Funds With Treasury	$368,408	$554,096
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)	$49,201	$25,534
(4) Interest Receivable		
(5) Advances and Prepayments		
(6) Other Federal (Intragovernmental) (Note 6)		
b Transacuons With Non-Federal (Governmental)Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)		
(3) Credit program Receivables/Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments		
(6) Other Non-Federal (Governmental) (Note 6)		
c Cash and Other Monetary Assets (Note 3)		
d Inventory, Net (Note 8)	$152,885	$286,449
e Work In Progress (Note 9)		
f Operating Materials/supplies, Net (Note 10)		
g Stockpile Materials, Net (Note 11)		
h Seized Property (Note 12)		
i Forfeited Property, Net (Note 13)		
j Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k Property, Plant and Equipment, Net (Note 15)		
l Other Entity Assets		
m. TOTAL ENTITY ASSETS	$656,074	$962,391
2. NON-ENTITY ASSETS		
a Transactions With Federal (Intragovernmental) Entities		
(1) Fund Balance With Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		
b Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)		
c Cash and Other Monetary Assets (Note 3)		
d Other Non-Entity Assets		
e. TOTAL NON-ENTITY ASSETS	$0	$0
3. TOTAL ASSETS	$656,074	$962,391

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4116)
As of September 30, 1995
(In Thousands)

	1995	1994
LIABILITIES		
4. LIABILITIES COVERED BY BUDGETARY RESOURCES:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Accounts Payable	$2,053	$7,754
(2). Interest Payable		
(3). Debt.(Note 16)		
(4). Other Federal (Intragovernmental) Liabilities (Note 17)		
b Transactions With Non-Federal (Governmental) Entities:		
(1). Accounts Payable	$7,039	$8,357
(2). Accrued Payroll and Benefits		
(a). Salaries and Wages		
(b). Annual Accrued Leave		
(c) Severance Pay and Separation Allowance		
(3). Interest Payable		
(4). Liabilities For Loan Guarantees (Note 7)		
(5). Lease Liabilities (Note 18)		
(6). Pensions and Other Actuarial Liabilities (Note 19)		
(7). Other Non-Federal (Governmental) Liabilities (Note 17)	$124,982	$142,280
c.TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES:	$134,074	$158,391
5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES		
a Transactions With Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2). Debt (Note 16)		
(3). Other Federal (Intragovernmental) Liabilities (Note 17)		
b Transactions With Non Federal Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4). Pensions and Other Actuarial Liabilities (Note 19)		
(5). Other Non-Federal (Governmental) Liabilities (Note 17)		
c.TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:	$0	$0
6. TOTAL LIABILITIES	$134,074	$158,391
NET POSITION (Note 20)		
7. BALANCES:		
a. Unexpended Appropriations		
b. Invested Capital	$522,000	$804,000
c Cumulative Results of Operations		
d. Other		
e. Future Funding Requirements		
f. TOTAL NET POSITION	$522,000	$804,000
8. TOTAL LIABILITIES AND NET POSITION	$656,074	$962,391

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Operations and Changes in Net Position (11X4116)
for Period Ended September 30, 1995
(In Thousands)

	1995	1994
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		
2. Revenues from Sales of Goods and Services		
a. To the Public	$306,827	$209,940
b. Intragovernmental		
3. Interest and Penalties, Non-Federal		
4. Interest, Federal		
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)	$779	$1,169
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources	$307,606	$211,109
EXPENSES		
9. Program or Operating Expenses (Note 23)		
10. Cost of Goods Sold (Note 24)		
a. To the Public	$292,061	$188,852
b. Intragovernmental		
11. Depreciation and Amortization		
12. Bad Debts and Write-offs	$15,545	$22,257
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other		
14. Other Expenses (Note 25)		
15. Total Expenses	$307,606	$211,109
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$0	$0
17. Plus (Minus) Extraordinary Items (Note 26)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$0	$0
19. Net Position, Beginning Balance as Previously Stated	$804,000	$1,070,000
20. Adjustments (Note 27)		
21. Net Position, Beginning Balance as Restated	$804,000	$1,070,000
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$0	$0
23. Plus (Minus) Non Operating Changes (Note 28)	($282,000)	($266,000)
24. Net Position, Ending Balance	$522,000	$804,000

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The accompanying notes are an integral part of these statements.

Principal Statements

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4121)
As of September 30, 1995
(In Thousands)

	1995	1994
ASSETS		
1. ENTITY ASSETS		
a. Transactions With Federal (Intra-Governmental) Entities:		
(1) Fund Balances With Treasury (Note 2)	$11,103	$433,026
(a) Funds Collected	$442,257	$332,372
(b) Funds Disbursed	($494,582)	($545,401)
(c) Funds With Treasury	$63,428	$646,055
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)		
(4) Interest Receivable		
(5) Advances and Prepayments		
(6) Other Federal (Intragovernmental) (Note 6)		
b. Transactions With Non-Federal (Governmental)Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)	$578,611	$499,723
(3) Credit program Receivables/Related Foreclosed Property, Net (Note 7)	$7,911,357	$8,627,113
(4) Interest Receivable, Net		
(5) Advances and Prepayments		
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Inventory, Net (Note 8)		
e. Work In Progress (Note 9)		
f. Operating Materials/supplies, Net (Note 10)		
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)		
l. Other Entity Assets		
m. TOTAL ENTITY ASSETS	$8,501,071	$9,559,862
2. NON-ENTITY ASSETS		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance With Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		
b. Transactions With Non-Federal (Governmental) Entities		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. TOTAL NON-ENTITY ASSETS	$0	$0
3. TOTAL ASSETS	$8,501,071	$9,559,862

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4121)
As of September 30, 1995
(In Thousands)

	1995	1994
LIABILITIES		
4. LIABILITIES COVERED BY BUDGETARY RESOURCES:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Accounts Payable		
(2). Interest Payable		
(3). Debt.(Note 16)	$3,493,027	$3,785,414
(4). Other Federal (Intragovernmental) Liabilities (Note 17)	$55,982	$60,191
b. Transactions With Non-Federal (Governmental) Entities:		
(1). Accounts Payable		
(2). Accrued Payroll and Benefits		
(a). Salaries and Wages		
(b). Annual Accrued Leave		
(c). Severance Pay and Separation Allowance		
(3). Interest Payable		
(4). Liabilities For Loan Guarantees (Note 7)		
(5). Lease Liabilities (Note 18)		
(6). Pensions and Other Actuarial Liabilities (Note 19)		
(7). Other Non-Federal (Governmental) Liabilities (Note 17)	$4,333,379	$4,150,256
c.TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES:	$7,882,388	$7,995,861
5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES		
a. Transactions With Federal (Intragovernmental) Entities		
(1). Accounts Payable		
(2). Debt (Note 16)		
(3). Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions With Non Federal Entities:		
(1). Accounts Payable		
(2). Debt (Note 16)		
(3). Lease Liabilities (Note 18)		
(4). Pensions and Other Actuarial Liabilities (Note 19)		
(5). Other Non-Federal (Governmental) Liabilities (Note 17)		
c.TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:	$0	$0
6. TOTAL LIABILITIES	$7,882,388	$7,995,861
NET POSITION (Note 20)		
7. BALANCES:		
a. Unexpended Appropriations	$11,103	$433,026
b. Invested Capital	$607,580	$1,130,975
c. Cumulative Results of Operations		
d. Other		
e. Future Funding Requirements		
f. TOTAL NET POSITION	$618,683	$1,564,001
8. TOTAL LIABILITIES AND NET POSITION	$8,501,071	$9,559,862

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Operations and Changes in Net Position (11X4121)
for Period Ended September 30, 1995
(In Thousands)

	1995	1994
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	($421,922)	
2 Revenues from Sales of Goods and Services		
a. To the Public		
b Intragovernmental		
3 Interest and Penalties, Non-Federal	$664,784	$692,471
4 Interest, Federal		
5. Taxes (Note 21)		
6 Other Revenues and Financing Sources (Note 22)	$588,076	
7 Less Taxes and Receipts Transferred to the Treasury or Other Agencies	($936,305)	($818,184)
8. Total Revenues and Financing Sources	($105,367)	($125,713)
EXPENSES		
9 Program or Operating Expenses (Note 23)	$48,278	
10 Cost of Goods Sold (Note 24)		
a To the Public		
b Intragovernmental		
11 Depreciation and Amortization		
12 Bad Debts and Write-offs		
13 Interest		
a Federal Financing Bank/Treasury Borrowing	$316,554	$341,535
b Federal Securities		
c Other		
14 Other Expenses (Note 25)		
15. Total Expenses	$364,832	$341,535
16 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($470,199)	($467,248)
17 Plus (Minus) Extraordinary Items (Note 26)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($470,199)	($467,248)
19 Net Position, Beginning Balance as Previously Stated	$1,564,001	$6,139,044
20. Adjustments (Note 27)	($397,908)	($4,150,256)
21 Net Position, Beginning Balance as Restated	$1,166,093	$1,988,788
22 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($470,199)	($467,248)
23 Plus (Minus) Non Operating Changes (Note 28)	($77,211)	$42,461
24. Net Position, Ending Balance	$618,683	$1,564,001

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The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4122)
As of September 30, 1995
(In Thousands)

	1995	1994
ASSETS		
1. ENTITY ASSETS		
a Transactions With Federal (Intra-Governmental) Entities:		
(1) Fund Balances With Treasury (Note 2)	$500,186	$357,397
(a) Funds Collected	$93,698	$50,666
(b) Funds Disbursed	($368,843)	($331,448)
(c) Funds With Treasury	$775,331	$638,179
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)		
(4) Interest Receivable		
(5) Advances and Prepayments		
(6) Other Federal (Intragovernmental) (Note 6)	$1,487,195	$1,339,104
b Transactions With Non-Federal (Governmental)Entities		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)	$9,355	$4,151
(3) Credit program Receivables/Related Foreclosed Property, Net (Note 7)	$469,049	$246,127
(4) Interest Receivable, Net		
(5) Advances and Prepayments		
(6) Other Non-Federal (Governmental) (Note 6)		
c Cash and Other Monetary Assets (Note 3)		
d Inventory, Net (Note 8)		
e Work In Progress (Note 9)		
f Operating Materials/supplies, Net (Note 10)		
g Stockpile Materials, Net (Note 11)		
h Seized Property (Note 12)		
i Forfeited Property, Net (Note 13)		
j Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k Property, Plant and Equipment, Net (Note 15)		
l Other Entity Assets		
m. TOTAL ENTITY ASSETS	$2,465,785	$1,946,779
2. NON-ENTITY ASSETS		
a Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance With Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		
b Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)		
c Cash and Other Monetary Assets (Note 3)		
d Other Non-Entity Assets		
e. TOTAL NON-ENTITY ASSETS	$0	$0
3. TOTAL ASSETS	$2,465,785	$1,946,779

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X4122)
As of September 30, 1995
(In Thousands)

	1995	1994
LIABILITIES		
4. LIABILITIES COVERED BY BUDGETARY RESOURCES:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Accounts Payable		
(2). Interest Payable		
(3). Debt.(Note 16)	$788,328	$413,167
(4). Other Federal (Intragovernmental) Liabilities (Note 17)	$1,677,411	$1,533,566
b. Transactions With Non-Federal (Governmental) Entities:		
(1). Accounts Payable		
(2). Accrued Payroll and Benefits		
(a) Salaries and Wages		
(b). Annual Accrued Leave		
(c) Severance Pay and Separation Allowance		
(3). Interest Payable		
(4). Liabilities For Loan Guarantees (Note 7)		
(5). Lease Liabilities (Note 18)		
(6). Pensions and Other Actuarial Liabilities (Note 19)		
(7). Other Non-Federal (Governmental) Liabilities (Note 17)		
c.TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES:	$2,465,739	$1,946,733
5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES		
a Transactions With Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)		
b Transactions With Non Federal Entities:		
(1) Accounts Payable		
(2). Debt (Note 16)		
(3). Lease Liabilities (Note 18)		
(4). Pensions and Other Actuarial Liabilities (Note 19)		
(5). Other Non-Federal (Governmental) Liabilities (Note 17)		
c.TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:	$0	$0
6. TOTAL LIABILITIES	$2,465,739	$1,946,733
NET POSITION (Note 20)		
7. BALANCES:		
a Unexpended Appropriations	$46	$46
b. Invested Capital		
c Cumulative Results of Operations		
d. Other		
e. Future Funding Requirements		
f. TOTAL NET POSITION	$46	$46
8. TOTAL LIABILITIES AND NET POSITION	$2,465,785	$1,946,779

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Operations and Changes in Net Position (11X4122)
for Period Ended September 30, 1995
(In Thousands)

		1995	1994
	REVENUES AND FINANCING SOURCES		
1	Appropriated Capital Used	$42,774	$38,118
2	Revenues from Sales of Goods and Services		
	a To the Public		
	b Intragovernmental		
3	Interest and Penalties, Non-Federal	$15,596	$27,448
4	Interest, Federal	$31,533	
5	Taxes (Note 21)		
6	Other Revenues and Financing Sources (Note 22)	$8,340	
7	Less Taxes and Receipts Transferred to the Treasury or Other Agencies		
8.	**Total Revenues and Financing Sources**	$98,243	$65,566
	EXPENSES		
9	Program or Operating Expenses (Note 23)	$42,774	$38,118
10	Cost of Goods Sold (Note 24)		
	a To the Public		
	b Intragovernmental		
11	Depreciation and Amortization		
12	Bad Debts and Write-offs		
13	Interest		
	a Federal Financing Bank Treasury Borrowing	$55,469	$27,448
	b Federal Securities		
	c Other		
14	Other Expenses (Note 25)		
15.	**Total Expenses**	$98,243	$65,566
16	Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$0	$0
17	Plus (Minus) Extraordinary Items (Note 26)		
18.	**Excess (Shortage) of Revenues and Financing Sources Over Total Expenses**	$0	$0
19	Net Position, Beginning Balance as Previously Stated	$46	$46
20	Adjustments (Note 27)		
21	Net Position, Beginning Balance as Restated	$46	$46
22	Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$0	$0
23	Plus (Minus) Non Operating Changes (Note 28)		
24.	**Net Position, Ending Balance**	$46	$46

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The accompanying notes are an integral part of these statements.

Principal Statements

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X8242)
As of September 30, 1995
(In Thousands)

	1995	1994
ASSETS		
1. ENTITY ASSETS		
a. Transactions With Federal (Intra-Governmental) Entities:		
(1). Fund Balances With Treasury (Note 2)	$5,461,991	$6,409,575
(a). Funds Collected	$12,469,429	$13,035,780
(b). Funds Disbursed	($13,417,013)	($13,220,775)
(c). Funds With Treasury	$6,409,575	$6,594,570
(2). Investments, Net (Note 4)		
(3). Accounts Receivable, Net (Note 5)		
(4). Interest Receivable		
(5). Advances and Prepayments		
(6). Other Federal (Intragovernmental) (Note 6)		
b. Transactions With Non-Federal (Governmental)Entities		
(1). Investments (Note 4)		
(2). Accounts Receivable, Net (Note 5)	$2,538,175	$4,117,776
(3). Credit program Receivables/Related Foreclosed Property, Net (Note 7)		
(4). Interest Receivable, Net		
(5). Advances and Prepayments		
(6). Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)	$7,794,198	$6,641,127
d. Inventory, Net (Note 8)		
e. Work In Progress (Note 9)		
f. Operating Materials/supplies, Net (Note 10)		
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)		
l. Other Entity Assets		
m. TOTAL ENTITY ASSETS	$15,794,364	$17,168,478
2. NON-ENTITY ASSETS		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Fund Balance With Treasury (Note 2)		
(2). Accounts Receivable, Net (Note 5)		
(3). Interest Receivable, Net		
(4). Other (Note 6)		
b. Transactions With Non-Federal (Governmental) Entities:		
(1). Accounts Receivable, Net (Note 5)		
(2). Interest Receivable, Net		
(3). Other (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. TOTAL NON-ENTITY ASSETS	$0	$0
3. TOTAL ASSETS	$15,794,364	$17,168,478

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Financial Position (11X8242)
As of September 30, 1995
(In Thousands)

	1995	1994
LIABILITIES		
4. LIABILITIES COVERED BY BUDGETARY RESOURCES:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Accounts Payable	$65,382	$24,803
(2). Interest Payable		
(3). Debt.(Note 16)		
(4). Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions With Non-Federal (Governmental) Entities:		
(1). Accounts Payable	$116,774	$117,742
(2). Accrued Payroll and Benefits		
(a). Salaries and Wages		
(b). Annual Accrued Leave		
(c). Severance Pay and Separation Allowance		
(3). Interest Payable		
(4). Liabilities For Loan Guarantees (Note 7)		
(5). Lease Liabilities (Note 18)		
(6). Pensions and Other Actuarial Liabilities (Note 19)		
(7). Other Non-Federal (Governmental) Liabilities (Note 17)	$15,612,208	$17,025,933
c.TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES:	$15,794,364	$17,168,478
5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES		
a. Transactions With Federal (Intragovernmental) Entities:		
(1). Accounts Payable		
(2). Debt (Note 16)		
(3). Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions With Non Federal Entities:		
(1). Accounts Payable		
(2). Debt (Note 16)		
(3). Lease Liabilities (Note 18)		
(4). Pensions and Other Actuarial Liabilities (Note 19)		
(5). Other Non-Federal (Governmental) Liabilities (Note 17)		
c.TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:	$0	$0
6. TOTAL LIABILITIES	$15,794,364	$17,168,478
NET POSITION (Note 20)		
7. BALANCES:		
a. Unexpended Appropriations		
b. Invested Capital		
c. Cumulative Results of Operations		
d. Other		
e. Future Funding Requirements		
f. TOTAL NET POSITION	$0	$0
8. TOTAL LIABILITIES AND NET POSITION	$15,794,364	$17,168,478

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The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency
Statement of Operations and Changes in Net Position (11X8242)
for Period Ended September 30, 1995
(In Thousands)

	1995	1994
REVENUES AND FINANCING SOURCES		
1 Appropriated Capital Used		
2 Revenues from Sales of Goods and Services		
a To the Public		
b Intragovernmental		
3 Interest and Penalties, Non-Federal		
4 Interest, Federal		
5 Taxes (Note 21)		
6 Other Revenues and Financing Sources (Note 22)		
7 Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources	$0	$0
EXPENSES		
9 Program or Operating Expenses (Note 23)		
10 Cost of Goods Sold (Note 24)		
a To the Public		
b Intragovernmental		
11 Depreciation and Amortization		
12 Bad Debts and Write-offs		
13 Interest		
a Federal Financing Bank Treasury Borrowing		
b Federal Securities		
c Other		
14 Other Expenses (Note 25)		
15. Total Expenses	$0	$0
16 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$0	$0
17 Plus (Minus) Extraordinary Items (Note 26)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$0	$0
19 Net Position, Beginning Balance as Previously Stated		
20 Adjustments (Note 27)		
21 Net Position, Beginning Balance as Restated	$0	$0
22 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$0	$0
23 Plus (Minus) Non Operating Changes (Note 28)		
24. Net Position, Ending Balance	$0	$0

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The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

Footnotes

DEFENSE SECURITY ASSISTANCE AGENCY

PART II

B.

RELATED FOOTNOTES TO THE PRINCIPAL STATEMENTS

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Footnotes

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Footnotes

Defense Security Assistance Agency
Footnotes to the Principal Statements

Note 1. Summary of Significant Accounting Policies:

A. Basis of Presentation: These financial statements are presented in accordance with DoD Guidance on Form and Content of Financial Statements for FY 1994/1995 Financial Actitity, October 20, 1994

B. Reporting Entity:

Defense Security Assistance Agency (DSAA): The DSAA was established as a separate agency of the Department of Defense (DoD) to administer the nation's security assistance programs In fulfilling this mission, DSAA has administrative responsibility for the Foreign Military Sales (FMS) Trust Fund, the Special Defense Acquisition Fund (SDAF), the Foreign Military Loan Liquidating Account (FMLLA), and the Foreign Military Financing Direct Loan Financing Account (FMFDLFA) Also, there are other financial accounts that comprise the remainder of the military components of Security Assistance

FMS Trust Fund, Treasury Symbol Code 8242: The FMS Trust Fund was established as a means of facilitating the purchases of U.S. defense articles and services by foreign countries, as authorized in the Arms Export Control Act (AECA) The Trust Fund provides a vehicle through which the United States Government processes foreign country funds required for FMS case payments to U S contractors for new procurement, and to components for sales from DoD stocks

Special Defense Acquisition Fund (SDAF), Treasury Symbol Code 4116: The SDAF was authorized by the International Security and Development Cooperation Act of 1981 The SDAF is to be used as a revolving fund under the control of the DoD to finance the acquisition of defense articles and services in anticipation of their transfer (pursuant to the AECA, the Foreign Assistance Act (FAA), or other legislation) to eligible foreign nations and international organizations. The SDAF account is reimbursed through sales and transfers of items carried in the account In FY 1993, Congress provided the last obligational authority for new procurement which needed to be obligated by 30 September 1995. Public Law 103-306 provided $20,000,000 for purposes of closing SDAF, to remain available for obligation until 30 September 1998 Provided, that this authority ($20,000,000) is not used to initiate new procurements

Foreign Military Financing Program Account (FMFPA), Treasury Symbol Code 1085: The Federal Credit Reform Act of 1990 established this appropriated fund account to

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Footnotes

provide the funding necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the Foreign Military Financing Direct Loan Financing Account (4122) to make required loan disbursements for approved FMS or commercial sales. For the purpose of this report, FMFPA accounting transactions, to the extent they are relevant to the 4122 account, are included in the data reported for the 4122 account.

Foreign Military Loan Liquidating Account (FMLLA), Treasury Symbol Code 4121: The Credit Reform Act consolidated into this symbol, all assets, liabilities, and equities for loan balances recorded prior to FY 1992 in accounts 11*1082, 11M1083, 11M1084, and 11X4121. This account disburses funds previously made available and accounted for the above referenced accounts

Foreign Military Financing Direct Loan Financing Account (FMFDLFA), Treasury Symbol Code 4122: The Credit Reform Act resulted in the establishment of this account to provide the vehicle for making disbursements of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans after September 30, 1991. The account uses permanent borrowing authority from the Treasury combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury.

C. Budgets and Budgetary Accounting:

The FMS program operates using contract authority. Contract authority is statutory authority to incur obligations prior to an appropriation (or the realization of revenues) for the future payment of such obligations. For the FMS program, 82 Stat 1323 (22 U.S.C. 2762) establishes its permanent indefinite authority. The total value of implemented cases is the only limiting factor in the total amount of obligations that can be incurred.

The SDAF is a revolving budget account appropriation. Congress enacts an annual program authority amount that is available for obligation for a three year period. Money to finance the approved annual program comes from sales and transfers of items purchased by the fund. The SDAF is now being decapitalized. In FY 1993, Congress provided the last obligational authority for new procurement which needed to be obligated by 30 September 1995. Public Law 103-306 provided $20,000,000 for purposes of closing SDAF, to remain available for obligation until 30 September 1998: Provided, that this authority ($20,000,000) is not used to initiate new procurements.

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Footnotes

D. Basis of Accounting:

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

SDAF uses the completed contract method of accounting. Under this method, gain or loss is recognized at the time of FMS case closure when costs associated with the contract can be determined.

E. Revenues and Other Financing Sources:

While the Congress appropriates some funds to finance portions of the security assistance program via the Foreign Military Financing appropriation, the majority of sales are funded from customers' funds.

In accordance with the DoD Acting Chief Financial Officer's memorandum of August 31, 1992, the FMS Trust Fund does not recognize nor report revenue. Funds collected into the Trust Fund are in advance of the performance of services or sale of goods. Since various DoD components actually perform the services and sell the goods, recognition of revenue and expense occurs in the financial statements of the applicable DoD components. The financing source for both FMLLA and FMFDLFA are Congressional appropriations. FMLLA appropriated capital is to be used to finance loans. Once the loan disbursement is made it becomes a loan receivable and also a liability to others (treasury). The transfer of equity to a liability to others, causes the negative amount of appropriated capital figure on the statement of operations.

F. Accounting for Intra-Governmental Activities:

The security assistance program, as an activity of DoD, interacts with, and is dependent upon, other financial activities of the government as a whole. In FY 1995, the Department or its Components sold assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Customers are required to make payments, in advance, to the FMS Trust Fund. The Trust Fund then reimburses, directly or indirectly, the Military Services for the cost of administering and executing the sales program. The indirect reimbursement is in the form of allowing the Military Services to cite the Trust Fund on appropriate budgetary and expenditure documents. During fiscal year 1995, the Trust Fund reimbursed the Military Services in the amount of $ 13,417,013 thousand for assets and services sold under the FMS Program.

Footnotes

G. Funds with U.S. Treasury and Cash:

There are several banking relationships involved in administering, and fiduciary responsibilities associated with, the accounting for security assistance funds. Some funds are held in treasury accounts, others are with the Federal Reserve Bank, and still others are with commercial banks. As of September 30, 1995, the security assistance program has a balance of $ 6,427,268 thousand in the U.S. Treasury, and $7,794,198 thousand on deposit with the Federal Reserve Bank and other commercial banks.

H. Foreign Currency:

All payments and collections involved in the security assistance program are accounted for in U. S. Dollars.

I. Accounts Receivable:

As presented in the consolidated statement of financial position, accounts receivable includes accounts, claims, and refunds receivable. The security assistance program has, as of September 30, 1995, a net accounts receivable as follows:

(in thousands)

Account Receivable	Amount	Allowance	Total Net
Government	3,126,141	0	$3,126,141
Intragovernmental	49,201	0	$49,201
Refunds	0	0	0
Claims	0	0	0
Total	$3,175,342	0	$3,175,342

The FMS Trust Fund's $2,538,175 thousand portion of the public receivables is based upon its requirement to bill in advance of providing goods and services as established in the Arms Export Control Act of 1976. The amount billed to customers on DD Form 645, adjusted for both special bill arrangements and individual cases that have collections in excess of financial requirements, is the basis for the trust fund's accounts receivable value.

Since the FMS program is required to operate at a no loss scenario, an allowance for bad debts will only be established upon determination of the State Department.

The decrease in 8242 receivables from 1994 of 4.1 billion to 1995 of 2.5 billion is attributed to a significant increase in collections on receivables (4.3 billion) from the 3rd quarter of FY95 to 4th quarter of FY95.

Footnotes

J. Loans Receivable:

Loans are accounted for as receivables after funds have been disbursed The amount of loans obligated but not disbursed are disclosed in Note 7.

K. Inventories:

The FMS Trust Fund has no inventory. Items are either delivered directly to the FMS customer from the contractor or in the cases of FMS sales from U.S. stocks, they are retained as inventory in the procurement or stock fund accounts of the military departments until transferred to the ownership of the foreign customer.

Inventory in SDAF is controlled and managed by the various military departments The SDAF inventory value is acquisition cost as reported to the DSAA by the military department See Note 8 for specific information

L. Investments in U.S. Government Securities:

The security assistance program does not invest in U.S government securities

M. Property and Equipment:

The funds and accounts making up the security assistance program have no property or equipment For the FMS trust fund, this policy is established by the DoD Acting Chief Financial Officer memorandum of August 31, 1992

N. Prepaid and Deferred Charges:

The prepayment for SDAF represents payments made to contractors where inventory has not yet been delivered All payments are posted as a pre-paid asset. FMS trust fund progress payments to contractors are accounted for using the constructive delivery method and, accordingly, are identified as an expenditure at time of payment

O. Leases:

Not Applicable

P. Contingencies:

Not Applicable

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Footnotes

Q. Accrued Leave:

No fund included in these statements record any accrual of unpaid leave.

R. Equity:

The FMS Trust Fund has no net position. As identified in his memorandum of August 31, 1992, the DoD Acting Chief Financial Officer states that the FMS Trust Fund is a trust fund requiring DoD to act in a fiduciary capacity on behalf of its customers. All revenue, expense, and operational reporting for the program is the responsibility of the Military Departments. Accordingly, the FMS Trust Fund accounts only for dollars in and dollars out on a cash basis and has no net position.

Equity in SDAF is not to exceed the capitalized amount of $522,000 thousand. A decapitalization in the amount of $282,000 thousand was completed via a Nonexpenditure Transfer Authorization, Document (Standard Form No. 1151) number 95-SDAF-0003, on September 22, 1995 to account 112814. This reduced the capitalized amount of $804,000 thousand to $522,000 thousand. Any excess resulting from operation of the fund is transferred to the miscellaneous receipts account.

The FMFDLFA equity position consists of unexpended appropriations. The FMLLA and SDAF equity positions consist of invested capital. All equity information is contained in Note 20.

S. Aircraft/Ship Crashes:

Not Applicable

T. Treaties for Use of Foreign Bases:

Not Applicable

U. Comparative Data:

Not Applicable

V. Restatement of Prior Year Principal Statements:

The Statement of Financial Position and Statement of Operations and Changes in Financial Position for FY 1994 have been restated to permit the preparation of comparative statements due to significant changes in reporting requirements required by the OMB.

W. Undelivered Orders

The security assistance program is obligated for goods and services, which have been ordered but not yet received (undelivered orders) as of September 30, 1995, in the amount of $24,169,924 thousand; $24,068,175 thousand is attributable to the FMS trust fund and $101,749 thousand is attributable to SDAF.

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Footnotes

Note 2. Fund Balances with Treasury:

(in thousands)

A. Business Operations Fund (DoD Comptroller) and All Other Funds and Accounts:

	Entity Assets				
	Trust Fund	Revolving Funds	Appropri-ated Funds	Other Fund Types	Total
Unobligated Balance Available					
Restricted Reserve for Antic Resource					
Obligated (not Expensed)	24,250,331	465,091	500,186		25,215,608
Unfunded Contract Auth	-18,788,340				-18,788,340
Unused Borrowing Auth					
Treasury Balance	5,461,991	465,091	500,186		6,427,268

D. Other Information:

$11,103 thousand of A(Obligated-Revolving) is attributable to 11X4121 11X4121 is not a revolving fund, it is a liquidating fund Treasury instructed DSAA to classify 11X4121 as a revolving fund The remaining $453,988 thousand is attributable to 11X4116 (SDAF)

The $500,186 thousand on A(Obligated-Appropriated) is applicable to 11X4122 DSAA was instructed by Treasury to classify these funds as appropriated

The amounts in A (Col Trust Fund) are for the FMS Trust Fund The FMS Trust Fund is governed by 22 USC 2761,2762 and represents Permanent Contract Authority The amounts presented equal values from the 1995 Year End Closing Statement (SF2108)

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Footnotes

Note 3. Cash, Foreign Currency and Other Monetary Assets:

(in thousands)

	Entity Assets	NonEntity Assets
A. Cash	7,794,198	
B. Foreign Currency		
C. Other Monetary Assets:		
(1) Gold		
(2) Special Drawing Rights		
(3) U.S. Reserves in the IMF		
(4) Other		
(5) Total, Other Monetary Assets		
D. Total Cash, Foreign Currency and Other Monetary Assets	7,794,198	

E. Other Information. There are several banking relationships involved in administering, and fiduciary responsibility, of Security Assistance Funds. Some funds are held in Treasury accounts, others are with the Federal Reserve Bank, and still others are with Commericial Banks. Cash balances are in agreement with the September 30, 1995 Federal Reserve and Commercial Bank balances.

Note 5. Accounts Receivable, Net:

(in thousands)

	Gross Amount Due	Allowance For Estimated Uncollectables	Allowance Method Used	Net Amount Due
A.: Entity Receivables				
Intragovernmental	49,201		N/A	$49,201
Governmental	3,126,141		N/A	$3,126,141
B.: Non-Entity				
Intragovernmental				
Governmental				

C. Other Information:

The SDAF portion of this value ($49,201) represents the amount due from "reverse" military inter-departmental purchase requests (MIPRs).

The 8242 portion of 5A(Governmental) is $2,538,175. The FMS Trust Fund is required to work on a no loss basis, therefore, an allowance for Estimated Uncollectibles does not exist. An actual "Uncollectible" will only be established based on State Department determination.

$578,611 thousand of 5A(Governmental) is attributable to 11X4121. $9,355 thousand is attributable to 11X4122.

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Footnotes

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets:

(in thousands)

A. Other Entity Assets:

1	Intragovernmental	
	(1) FMFDLFA	1,487,195
	(2)	
	(3)	
	Total	$1,487,195
2	Governmental	
	(1)	
	(2)	
	(3)	
	Total	$ 0

B. Other Information: $1,487,195 of A 1(1) is attributable to 11X4122. This is a right to receive cash through borrowing authority from Treasury

C. Other Non-Entity Assets:

1	Intragovernmental	
	(1)	
	(2)	
	(3)	
	Total	$ 0
2	Governmental	
	(1)	
	(2)	
	(3)	
	Total	$ 0

D Other Information

Note 7. Loans and Loan Guarantees, Non Federal Borrowers:

(in thousands)

A. The entity operates the following loan and/or loan guarantee programs:

(1) Pre-1992 Direct Loan Obligations - DSAA Direct Loans
(2) Pre-1992 Direct Loan Obligations - DSAA Rescheduled Loans (Direct Portion)
(3) Pre-1992 Direct Loan Obligations - DSAA Rescheduled Loans (Guaranty Portion)
(4) Pre-1992 Direct Loan Obligations - FFB Loans
(5) Pre-1992 Direct Loan Obligations - Subrogated Defaulted FFB Loans
(6) Pre-1992 Direct Loan Obligations - Subrogated Defaulted Refinanced Loans
(7) Pre-1992 Direct Loan Obligations - Refinanced Loans
(8) Pre-1992 Direct Loan Obligations - Commercial Bank Loans
(9) Post-1991 Direct Loan Obligation - DSAA Direct Loans

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Footnotes

Direct loan obligations or loan guarantee commitments made prior to FY 1992, and the resulting direct loans or loan guarantees, are reported net of an allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the loans and loan guarantees is provided in the following sections.

B. Direct Loans Obligated Prior to FY 1992:

Loan Program	Loans and Interest Receivable, Gross	Allowance for Est. Uncoll Loans & Interest	Loans and Interest Receiveable, Net	Foreclosed Property	Value of Assets Related to Direct Loans
A(1)	3,752,558	0	3,752,558	0	0
A(2)	196,685	0	196,685	0	0
A(3)	403,086	0	403,086	0	0
A(4)	3,493,027	0	3,493,027	0	0
A(5)	66,002	0	66,002	0	0
TOTAL	7,911,357	0	7,911,357	0	0

C. Direct Loans Obligated after FY 1991:

Loan Program	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Net Present Value of Assests Related to Direct Loans
A(8)	539,850	0	0	70,801	469,049
TOTAL	539,850	0	0	70,801	469,049

D. Defaults on Pre-1992 Loan Guarantees: None

NOTE FFB loans are considered Direct Loans, however $66,002 thousand of loan principal was defaulted to FFB by various countries thus DSAA paid FFB the defaulted principal.

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Footnotes

E. Defaults on Post-1991 Loan Guarantees: None

F. Liability for Loan Guarantees: None

NOTE. DSAA expects to collect 100% of its defaulted guaranty loans.

G. Subsidy Expense for Post-1991 Loans and Loan Guarantees:

1. Current Year's Direct Loans

	Loan Program	Interest Differential	Defaults	Fees	Other	Total
(1)	FY 1995 FMFDLFA	$(24,705)	$67,479	$0	$0	$42,774

2. Prior Year's Direct Loans

Loan Programs	Modifications	Reestimates	Total
(1) FY 1992	$0	$0	$0
(2) FY 1993	$0	$0	$0
(3) FY 1994	$0	$0	$0

3. Total Direct Loan Subsidy Expenses

Loan Program	
(1) FY 1995 FMFDLFA	$42,774
(2) FY 1994 FMFDLFA	$38,118
(3) FY 1993 FMFDLFA	136,946
(4) FY 1992 FMFDLFA	50,102
Total	$267,940

H. Subsidy Expense for Post-1991 Loan Guarantees.

1. Current Year's Loan Guarantees: None

2. Loan Guarantee Modifications and Re-estimates. None

3. Total Loan Guarantees Subsidy Expense None

I.. Administrative Expense: None

Footnotes

J. Other Information:

	(thousands)
Face Value of Guaranteed Refinanced Loans	6,620,399
DSAA Guaranteed Portion of Refinanced Loans (90% of Face Value)	6,013,779
Portion of Refinanced Loans Secured by Country Deposits in the Financing Bank (10% Face Value)	606,620
Undisbursed Balances Available for New Direct Loan Receivables	11,103

Note 8. Inventory, Net:

(in thousands)

A. Inventory Categories:

	Inventory Amount	Allowance For Losses	Inventory Net	Valuation Method
(1) Held for Current Sale	152,885		152,885	
(2) Held in Reserve for Future use				
(3) Excess, Obsolete, Unserviceable				
(4) Held for Repair				
Total	152,885		152,885	

B. Restrictions on Inventory Use, Sale, or Disposition:

SDAF inventory must be used for transfers in security assistance programs unless approved by SECDEF for sale to Military Departments

C. Other Information:

All inventory belongs to SDAF The valuation, as reported by the military departments, is the acquisition cost of items on hand at installation level not identified to a specific sale to a foreign customer. In FY1995, $15,545,063.03 of unsalable equipment was written off.

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Footnotes

Note 16. Debt:

The FMLLA (Treasury Symbol Code 4121) portion of the security assistance program has borrowed funds from the Treasury for disbursement under a valid loan program.

The FMFDLFA (Treasury Symbol Code 4122) program has borrowed funds from the Treasury for disbursments for valid loan programs under credit reform

(in thousands)

Liabilities Covered by Budgetary Resources	Beginning Balance	New Borrowing	Repayments	Ending Balance	Refinance
A. Intragovernment Debt:					
(1) Borrowing from the Treasury	413,167	375,161	0	788,328	0
(2) Borrowing from Fed Financing Bank	3,785,414	0	292,387	3,493,027	0
(3) Borrowing from Other Fed Agencies	0	0	0	0	0
Total Intragovernmental Debt	4,198,581	375,161	292,387	4,281,355	0
Liabilities Not Covered By Budgetary Resources					
B (1) Public Debt	N/A				
(2) Agency Debt	N/A				
C Total Liabilities for Debt Not Covered by Budgetary Resc	N/A				
D Total Debt	4,198,581	375,161	292,387	4,281,355	0

E Other Information NONE

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Footnotes

Note 17. Other Liabilities:

(in thousands)

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liab.	Current Liabilities	Total
1. Intragovernmental			
(1)FMLLA		55,982	55,982
(2)FMFDLFA-Bor		1,487,195	1,487,195
(3)FMFDLFA-Sub		190,216	190,216
Total		1,733,393	1,733,393
2 Governmental			
(1) SDAF	124,982		124,982
(2) 8242		13,074,033	13,074,033
(3) 8242		2,538,175	2,538,175
(4) FMLLA	4,333,379		4,333,379
Total	4,458,361	15,612,208	20,070,569

B. Other Information:

The SDAF portion of this element was computed by using Advances to contractors and unearned revenue in accordance with the completed contract method of accounting

Unearned Revenue (GLAC 2310)	1,270,331
Advances to Contractor (GLAC 1400)	1,145,349
Other Non-Federal Liabilities	124,982

Amounts in A2(2) and A2(3), 8242 are in accordance with the Arms Export Control Act of 1976. Funds collected into the Trust Fund are in advance of the performance of services or sale of goods. Amounts are the values expected to be expended by the U.S Government on behalf of foreign customers.

The FMFDLFA value represents future repayments of borrowings from Treasury for credit reform loans.

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Footnotes

Note 20. Net Position:

(in thousands)

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A Unexpended Appropriations				
(1) Unobligated				
a Available			46	46
b Unavailable				
(2) Undelivered Orders	11,103			11,103
B Invested Capital	1,129,580			1,129,580
C Cumulative Results of Operations				
D Other				
E Future Funding Requirements				
F Total	1,140,683	0	46	1,140,729
G Other Information				

(1) $522,000 thousand of B is attributable to SDAF. Any excess generated from the operation of the fund is returned to the Treasury miscellaneous receipts account. In FY1995, $282,000 thousand was returned to the Treasury miscellaneous receipts account 112814 (Repayments of Investments and Recoveries)

(2) FMLLA is not considered a revolving fund. It is a liquidating fund. It is being classified as a revolving fund since the Treasury is classifying it as a revolving fund for the FACTS reporting. All of A Revolving Funds and $607,580 thousand of B are attributable to FMLLA.

(3) All of the Appropriated Funds of A are attributable to FMFDLFA. The $46 thousand is the unobligated balance remaining from the FY 1992 appropriation.

Note 22. Other Revenues and Financing Sources:

(in thousands)

	1995	1994
A. Other Revenue and Financing Sources:		
(1) SDAF	779	1,169
(2) FMLLA	588,076	0
(3) FMFDLFA	8,340	0

B. Other Information:

(SDAF) This amount is the partial recovery of a duplicate payment made to General Dynamics. (FMLLA) Amount is the Contra-Revenue-Collected For Others and deposited to Treasury. (FMFDLFA) Had insufficient funds to make annual interest payment to treasury. Per Treasury Bulletin No. 93-05 additional borrowing was made to cover interest payments.

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Footnotes

Note 23. Program and Operating Expenses:

FMLLA (4121) total bad debt expense was $96,920 thousand. $48,642 thousand were bad debt expenses incurred for-others and wrote off to miscellaneous receipt accounts 2968 and 1498, the remaining $48,278 thousand was actual bad debt incurred by symbol 4121 and reported on the statement of operations. FMFDLFA incurred $42,774 thousand of subsidy expense. The total operating expense is $91,052 thousand.

Note 24. Cost of Goods and Services Sold:

(in thousands)

A. Cost of Services Sold:

NONE

B. Cost of Material Sold from Inventory

(1) Beginning Inventory L.A.C.	$	286,449
(a) Plus: Purchases at Cost		154,181
(b) Less: Beginning Allowance for Holding Gains/Losses		0
(c) Plus: Inventory Gains		0
(d) Minus: Inventory Losses		0
(2) Less: Ending Inventory L.A.C.		152,885
(a) Plus: Ending Allowance for Holding Gains/Losses		0
(3) Plus Operating Expenses		4,316
Cost of Goods Sold		$292,061

C. Other Information.

All Cost of Goods Sold (CGS) relate to the Special Defense Acquisition Fund (SDAF). Since SDAF uses the completed contract method of accounting, all costs associated with a contract are identified at the time of an FMS case closure (see note 1 D). Line 1a represents the CGS of those FMS cases closed during FY 1995 plus the net change in ending inventory between FY 1994 and FY 1995 (see note 8). Line 3 represents the FY 1995 contract administration costs that are directly related to the sale of SDAF items.

Footnotes

Note 27. Prior Period Adjustments:

(in thousands)

A.	**Prior Period Adjustments:**	
	(1) FMLLA	($397,908)
	Total	($397,908)

B. Other Information: FMLLA moved account 3610 (Uncollected Revenue-Miscellaneous Receipt) to account 2990 (Other Liabilities). Due to Standard General Ledger account changes, 3610 is no longer used. This is the post closing entry necessary to close FY94 accounts. This closing entry was not taken into consideration during last years accounting change to accounts 3610 and 2990.

Note 28. Non-Operating Changes - (Transfers and Donations):

(in thousands)

		1995	1994
A.	**Increases:**		
	(1) Transfers-In		
	(a) From Treasury	39,300	42,641
	(2) Donations Received		
	(3) Other Increases		
	(4) Total Increases	39,300	42,641
B.	**Decreases**		
	(1) Transfers-Out:		
	(a) To Treasury	398,511	266,000
	(2) Donations		
	(3) Other Decreases		
	(4) Total Decreases	398,511	266,000
C.	**Net Transfers**	(359,211)	(223,539)

D Other Information. Line A(1)(a) is the amount of apportionment to the Foreign Military Loan Liquidating Account (FMLLA) to pay default claims on guaranteed loans made prior to FY 1992. The amount on B(1)(a) is the amount of authority to SDAF cash which was transferred to the Treasury's receipt account by DSAA during FY1995 and FY1994 as part of the de-capitalization of the fund.

Footnotes 2b, 2c, 4, 9, 10, 11, 12, 13, 14, 15, 16b, 16c, 17c, 17d, 18, 19, 21, 25, 26, 29, 30 and 31 are not applicable to the Certified Financial Statements for the Defense Security Assistance Agency.

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Footnotes

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Supplemental

DEFENSE SECURITY ASSISTANCE AGENCY

PART III

SUPPLEMENTAL

FINANCIAL AND

MANAGEMENT INFORMATION

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FY 1995 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

New Purchase Orders Issued
FY 1995 ACTIVITY:

Types of Orders Issued	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Major End Items	0	0	0	0	0	0
Support for Major End Items	1	0	0	0	0	1
Investments	0	0	0	0	0	0
Ammunition	0	0	0	0	0	0
Miscellaneous/Other	0	0	0	0	1	1
TOTAL	1	0	0	0	1	2

FY 1994 ACTIVITY:

Types of Orders Issued	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Major End Items	3	5	1	3	0	12
Support for Major End Items	3	0	2	0	0	5
Investments	0	0	0	0	0	0
Ammunition	3	0	0	0	0	3
Miscellaneous/Other	0	0	0	0	1	1
TOTAL	9	5	3	3	1	21

FY 1993 ACTIVITY:

Types of Orders Issued	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Major End Items	11	5	3	3		22
Support for Major End Items	3	0	1	0	0	4
Investments	0	0	0	0	0	0
Ammunition	3	0	0	0	0	3
Miscellaneous/Other	0	0	0	0	1	1
TOTAL	17	5	4	3	1	30

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

New Purchase Orders Issued (Continued)

FY 1992 ACTIVITY:

Types of Orders Issued:	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Major End Items	27	5	5	5	0	42
Support for Major End Items	4	2	17	0	0	23
Investments	0	1	0	0	0	1
Ammunition	0	0	0	0	0	0
Miscellaneous/Other	0	0	0	0	2	2
TOTAL	31	8	22	5	2	68

FY 1991 ACTIVITY:

Types of Orders Issued:	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Major End Items	13	6	0	0	0	19
Support for Major End Items	22	4	0	0	0	26
Investments	4	4	0	0	0	8
Ammunition	9	0	0	0	0	9
Miscellaneous/Other	9	12	0	1	0	22
TOTAL	57	26	0	1	0	84

NARRATIVE:

This indicator compares the number of new purchase orders placed from FY 1995 through FY 1991 to the Military Departments or DoD Agencies. This amount will continue to decrease due to the decapitalization of the fund. Numbers for FY 1995 through FY 1991 are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Number of Purchase Orders Issued, New and Revised

FY 1995 ACTIVITY: Military Interdepartmental Purchase Requests (MIPRs) Issued	**TOTAL** 200
FY 1994 ACTIVITY: Military Interdepartmental Purchase Requests (MIPRs) Issued	**TOTAL** 166
FY 1993 ACTIVITY Military Interdepartmental Purchase Requests (MIPRs) Issued	**TOTAL** 280
FY 1992 ACTIVITY: Military Interdepartmental Purchase Requests (MIPRs) Issued	**TOTAL** 376
FY 1991 ACTIVITY: Military Interdepartmental Purchase Requests (MIPRs) Issued	**TOTAL** 275

NARRATIVE:

This performance indicator reflects the number of MIPRs that were issued with current and prior year obligation authority and the number of revisions to existing MIPRs The FY 1995 through FY 1991 amounts are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Purchase Orders Issued

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY	**TOTAL**
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	$3.58
FY 1994 ACTIVITY	**TOTAL**
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	$87.8
FY 1993 ACTIVITY:	**TOTAL**
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	$149.9
FY 1992 ACTIVITY:	**TOTAL**
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	$538.0
FY 1991 ACTIVITY:	**TOTAL**
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	$322.0

NARRATIVE:

This performance indicator provides the value of all MIPRs. The amounts for future Fiscal Years (FYs) will continue to decline due to the decapitalization of the fund. Amounts for FY 1995 through FY 1991 are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Number of Purchase Orders Closed

FY 1995 ACTIVITY (Aged in Years)	TOTAL
0-3	1
4-6	24
7-9	35
10+	10
TOTAL	70

FY 1994 ACTIVITY (Aged in Years)	TOTAL
0-3	61
4-6	46
7-9	12
10+	4
TOTAL	123

FY 1993 ACTIVITY (Aged in Years)	TOTAL
0-3	0
4-6	0
7-9	0
10+	0
TOTAL	0

FY 1992 ACTIVITY (Aged in Years)	TOTAL
0-3	17
4-6	95
7-9	348
10+	19
TOTAL	479

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Number of Purchase Orders Closed (continued)

FY 1991 ACTIVITY (Aged in Years)	TOTAL
0-3	0
4-6	1
7-9	1
10+	0
TOTAL	2

NARRATIVE:

This performance indicator shows the number of purchase orders that were closed and their relative age. There were no purchase orders closed for Fiscal Year (FY) 1993. Since the decision to decapitalize the fund, we have revised the procedures for closing purchase orders to ensure that no liabilities remain after the purchase order is closed. Numbers for FY 1995 through FY 1991 are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Purchase Orders Closed

THOUSANDS ($ X 000)

FY 1995 ACTIVITY:	**TOTAL**
Closed Purchase Orders	110,887.8
FY 1994 ACTIVITY:	**TOTAL**
Closed Purchase Orders	82,995.0
FY 1993 ACTIVITY:	**TOTAL**
Closed Purchase Orders	0.0
FY 1992 ACTIVITY:	**TOTAL**
Closed Purchase Orders	600,800.0
FY 1991 ACTIVITY:	**TOTAL**
Closed Purchase Orders	2,580.3

NARRATIVE:

This performance indicator shows the value of Purchase Orders Closed during the fiscal year. There were no purchase orders closed for FY 1993. Since the decision to decapitalize the fund, we have revised the procedures for closing purchase orders to ensure that no liabilities remain after the purchase order is closed. The values for FY 1995 through FY 1991 are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Sales

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY:

Type Sale & Customer	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
FMS Cases	99.3	47.9	0.8	2.4	0.0	150.4
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	0.2	0.0	0.0	0.0	0.0	0.2
TOTAL	99.5	47.9	0.8	2.4	0.0	150.6

FY 1994 ACTIVITY:

Type Sale & Customer	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
FMS Cases	199.9	45.5	1.2	8.2	0.0	254.8
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	.5	2.8	0.0	.4	0.0	3.7
TOTAL	200.4	48.3	1.2	8.6	0.0	258.5

FY 1993 ACTIVITY:

Type Sale & Customer	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
FMS Cases	117.2	74.2	1.3	5.1	0.0	197.8
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	1.1	0.0	0.2	0.0	0.0	1.3
TOTAL	118.3	74.2	1.5	5.1	0.0	199.1

FY 1992 ACTIVITY:

Type Sale & Customer	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
FMS Cases	111.4	97.1	33.4	6.1	0.0	248.0
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	0.2	0.0	0.0	0.7	0.0	0.9
TOTAL	111.6	97.1	33.4	6.8	0.0	248.9

FY 1991 ACTIVITY:

Type Sale & Customer	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
FMS Cases	133.8	34.5	3.5	5.3	0.0	177.1
Replenishment	2.0	5.5	0.0	1.1	0.0	8.6
Direct	10.1	0.3	0.0	9.6	0.0	20.0
TOTAL	145.9	40.3	3.5	16.0	0.0	205.6

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Sales (continued)

NARRATIVE:
This indicator shows the dollar value of Purchase Orders Sold and is stratified into three different types of sales. The amounts for FY 1995 through FY 1991 are provided for comparison.

DEFINITIONS:
FMS CASES: Sales to foreign customers or U.S. Military Departments through either Letters of Offer/Acceptance (LOA's) or "reverse" Military Interdepartmental Purchase Requests (MIPRs).

REPLENISHMENT: Sales to U.S. Military Departments to replenish their inventories for items diverted for urgent FMS requirements.

DIRECT Sales to U.S Military Departments approved by SECDEF

SOURCE:
DSAA Special Defense Acquisition Information Management System

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A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of New Obligations

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	$ 1.2	$12.3	$ 0.0	$5.9	$19.4

FY 1994 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	$10.5	$31.8	$15.5	$.1	$57.9

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	$140.5	$66.9	$6.7	$8.9	$223.0

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	$172.0	$80.4	$9.6	$12.1	$274.1

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	$206.3	$44.8	$1.0	$21.6	$273.7

NARRATIVE:

This performance indicator measures new obligations placed during the fiscal year. The amount will decrease in future Fiscal Years (FYs) due to the decapitalization of the fund. The amounts for FY 1995 through FY 1991 are provided for comparison.

SOURCE:

SDAF General Ledger.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of New Obligations Liquidated, Fiscal Year End Position

MILLIONS ($ X 000,000)

	ARMY	NAVY	USAF	OTHER	TOTAL
1995 ACTIVITY: VALUE	$90.6	$54.0	$10.8	$4.5	$159.9
1994 ACTIVITY: VALUE	$107.8	$58.9	$6.0	$6.5	$179.2
FY 1993 ACTIVITY: VALUE	$187.6	$46.2	$17.9	$5.3	$257.0
FY 1992 ACTIVITY: VALUE	$211.8	$51.6	$20.7	$6.9	$291.0
FY 1991 ACTIVITY: VALUE	$79.5	$37.9	$29.8	$20.9	$168.1

NARRATIVE:

This performance indicator shows the value of obligations liquidated, i.e., disbursements made during the Fiscal Year (FY). The amounts for FY 1995 through 1991 are provided for comparison.

SOURCE:

SDAF General Ledger.

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A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Unsold Purchases (Material/Inventory) as of Fiscal Year End

MILLIONS ($ X 000,000)

September 30, 1995	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Position:						
Value	$124.1	$24.6	$2.8	$1.4	$0.0	$152.9

September 30, 1994	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Position:						
Value	$170.6	$112.1	$.1	$3.7	$0.0	$286.5

September 30, 1993	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Position:						
Value	$136.8	$37.4	$1.5	$6.9	$0.0	$182.6

September 30, 1992	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Position						
Value	$128.6	$44.1	$3.3	$3.3	$0.0	$179.3

September 30, 1991	ARMY	NAVY	USAF	NSA	OTHER	TOTAL
Position:						
Value	$242.5	$100.1	$24.8	$5.7	$49.0	$422.1

NARRATIVE:

This performance indicator shows the actual value of finished inventory unsold and held as of the end of the Fiscal Year (FY). The amounts for FY 1995 through FY 1992 represent a physical inventory value as provided by the Military Departments. The FY 1991 amounts were based on a "constructive" inventory position.

SOURCE:

Military Departments

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A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Ratio of Unsold Purchases to Total Fund Authority as of Fiscal Year End

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY	TOTAL
SEPTEMBER 30, 1995 POSITION	
Unsold Purchases (Finished Inventory)	$152.9
TOTAL FUND AUTHORITY	$522.0
RATIO	29.3%

FY 1994 ACTIVITY	TOTAL
SEPTEMBER 30, 1994 POSITION	
Unsold Purchases (Finished Inventory)	$286.5
TOTAL FUND AUTHORITY	$1070.0
RATIO	26.8%

FY 1993 ACTIVITY	TOTAL
SEPTEMBER 30, 1993 POSITION	
Unsold Purchases (Finished Inventory)	$ 182.6
TOTAL FUND AUTHORITY	$1,070.0
RATIO	17.1%

FY 1992 ACTIVITY	TOTAL
SEPTEMBER 30, 1992 POSITION	
Unsold Purchases (Finished Inventory)	$ 179.4
TOTAL FUND AUTHORITY	$1,070.0
RATIO	16.8%

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A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Ratio of Unsold Purchases to Total Fund Authority as of Fiscal Year End (continued)

FY 1991 ACTIVITY	TOTAL
SEPTEMBER 30, 1991 POSITION	
Unsold Purchases (Finished Inventory)	$422.1
TOTAL FUND AUTHORITY	$1070.0
RATIO	39.4%

NARRATIVE:

This performance indicator shows the relationship between the unsold purchases and the total fund authority. The ratio is calculated by dividing the value of unsold purchases by the total of fund authority provided under the U.S. Statute. The amounts for FYs 1995 through FY 1992 represent a physical inventory value as provided by the Military Departments. The FY 1991 amount was based on a "constructive" inventory position.

SOURCE:

Military Departments (for FY 1995 through FY 1992).

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Gain or Loss on Cases Closed During the Fiscal Year

THOUSANDS ($ X 000)

FY 1995 ACTIVITY:	**TOTAL**
Gross Value (Gain)	$15,545.1
Unsalable Inventory Assets Written Off	-15,545.1
Net Gain	$0.0

FY 1994 ACTIVITY:	**TOTAL**
Gross Value (Gain)	$22,256.9
Unsalable Inventory Assets Written Off	-22,256.9
Net Gain	$0.0

FY 1993 ACTIVITY:	**TOTAL**
Gross Value (Gain)	$14,804.6
Unsalable Inventory Assets Written Off	-14,804.6
Net Gain	$0.0

FY 1992 ACTIVITY:	**TOTAL**
Gross Value (Gain)	$9,722.3
Unsalable Inventory Assets Written Off	-8,091.0
Net Gain	$1,631.3

FY 1991 ACTIVITY:	**TOTAL**
Gross Value (Gain)	$11,156.7
Unsalable Inventory Assets Written Off	0.0
Net Gain	$11,156.7

NARRATIVE: This performance indicator is based on cases closed and gains realized during the Fiscal Year (FY). Due to the decapitalization of the fund, a FY 1995 gain of $15,545,063.03 was used to write-off unsalable equipment. In FY 1994, the gain of $22,256,908.80 was also used to write-off unsalable equipment. There were no funds returned to Treasury in FY 1993, FY 1994 or FY 1995. At the end of FY 1992, a total of $1,863,949.08 was returned to Treasury. This included the FY 1992 gain ($1,631.3 thousands) and the net gain from prior fiscal years ($232.6 thousands). The amounts for FY 1995 through FY 1991 are provided for comparison.

SOURCE: DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

New Sales Cases Accepted and Amendments Processed

FY 1995 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1995 SALES CASES	745	625	600	250	2,220
CASE AMENDMENTS-ALL YEARS	246	159	151	20	576
TOTAL	991	784	751	270	2,796

FY 1994 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1994 SALES CASES	732	632	556	228	2,148
CASE AMENDMENTS-ALL YEARS	194	109	133	7	443
TOTAL	926	741	689	235	2,591

FY 1993 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY.1993 SALES CASES	793	630	576	277	2,276
CASE AMENDMENTS-ALL YEARS	175	126	97	2	400
TOTAL	968	756	673	279	2,676

FY 1992 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1992 SALES CASES	906	658	605	271	2,440
CASE AMENDMENTS-ALL YEARS	174	135	97	8	414
TOTAL	1,080	793	702	279	2,854

FY 1991 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1991 SALES CASES	1,156	695	667	310	2,828
CASE AMENDMENTS-ALL YEARS	223	121	112	9	465
TOTAL	1,379	816	779	319	3,293

NARRATIVE:

This performance indicator shows the number of new sales cases implemented and the number of case amendments processed to existing cases during each fiscal year. While amendments are identified to the original case, they are not identified to the fiscal year of the original case/sale. Several amendments during the multiple-year life of any case is considered reasonable.

SOURCE: DSAA 1200 System

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ordered Value of New Sales Cases Accepted and Amendments Processed

THOUSANDS ($ X 000)

FY 1995	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend	2,635,293	3,355,558	2,988,144	75,222	9,054,218

FY 1994	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend	2,013,972	3,545,795	6,946,138	359,451	12,865,356

FY 1993	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend	7,587,235	4,446,413	21,135,646	46,699	33,215,993

FY 1992	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend	3,303,244	4,988,398	6,664,151	215,954	15,171,747

FY 1991	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend	11,392,373	3,996,086	8,131,988	267,138	23,787,585

NARRATIVE:

This performance indicator describes the dollar value for new sales cases and amendments to existing sales cases. This dollar value, taken with the level of activity in the indicator, "New Sales Cases Accepted and Amendments Processed," provides an appreciation of the relative amounts of activity among the implementing agencies.

SOURCE:

DSAA 1200 System.

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ordered Value of New & Amended Sales Cases by Major Category

THOUSANDS ($ X 000)

FY 1995	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	958,217	704,069	1,036,860	381	2,699,526
Missiles	213,719	506,127	261,747	0	981,594
Ships	1,223	165,292	0	651	167,166
Veh & Wpns	112,767	186,228	145,916	127	445,039
Ammunition	57,460	123,480	55,120	976	237,036
Training	105,128	116,097	198,456	5,725	425,405
Misc/Other	1,186,779	1,554,265	1,290,045	67,362	4,098,452
TOTAL	2,635,293	3,355,558	2,988,144	75,222	9,054,218

FY 1994	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	374,306	1,081,437	4,074,339	2,376	5,532,458
Missiles	326,507	670,295	367,869	721	1,365,392
Ships	538	187,630	0	2,616	190,784
Veh & Wpns	310,128	81,344	196,315	6,131	593,918
Ammunition	154,499	149,370	52,893	4,545	361,307
Training	57,345	273,770	192,795	542	524,452
Misc/Other	790,559	1,101,949	2,061,897	342,520	4,296,925
TOTAL	2,013,882	3,545,795	6,946,138	359,451	12,865,236

FY 1993	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	328,092	1,817,228	14,818,453	564	16,964,337
Missiles	2,706,077	523,590	578,892	4,979	3,813,538
Ships	2,552	230,271	0	1,881	234,704
Veh & Wpns	1,600,214	265,207	520,085	435	2,385,941
Ammunition	168,050	101,190	82,171	800	352,211
Training	254,532	209,366	1,077,233	14	1,541,145
Misc/Other	2,527,718	1,299,561	4,058,812	38,026	7,924,117
TOTAL	7,587,235	4,446,413	21,135,646	46,699	33,215,993

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ordered Value of New & Amended Sales Cases by Major Category (Continued)

FY 1992	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	732,837	2,914,386	4,334,059	318	7,981,600
Missiles	509,257	339,723	292,064	120,732	1,261,776
Ships	0	178,628	0	104	178,732
Veh & Wpns	391,774	94,383	179,629	8,432	674,218
Ammunition	60,134	104,309	70,508	13,995	248,946
Training	151,929	141,588	410,188	112	703,817
Misc/Other	1,457,313	1,215,381	1,377,703	72,261	4,122,658
TOTAL	3,303,244	4,988,398	6,664,151	215,954	15,171,747

FY 1991	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	510,015	555,799	3,530,599	199	4,596,612
Missiles	1,070,180	490,928	85,111	21,214	1,667,433
Ships	42,650	239,898	0	0	282,548
Veh & Wpns	4,408,670	341,034	6,487	149	4,756,340
Ammunition	544,847	61,058	152,953	17,864	776,722
Training	178,331	458,891	283,506	181	920,909
Misc/Other	4,637,680	1,848,478	4,073,332	227,531	10,787,021
TOTAL	11,392,373	3,996,086	8,131,988	267,138	23,787,585

NARRATIVE:

This indicator classifies the various kinds of execution activities and shows the distribution of major weapons sales cases among the implementing agencies.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Sales Cases Closed

FY 1995 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
CASES CLOSED FOR ALL YEARS	1,299	809	736	323	3,167

FY 1994 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
CASES CLOSED FOR ALL YEARS	1,301	763	774	346	3,184

FY 1993 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
CASES CLOSED FOR ALL YEARS	1,344	731	723	328	3,126

FY 1992 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
CASES CLOSED FOR ALL YEARS	1,140	576	660	360	2,736

FY 1991 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
CASES CLOSED FOR ALL YEARS	1,099	507	679	358	2,643

NARRATIVE:

This indicator demonstrates the number of Sales Cases "Closed" during the fiscal year. The "closure" of a sales case, like the completion of a legal contract, occurs when all the terms have been met. Sales Cases must be legally, logistically, and financially "complete" prior to closure.

SOURCE:

DSAA 1200 System.

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ordered Value of Sales Cases Closed

THOUSANDS ($ X 000)

FY 1995 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Closed Cases - All Years	3,844,904	2,367,114	3,762,098	100,263	10,074,379

FY 1994 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Closed Cases - All Years	3,057,325	2,090,171	1,921,989	156,189	7,225,674

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Closed Cases - All Years	1,458,137	516,151	1,129,447	109,591	3,213,326

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Closed Cases - All Years	835,782	400,249	1,269,442	156,798	2,662,271

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Closed Cases - All Years	1,823,310	285,821	1,636,792	85,766	3,831,689

NARRATIVE:

This indicator shows the dollar value of all sales cases closed during each fiscal year. These dollar values, taken with the level of activity in the previous indicator "Sales Cases Closed," demonstrates one of several complexities in comparing numbers of cases with their dollar values and by implementing agency.

SOURCE:

DSAA 1200 System.

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Aged Number of Sales Cases Closed

FY 1995 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	463	172	222	239	1,096
AGE: 6-10 Years	584	377	350	67	1,378
AGE: 11-15 Years	196	198	131	16	541
AGE: 16-20 Years	50	51	29	1	131
AGE: 20+ Years	6	11	4	0	21
TOTAL	1,299	809	736	323	3,167

FY 1994 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	518	210	247	253	1,228
AGE: 6-10 Years	619	352	369	79	1,419
AGE: 11-15 Years	130	154	135	13	432
AGE: 16-20 Years	29	39	20	1	89
AGE: 20+ Years	5	8	3	0	16
TOTAL	1,301	763	774	346	3,184

FY 1993 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	620	212	281	204	1,317
AGE: 6-10 Years	592	401	326	109	1,428
AGE: 11-15 Years	107	104	102	13	326
AGE: 16-20 Years	23	14	11	2	50
AGE: 20+ Years	2	0	3	0	5
TOTAL	1,344	731	723	328	3,126

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Aged Number of Sales Cases Closed (Continued)

FY 1992 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE 0-5 Years	575	208	304	206	1,293
AGE 6-10 Years	494	291	246	126	1,157
AGE 11-15 Years	62	69	90	27	248
AGE 16-20 Years	9	8	19	1	37
AGE 20+ Years	0	0	1	0	1
TOTAL	1,140	576	660	360	2,736

FY 1991 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE 0-5 Years	550	196	305	220	1,271
AGE 6-10 Years	445	36	278	127	1,886
AGE 11-15 Years	86	69	81	11	247
AGE 16-20 Years	18	6	13	0	37
AGE 20+ Years	0	0	2	0	2
TOTAL	1,099	307	679	358	2,443

NARRATIVE:

This performance indicator reveals the age or "life cycle" of the sales cases closed The average 6+ year life of a case is directly attributable to its complexity. Major weapon system procurements, such as aircraft and construction cases, require more time to execute and complete financial close-out than does logistics and training cases.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Aged Value of Sales Closed

THOUSANDS ($ X 000)

FY 1995 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	210,680	54,187	95,249	13,448	373,564
AGE: 6-10 Years	1,018,180	420,114	546,797	79,726	2,064,817
AGE: 11-15 Years	1,517,359	695,596	647,682	6,621	2,867,258
AGE: 16-20 Years	1,070,080	884,882	2,164,623	468	4,120,053
AGE: 20+ Years	28,604	312,335	307,748	0	648,687
TOTAL	3,844,903	2,367,114	3,762,099	100,263	10,074,379

FY 1994 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	195,796	36,932	76,530	16,662	325,920
AGE: 6-10 Years	1,573,045	178,180	431,065	119,191	2,301,481
AGE: 11-15 Years	764,210	598,934	714,291	20,317	2,097,752
AGE: 16-20 Years	388,742	586,179	449,542	19	1,424,482
AGE: 20+ Years	135,532	689,945	250,561	0	1,076,039
TOTAL	3,057,325	2,090,170	1,921,989	156,189	7,225,673

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	195,797	33,289	56,567	9,477	295,130
AGE: 6-10 Years	564,434	176,896	316,279	88,586	1,146,195
AGE: 11-15 Years	440,231	198,906	259,611	11,328	910,076
AGE: 16-20 Years	249,487	107,059	143,431	199	500,176
AGE: 20+ Years	8,188	0	353,559	0	361,747
TOTAL	1,458,137	516,150	1,129,447	109,590	3,213,324

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Aged Value of Sales Cases Closed (continued)

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE 0-5 Years	141,347	45,730	58,824	44,552	290,453
AGE 6-10 Years	341,216	147,936	126,252	103,661	719,065
AGE 11-15 Years	283,614	171,297	281,616	8,538	745,065
AGE 16-20 Years	69,605	35,286	657,309	47	762,247
AGE 20+ Years	0	0	145,441	0	145,441
TOTAL	835,782	400,249	1,269,442	156,798	2,662,271

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE 0-5 Years	109,632	40,439	69,499	50,299	269,869
AGE 6-10 Years	511,166	70,542	252,545	31,527	865,780
AGE 11-15 Years	474,583	76,394	477,785	3,941	1,032,703
AGE 16-20 Years	727,929	98,445	551,261	0	1,377,635
AGE 20+ Years	0	0	285,702	0	285,702
TOTAL	1,823,310	285,820	1,636,792	85,767	3,831,689

NARRATIVE:

This performance indicator shows the age and value of cases closed by implementing agency. The higher valued procurement and construction cases require more time to close, have a greater procurement and construction lead time requirement, and have a higher price due to the required complexities and the amount of labor involved.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of Defense Articles and Services Delivered

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Delivered Value	5,149.3	2,633.7	3,972.7	79.0	11,834.7

FY 1994 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Delivered Value	2,649.7	2,588.7	4,941.2	132.9	10,312.5

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Delivered Value	2,935.1	2,940.0	5,581.1	126.6	11,582.8

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Delivered Value	3,154.2	1,855.6	4,845.1	161.4	10,016.3

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Delivered Value	2,834.0	1,462.0	4,864.0	99.0	9,259.0

NARRATIVE:

This performance indicator shows the value of articles and services provided to customer countries during the year. These transactions are generated by the DoD Form 250. "Delivered Value" includes case activities for all years and all cases.

SOURCE:

DSAA 1200 System.

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Deliveries to Ending Undelivered Balance

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning Undelivered Bal	28,730	29,335	46,621	1,134	105,820
New Orders	2,635	3,356	2,988	75	9,054
Total Undelivered Orders	31,366	32,691	49,609	1,209	114,874
Less All Deliveries	5,149	2,634	3,973	79	11,835
End Undelivered Balance	26,216	30,057	45,636	1,130	103,040
Ratios by IA and Total:	19.64%	8.76%	8.71%	6.99%	11.49%

FY 1994 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning Undelivered Bal	29,366	28,378	44,616	908	103,268
New Orders	2,014	3,546	6,946	359	12,865
Total Undelivered Orders	31,380	31,924	51,562	1,267	116,133
Less All Deliveries	2,650	2,589	4,941	133	10,313
End Undelivered Balance	28,730	29,335	46,621	1,134	105,820
Ratios by IA and Total	9.22%	8.82%	10.60%	11.72%	9.75%

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning Undelivered Bal	24,714	26,871	29,061	987	81,633
New Orders	7,587	4,446	21,135	46	33,214
Total Undelivered Orders	32,301	31,317	50,196	1,034	114,847
Less: All Deliveries	2,935	2,940	5,581	126	11,582
End Undelivered Balance	29,366	28,377	44,615	907	103,265
Ratios by IA and Total	9.99%	10.36%	12.51%	13.95%	11.22%

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Deliveries to Ending Undelivered Balance (Continued)

MILLIONS ($ X 000,000)

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning Undelivered Bal.	24,565	23,739	27,242	933	76,479
New Orders	3,303	4,988	6,664	216	15,171
Total Undelivered Orders	27,868	28,727	33,906	1,149	91,650
Less:					
All Deliveries	3,154	1,855	4,845	161	10,015
End Undelivered Balance	24,714	26,872	29,061	988	81,635
Ratios by IA and Total:	12.76%	6.91%	16.67%	16.35%	12.27%

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning Undelivered Bal.	16,007	21,205	23,974	765	61,951
New Orders	11,392	3,996	8,132	267	23,787
Total Undelivered Orders	27,399	25,201	32,106	1,032	85,738
Less:					
All Deliveries	2,834	1,462	4,864	99	9,259
End Undelivered Balance	24,565	23,739	27,242	933	76,479
Ratios by IA and Total:	11.54%	6.16%	17.85%	10.61%	12.11%

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Deliveries to Ending Undelivered Balance (Continued) NARRATIVE:

This performance indicator displays the "Ratio of Deliveries to Ending Balance". The FY 1995 deliveries (execution) were 11.49% of the ending balance of undelivered orders while FY 1994 was 9.75%. This ratio also indicates that FY 1993 deliveries (execution) were 11.2% of the ending balance of undelivered orders as compared to FY 1992 percentage of 12.3%. Additional comparisons reveal FY 1993 deliveries were 14.1% of the beginning balance, 34.8% of the new orders placed, and 10.1% of the total undelivered orders for the year. The FY 1992 deliveries were 13.1% of the beginning balance, 66.1% of the new orders placed, and 10.9% of the total undelivered orders for the year. The obvious increase in FY 1992 undelivered orders was directly attributable to the increased FY 1992 and FY 1991 sales related to the Desert Shield/Desert Storm Military Operation.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of New Obligations

MILLIONS ($ X 000.000)

FY 1995 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
Value	3,717.0	5,649.9	5,055.2	446.2	14,868.3
FY 1994 ACTIVITY	**ARMY**	**NAVY**	**USAF**	**OTHER**	**TOTAL**
Value	3,242.4	4,928.5	4,409.7	389.0	12,969.6
FY 1993 ACTIVITY:	**ARMY**	**NAVY**	**USAF**	**OTHER**	**TOTAL**
Value	3,338.4	5,074.3	4,540.2	400.6	13,353.5
FY 1992 ACTIVITY:	**ARMY**	**NAVY**	**USAF**	**OTHER**	**TOTAL**
Value	3,607.7	5,378.3	4,914.9	426.8	14,327.7
FY 1991 ACTIVITY:	**ARMY**	**NAVY**	**USAF**	**OTHER**	**TOTAL**
Value	5,815.6	2,842.1	5,284.0	482 8	14,424.5

NARRATIVE:

This performance indicator demonstrates the value of procurement contracts awarded and/or orders placed during each of the fiscal years. These values represent new orders of goods and services which the production and delivery may require considerable logistical and financial planning and several years to fully execute.

SOURCE:

FMS Trust Fund General Ledger.

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of New Obligations Liquidated - All Years

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	4,964.2	3,085.9	4,830.1	536.8	13,417.0

FY 1994 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	4,902.9	3,090.9	4,849.3	377.7	13,220.8

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	4,553.3	3,623.8	4,657.2	327.5	13,161.8

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	4,149.7	3,431.5	4,727.5	131.1	12,439.8

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Value	3,081.3	2,754.3	5,593.5	42.4	11,471.5

NARRATIVE:

Values represent all disbursements paid to contractors for work performed and reimbursements paid to the military departments for articles and services provided.

SOURCE:

FMS Trust Fund General Ledger.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Unliquidated Obligations to Open Case Values as of Fiscal Year End

MILLIONS ($ X 000,000)

Sep 30, 1995	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	58,910.4	58,263.1	105,091.0	1,751.9	224,016 4
DFAS-Unliquidated Obligations				$24,250.3	
Ratio of Unliquidated Obligations to Open Cases				10.83%	

Sep 30, 1994	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	60,503.0	57,438.1	106,407.5	1,826.1	226,174.7
DFAS-Unliquidated Obligations				$22,799.0	
Ratio of Unliquidated Obligations to Open Cases				10.0%	

Sep 30, 1993	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	61,775.8	56,573.8	101,818.2	1,641.4	$221,809.2
DFAS - Unliquidated Obligations				$23,050.1	
Ratio of Unliquidated Obligations to Open Cases				10.4%	

Sep 30, 1992	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	58,821.9	52,829.8	82,884.1	1,740.1	$196,275.9
SAAC - Unliquidated Obligations				$22,858.5	
Ratio of Unliquidated Obligations to Open Cases				11.6%	

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Unliquidated Obligations to Open Case Values as of Fiscal Year End

Sep 30, 1991	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	56,938.8	48,574.7	78,121.8	1,695.3	$185,330.6
SAAC - Unliquidated Obligations				$21,051.2	
Ratio of Unliquidated Obligations to Open Cases				11.4%	

NARRATIVE:

This compares the value of unliquidated obligations to the value of the open cases at fiscal year-end. No adjustment has been made for previous execution or prior obligations liquidated. Note: Defense Finance and Accounting Service (DFAS), Denver Center, case values are included in "OTHER"

SOURCE:

DSAA 1200 System and ACCT RPT(M)1176 (Report on Budget Execution).

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Trust Fund and Interest Bearing Account Balances as of Fiscal Year End

MILLIONS ($ X 000,000)

BALANCES AS OF SEPTEMBER 30, 1995		**TOTAL**
Treasury Cash Balance for Account 8242		$5,462.0
Cash and Monetary Assets		7,794.1
Accounts Receivable		2,538.1
Accounts Payable		-182.1
TOTAL		$15,612.1

BALANCES AS OF SEPTEMBER 30, 1994		**TOTAL**
Treasury Cash Balance for Account 8242		$6,409.6
Cash and Monetary Assets		6,641.0
Accounts Receivable		4,117.8
Accounts Payable		-142.5
TOTAL		$17,025.9

BALANCES AS OF SEPTEMBER 30, 1993		**TOTAL**
Treasury Cash Balance for Account 8242		6,594.6
Cash and Monetary Assets		6,612.6
Accounts Receivable	1,444.2	
Accounts Payable		$-485.0
TOTAL		$14,166.4

BALANCES AS OF SEPTEMBER 30, 1992		**TOTAL**
Treasury Cash Balance for Account 8242		$6,516.9
Cash and Monetary Assets		6,669.8
Accounts Receivable	8,603.3	
Accounts Payable		-182.1
TOTAL		$21,607.9

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Trust Fund and Interest Bearing Account Balances as of Fiscal Year End (Continued)

BALANCES AS OF SEPTEMBER 30, 1991	TOTAL
Treasury Cash Balance for Account 8242	$6,776.7
Cash and Monetary Assets	5,187.0
Accounts Receivable	8,603.3
Accounts Payable	-181.7
TOTAL	$20,385.3

NARRATIVE:

Foreign Military Sales (FMS) Trust Fund Accounting is managed by the Defense Finance and Accounting Service (DFAS). Denver Center to ensure sufficient customer funds are on hand to meet the daily cash requirements of the military departments.

During FY 1995, approximately $13,417.0 million was disbursed to implement customers' orders. This requirement, compared to the cash and interest bearing account balances, yields a "quick cash ratio" of 1.01:1 for the fund (cash to requirements). The liquidity ratio was 1.19:1 and was calculated as total cash available, plus receivables, minus payables, compared to FY 1995 cash disbursements requirements. The change in accounts receivable is due to a significant increase in collections on receivables ($4.3 Billion) from 3rd Quarter to 4th Quarter of FY 1995.

SOURCE:

FMS Trust Fund General Ledger.

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Cumulative Value of Reconciled Accounts as of Fiscal Year End

September 30, 1995	**DFAS**
Unreconciled Accounts	-0-
September 30, 1994	**DFAS**
Unreconciled Accounts	-0-
September 30, 1993	**DFAS**
Unreconciled Accounts	-0-
September 30, 1992	**SAAC**
Unreconciled Accounts	-0-
September 30, 1991	**SAAC**
Unreconciled Accounts	-0-

NARRATIVE:
As of September 30, 1995 there were no unreconciled accounts for any country

SOURCE:
FMS Trust Fund General Ledger.

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Number of Open Cases as of Fiscal Year End

SEPTEMBER 30, 1995 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	5,333	5,070	4,436	1,077	15,916

SEPTEMBER 30, 1994 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	5,757	5,210	4,536	1,142	16,645

SEPTEMBER 30, 1993 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	6,245	5,298	4,706	1,232	17,481

SEPTEMBER 30, 1992 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	6,733	5,360	4,810	1,287	18,190

SEPTEMBER 30, 1991 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	6,890	5,208	4,846	1,364	18,308

NARRATIVE:

This performance indicator shows the number of active FMS cases at the end of each fiscal year

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of Country Accounts in Arrearage Status as of Fiscal Year End

(WHOLE DOLLARS)

COUNTRY AND VALUE, SEPTEMBER 30, 1995:	ARREARAGE
Nigeria	28,343
Organization of American States (OAS)	557,569
TOTAL	$585,912

COUNTRY AND VALUE, SEPTEMBER 30, 1994:	ARREARAGE
Nigeria	27,108
Organization of American States (OAS)	465,787
TOTAL	$492,895

COUNTRY AND VALUE, SEPTEMBER 30, 1993:	ARREARAGE
Nicaragua	26,491
Organization of American States (OAS)	516,419
TOTAL	$542,910

COUNTRY AND VALUE, SEPTEMBER 30, 1992:	ARREARAGE
Nicaragua	25,844
Uganda	17,421
Uruguay	369,694
Organization of American States (OAS)	537,308
TOTAL	$950,267

COUNTRY AND VALUE, SEPTEMBER 30, 1991:	ARREARAGE
Malta	35,364
Nicaragua	11,131
Nigeria	159,134
Organization of American States (OAS)	314,026
TOTAL	$519,655

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of Country Accounts in Arrearage Status as of Fiscal Year End (Continued)

NARRATIVE:

Two country accounts were placed in an arrearage status due to non-payment, as of current fiscal year end.

SOURCE:

Treasury TFS Form 4503 Report (Current Status of Accounts Receivable (Original Maturity of Less than 90 Days) from Foreign Obligors) as of June 30 and Treasury Reports on Accounts and Loans Receivables due from the Public as of September 30.

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Net Outlays to Plan End of Fiscal Year

MILLIONS ($ X 000,000)

FY 1995 ACTIVITY:	Presidents Budget	FY 1994 Actual	Ratio
Disbursements	$13,450.0	$13,417.0	99.8%
Collections	-13,350.0	-12,469.4	93.4%
Net Outlays	$100.0	$947.6	N/A

FY 1994 ACTIVITY:	Budget	Actual	Ratio
Disbursements	$13,440.0	$13,220.8	98.4%
Collections	-13,370.0	-13,035.8	97.6%
Net Outlays	$70.0	$185.0	N/A

FY 1993 ACTIVITY:	Presidents Budget	FY 1993 Actual	Ratio
Disbursements	$12,850.0	$13,161.8	102.4%
Collections	-12,720.0	-13,239.4	104.1%
Net Outlays	$130.0	$-77.6	N/A

FY 1992 ACTIVITY:	Presidents Budget	FY 1992 Actual	Ratio
Disbursements	$11,307.0	$12,439.8	110.0%
Collections	-11,419.0	-12,182.0	106.7%
Net Outlays	$-112.0	$257.8	N/A

FY 1991 ACTIVITY:	Presidents Budget	FY 1991 Actual	Ratio
Disbursements	$10,055.0	$11,471.6	114.1%
Collections	-10,300.0	-11,697.4	113.6%
Net Outlays	$-245.0	$-225.8	N/A

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Net Outlays to Plan End of Fiscal Year (Continued)

NARRATIVE:

Disbursement outlay estimates are based on prior unliquidated balances as carried forward from previous years, plus an estimate for the new year's obligations, and are adjusted by a historical experience (spend out rate) factor. The FY 1995 and FY 1994 "actuals" for disbursements and receipts are within a normal range for estimating accuracy. FY 1993 disbursements were higher than estimated due to a higher spend out rate than estimated. FY 1993 collections were greater than anticipated due to a large increase in sales ($33 Billion actual versus $17 Billion estimated). FY 1992 and FY 1991 disbursements were also higher than estimated.

SOURCE:

President's Budget and ACCT RPT(M)1176 (Report on Budget Execution)

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FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Work Years (WY) Used for Administration of Security Assistance Program During the Fiscal Year

FY 1995 ACTIVITY	ARMY	NAVY	USAF	DFAS-DE	OTHER	TOTAL
CONUS Mil WY	48	49	179	2	36	314
CONUS Civ WY	1531	906	1791	728	135	5,091
Total CONUS WY	1579	955	1970	730	171	5,405

	MILITARY	U.S. CIV	FNS	TOTAL
CONUS WY	314	5091	0	5405
Overseas WY	262	61	168	491
Total WY	576	5152	168	5,896

FY 1994 ACTIVITY	ARMY	NAVY	USAF	DFAS-DE	OTHER	TOTAL
CONUS Mil WY	61	50	161	2	36	310
CONUS Civ WY	1552	958	1366	819	41	4,736
Total CONUS WY	1613	1008	1527	821	77	5,046

	MILITARY	U. S. CIV	FSN	TOTAL
CONUS WY	310	4736	0	5046
Overseas WY	261	64	172	497
Total WY	571	4800	172	5543

FY 1993 ACTIVITY	ARMY	NAVY	USAF	DFAS-DE	OTHER	TOTAL
CONUS Mil WY	41	48	87	2	39	217
CONUS Civ WY	1,658	977	1,286	622	165	4,708
Total CONUS WY	1,699	1,025	1,373	624	204	4,925

	MILITARY	U.S. CIV	FSN	TOTAL
CONUS WY	217	4,708	0	4,925
Overseas WY	245	58	161	464
Total WY	462	4,766	161	5,389

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A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Work Years (WY) Used for Administration of Security Assistance Program During the Fiscal Year (Continued)

FY 1992 ACTIVITY	ARMY	NAVY	USAF	DFAS-DE	OTHER	TOTAL
CONUS Mil WY	40	51	92	2	40	225
CONUS Civ WY	1,703	1,066	1,415	297	169	4,650
Total CONUS WY	1,743	1,117	1,507	299	209	4,875

	MILITARY	U.S. CIV	FSN	TOTAL
CONUS WY	225	4,650	0	4,875
Overseas WY	226	52	145	423
Total WY	451	4,702	145	5,298

FY 1991 ACTIVITY	ARMY	NAVY	USAF	DFAS-DE	OTHER	TOTAL
CONUS Mil WY	31	59	101	2	38	231
CONUS Civ WY	1,680	1,127	1,781	354	171	5,113
Total CONUS WY	1,711	1,186	1,882	356	209	5,344

	MILITARY	U.S. CIV	FSN	TOTAL
CONUS WY	231	5,113	0	5,344
Overseas WY	260	58	160	478
Total WY	491	5,171	160	5,822

NARRATIVE: Work years are an estimate obtained from budget data. No specific manapower accounting system exists for Security Assistance work years.

CONUS: The civilian and military work years are assigned to provide logistical, financial, training, and other types of administrative support to the Foreign Military Sales Program. Civilian pay is funded from FMS administrative funds. Military pay is financed from the Military Pay Appropriations.

OVERSEAS: There are FMS administrative work years at overseas Security Assistance Offices (SAO's) that are in support of FMS activities. U.S. Military and Civilians are stationed in Foreign Countries to provide administrative support for Security Assistance Program implementation. Foreign Service Nationals (FSNs) are also hired to provide administrative support.

SOURCE:
DSAA Blue Book.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Cost of Work Years Used for Administration of the Security Assistance Program

THOUSANDS ($ X 000)

FY 1995 ACTIVITY	ARMY	NAVY	USAF	DFAS	OTHER	TOTAL
Actual Cost	$93.6	$64.0	$99.2	$45.6	$46.0	$348.4
Budget	$93.7	$64.3	$99.6	$45.6	$47.8	$351.0

FY 1994 ACTIVITY	ARMY	NAVY	USAF	DFAS	OTHER	TOTAL
Actual Cost	$91.8	$62.9	$86.6	$44.5	$17.6	$303.4
Budget	$92.7	$63.7	$87.3	$45.0	$18.9	$307.6

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	DFAS	DSAA & OTHER	TOTAL
Actual Cost	$90.4	$60.3	$76.5	$36.5	$17.8	$281.5
Budget	$91.5	$65.5	$74.5	$24.0	$17.5	$273.0

FY 1992 ACTIVITY	ARMY	NAVY	USAF	DFAS	DSAA & OTHER	TOTAL
Actual Cost	$90.1	$60.9	$76.0	$22.6	$36.2	$285.8
Budget	$90.0	$67.5	$83.1	$19.1	$19.3	$279.0

FY 1991 ACTIVITY	ARMY	NAVY	USAF	SAAC	DSAA & OTHER	TOTAL
Actual Cost	$87.2	$61.1	$91.3	$15.2	$17.4	$272.2
Budget	FY 1991 ACTIVITY IS NOT AVAILABLE					

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Cost of Work Years Used for Administration of the Security Assistance Program (Continued)

NARRATIVE:
Costs include direct payroll costs, benefits, moving costs, automatic data processing, other services, and etc.

SOURCE:
DSAA Blue Book and Monthly DoD Status of Allotment Report.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Number of Cases Open at Fiscal Year End:

SEP 30, 1995 POSITION:	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
Beg. Balance(Open)	5,757	5,210	4,536	1,142	0	16,645
Add New & Mod Cases	745	625	600	250	0	2,220
Subtotal	6,502	5,835	5,136	1,392	0	18,865
Less: Cases Closed	1,299	809	736	323	0	3,167
Subtotal	5,203	5,026	4,400	1,069	0	15,698
+/- Mods & Adj	130	44	36	8	0	218
End. Balance (Open)	5,333	5,070	4,436	1,077	0	15,916

SEP 30, 1994 POSITION:	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
Beg. Balance(Open)	6,245	5,298	4,706	1,232	0	17,481
Add New & Mod Cases	732	632	556	228	0	2,148
Subtotal	6,977	5,930	5,262	1,460	0	19,629
Less: Cases Closed	1,301	763	774	346	0	3,184
Subtotal	5,676	5,167	4,488	1,114	0	16,445
+/- Mods & Adj	81	43	48	28	0	200
End. Balance (Open)	5,757	5,210	4,536	1,142	0	16,645

SEP 30, 1993 POSITION:	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
Beg. Balance(Open)	6,733	5,360	4,810	1,287	0	18,190
Add: New & Mod Cases	793	630	576	277	0	2,276
Subtotal	7,526	5,990	5,386	1,564	0	20,466
Less: Cases Closed	1,344	731	723	328	0	3,126
Subtotal	6,182	5,259	4,663	1,236	0	17,340
+/- Mods & Adj	63	39	43	-4	0	141
End. Balance (Open)	6,245	5,298	4,706	1,232	0	17,481

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Number of Cases Open at Fiscal Year End: (Continued)

SEP 30, 1992 POSITION:	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
Beg. Balance(Open)	6,890	5,208	4,846	1,364	0	18,308
Add New & Mod Cases	906	658	605	271	0	2,440
Subtotal	7,796	5,866	5,451	1,635	0	20,748
Less: Cases Closed	1,140	576	660	360	0	2,736
Subtotal	6,656	5,290	4,791	1,275	0	18,012
+/- Mods & Adj	77	70	19	12	0	178
End Balance (Open)	6,733	5,360	4,810	1,287	0	18,190

SEP 30, 1991 POSITION:	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
Beg. Balance(Open)	6,833	5,020	4,858	1,412	0	18,123
Add. New & Mod Cases	1,156	695	667	310	0	2,828
Subtotal	7,989	5,715	5,525	1,722	0	20,951
Less. Cases Closed	1,099	507	679	358	0	2,643
Subtotal	6,890	5,208	4,846	1,364	0	18,308
+/- Mods & Adj	0	0	0	0	0	0
End. Balance (Open)	6,890	5,208	4,846	1,364	0	18,308

* Value is calculated from other known amounts.

NARRATIVE:

This performance indicator reconciles the number of active FMS sales cases at the end of each fiscal year.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Value of Cases Open at Fiscal Year End:

DOLLARS IN THOUSANDS ($ x 000)

SEPTEMBER 30, 1995 POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	60,503,037	57,438,130	106,407,482	1,826,104	226,174,753
Add: New Cases**	2,635,293	3,355,558	2,988,144	75,222	9,054,218
Subtotal	63,138,330	60,793,688	109,395,626	1,901,326	235,228,971
Less: Cases Closed	3,844,904	2,367,114	3,762,098	100,263	10,074,379
Subtotal	59,293,426	58,426,574	105,633,528	1,801,063	225,154,592
+/- Mods & Adj	-393,028	-163,474	-542,521	-49,142	-1,138,166
End Balance	58,910,398	58,263,100	105,091,007	1,751,921	224,016,426

SEPTEMBER 30, 1994 POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	61,775,801	56,573,801	101,818,196	1,641,405	221,809,203
Add: New Cases**	2,013,972	3,545,795	6,946,138	359,451	12,865,356
Subtotal	63,789,773	60,119,596	108,764,334	2,000,856	234,674,559
Less: Cases Closed	3,057,325	2,090,171	1,921,989	156,189	7,225,674
Subtotal	60,732,448	58,029,425	106,842,345	1,844,667	227,448,885
+/- Mods & Adj	-229,411	-591,295	-434,863	-18,563	-1,274,132
End Balance	60,503,037	57,438,130	106,407,482	1,826,104	226,174,753

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Value of Cases Open at Fiscal Year End: (Continued)

SEPTEMBER 30, 1993 POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	58,821,935	52,829,811	82,884,064	1,740,046	196,275,856
Add: New Cases**	7,587,235	4,446,413	21,135,646	46,699	33,215,993
Subtotal	66,409,170	57,276,224	104,019,710	1,786,745	229,491,849
Less: Cases Closed	1,458,137	516,151	1,129,447	109,591	3,213,326
Subtotal	64,951,033	56,760,073	102,890,263	1,677,154	226,278,523
+/- Mods & Adj	-3,175,232	-186,272	-1,072,067	-35,748	-4,469,320
End Balance	61,775,801	56,573,801	101,818,196	1,641,406	221,809,203

SEPTEMBER 30, 1992 POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	56,938,759	48,574,718	78,121,828	1,695,306	185,330,611
Add: New Cases	3,303,244	4,988,398	6,664,151	215,954	15,171,747
Subtotal	60,242,003	53,563,116	84,785,979	1,911,260	200,502,358
Less:Cases Closed	835,782	400,249	1,269,442	156,798	2,662,271
Subtotal	59,406,221	53,162,867	83,516,537	1,754,462	197,840,087
+/- Mods & Adj	-584,286	-333,056	-632,473	-14,416	-1,564,231
End Balance	58,821,935	52,829,811	82,884,064	1,740,046	196,275,856

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Value of Cases Open at Fiscal Year End: (Continued)

SEPTEMBER 30, 1991 POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	47,258,696	44,864,453	71,626,632	1,513,934	165,263,715
Add New Cases**	11,392,373	3,996,086	8,131,988	267,138	23,787,585
Subtotal	58,651,069	48,860,539	79,758,620	1,781,072	189,051,300
Less: Cases Closed	1,832,310	285,821	1,636,792	85,766	3,840,689
Subtotal	56,818,759	48,574,718	78,121,828	1,695,306	185,210,611
+/- Mods & Adj	0	0	0	0	0
End Balance	56,818,759	48,574,718	78,121,828	1,695,306	185,210,611

NARRATIVE:

This performance indicator reconciles the value of active FMS cases at the end of each fiscal year.** These values include all "new cases" for FY 1995, FY 1994, FY 1993, FY 1992, and FY 1991 and all case amendments and modifications for all fiscal years.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Overseas Work Years Used for Administration of the Security Assistance Program by Fiscal Year:

FY 1995 ACTIVITY	MILITARY	U.S. CIV	FSN	TOTAL
Work Years Used	262	61	168	491
FY 1994 ACTIVITY	MILITARY	U.S. CIV	FSN	TOTAL
Work Years Used	261	64	172	497
FY 1993 ACTIVITY	MILITARY	U.S. CIV	FSN	TOTAL
Work Years Used	245	58	161	464
FY 1992 ACTIVITY	MILITARY	U.S. CIV	FSN	TOTAL
Work Years Used	226	52	145	423
FY 1991 ACTIVITY	MILITARY	U.S. CIV	FSN	TOTAL
Work Years Used	260	58	160	478

NARRATIVE:

This represents military, U.S. Civilian, and Foreign Service Nationals (FSNs) work years used by fiscal year.

SOURCE:

DSAA Blue Book.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services

		THOUSANDS ($ X 000)
FY 1995 ACTIVITY, END OF YEAR POSITION		TOTAL
11X4121	Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	149,870
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans.	673,622
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	262,683
11X4121	Principal on Financing Bank loans transferred to 20X4521.097.	292,387
11X4121	Interest on Financing Bank loans transferred to 20X4521.	320,763
TOTAL COLLECTIONS		1,699,325

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services (Continued)

FY 1994 ACTIVITY, END OF YEAR POSITION		TOTAL
11X4121	Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	34,423
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans.	544,704
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	273,480
11X4121	Principal on Financing Bank loans transferred to 20X4521.097.	297,949
11X4121	Interest on Financing Bank loans transferred to 20X4521.	346,131
TOTAL COLLECTIONS		1,496,687

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services (Continued)

FY 1993 ACTIVITY, END OF YEAR POSITION		TOTAL
11X4121	Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	30.213
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans.	461.654
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	290.988
11X4121	Principal on Financing Bank loans transferred to 20X4521.097.	260.910
11X4121	Interest on Financing Bank loans transferred to 20X4521.	368.684
TOTAL COLLECTIONS		1,412.449

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

Financial Performance: REIMBURSEMENT OF DoD FOR ARTICLES AND SERVICES (Continued)

FY 1992 ACTIVITY, END OF YEAR POSITION		TOTAL
11X4121	Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	100,818
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans	381,091
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	277,884
11X4121	Principal on Financing Bank loans transferred to 20X4521.097.	255,697
11X4121	Interest on Financing Bank loans transferred to 20X4521.	391,512
TOTAL COLLECTIONS		1,407,002

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL PERFORMANCE: Reimbursement of DoD for Articles and Services (Continued)

FY 1991 ACTIVITY, END OF YEAR POSITION		TOTAL
11X4121	Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	173.670
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans.	237.156
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	273.142
11X4121	Principal on Financing Bank loans transferred to 20X4521.097.	0
11X4121	Interest on Financing Bank loans transferred to 20X4521	0
TOTAL COLLECTIONS		683.968

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) Financial (Account 4121):

FINANCIAL PERFORMANCE: Reimbursement of DoD for Articles and Services (Continued)

NARRATIVE:

This performance indicator compares the collections made to various accounts for several types of loans. The collections are made for: (a) repayments of guaranty disbursements made by DSAA for defaults or rescheduling and collected back into 11X4121 for new default disbursements; (b) repayments for direct loans and deposited into Treasury's miscellaneous receipt accounts 2968 and 1468; (c) repayments for Federal Finance Bank (FFB) loans and returned to FFB for borrowings from FFB. Collections of miscellaneous receipts (2968 and 1468) have increased over the past three years due to increased principal collections for direct loans. Collections into 11X4121 have decreased the past three years due to rescheduling of certain countries which were primarily in arrears.

SOURCE:

General ledgers, Undisbursed Appropriation Account Report (TFS 6653), and Undisbursed Appropriation Accounts - Trial Balance (TFS 6654).

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Assets to Liabilities Ratio

MILLIONS ($ X 000,000)

FY 1995 END OF YEAR POSITION	**TOTAL**
Assets	8,501
Liabilities	7,882
Equity	619
Assets to Liabilities Ratio	1.07:1

FY 1994 END OF YEAR POSITION	**TOTAL**
Assets	9,560
Liabilities	7,996
Equity	1,566
Assets to Liabilities Ratio	1.2:1

FY 1993 END OF YEAR POSITION	**TOTAL**
Assets	10,287
Liabilities	4,148
Equity	6,139
Assets to Liabilities Ratio	2.5:1

FY 1992 END OF YEAR POSITION	**TOTAL**
Assets	10,920
Liabilities	4,413
Equity	6,507
Assets to Liabilities Ratio	2.5:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Assets to Liabilities Ratio (Continued)

FY 1991 END OF YEAR POSITION	TOTAL
Assets	734
Liabilities	0
Equity	734
Assets to Liabilities Ratio	N/A

NARRATIVE:

This performance indicator represents the assets to liabilities ratio. Included in the asset balance are receivables for Federal Financing Bank (FFB) loans which equal the total liabilities which are borrowings from FFB.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

Operating Costs

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
Interest Expense on Federal Finance Bank Borrowings	(316,554)
Total Operating Expenses	(316,554)

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
Interest Expense on Federal Finance Bank Borrowings	(341,534)
Total Operating Expenses	(341,534)

FY 1993 ACTIVITY, END OF YEAR POSITION	TOTAL
Interest Expense on Federal Finance Bank Borrowings	364,534)
Total Operating Expenses	364,534)

FY 1992 ACTIVITY, END OF YEAR POSITION	TOTAL
Interest Expense on Federal Finance Bank Borrowings	(387,090)
Total Operating Expenses	(387,090)

FY 1991 ACTIVITY, END OF YEAR POSITION	TOTAL
Interest Expense on Federal Finance Bank Borrowings	0
Bad Debt Expense	(7,677,116)
Total Operating Expenses	(7,677,116)

NARRATIVE:

This performance indicator represents the costs associated with the liquidating account. The only cost was interest expense paid to the Federal Financing Bank (FFB) for borrowings on FFB loans administered by DSAA. The drop in interest expense from FY 1992 through FY 199 is due to the decrease in loan principal as FFB loans are paid off by the customers. There are no new FFB loan receivables to increase the principal balance thus increasing the interest expenses

SOURCE:

General Ledgers.

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

Operating Results

THOUSANDS ($ X 000)

FY 1995 ACTIVITY	TOTAL
Revenues less Funds Returned to Treasury	(105,367)
Less: Expenses	(364,832)
Operating Results	(470,199)

FY 1994 ACTIVITY	TOTAL
Revenues less Funds Returned to Treasury	(125,713)
Less: Expenses	(341,535)
Operating Results	(467,248)

FY 1993 ACTIVITY	TOTAL
Revenues less Funds Returned to Treasury	47,538)
Less: Expenses	(364,534)
Operating Results	(412,072)

FY 1992 ACTIVITY	TOTAL
Revenues less Funds Returned to Treasury	80,644
Less: Expenses	(387,090)
Operating Results	(306,446)

FY 1991 ACTIVITY	TOTAL
Revenues less Funds Returned to Treasury	115,923
Less: Expenses	(7,677,116)
Operating Results	(7,561,193)

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

Operating Results (Continued)

NARRATIVE:

This performance indicator represents the difference between revenue and expenses in the account. The revenue is offset by the amount of collections that was returned to the Treasury which includes principal and interest. The large difference between FY 1992 and FY 1993 operating results is due to the large increase in funds returned to the Treasury in FY 1993 over FY 1992 (principal $80 million increase and interest $13 million). In FY 1991 Congress allowed one country to write-off its loan thus creating a bad debt expense of $7,677,116,000 In FY 1991 Federal Financing Bank loans were not included in the account therefore there was no interest expense in FY 1991 as there was in FY 1992 through FY 1995.

SOURCE:

General Ledgers

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Asset and Liability Account Balances And Ratio
MILLIONS ($ X 000,000)

FY 1995, YEAR END POSITION	TOTAL
ASSETS	
Cash/Fund Balance with Treasury	11
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	579
Loans Receivable	7,911
TOTAL ASSETS	8,501
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,882
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,882
Assets to Liabilities Ratio	1.07:1

FY 1994, YEAR END POSITION	TOTAL
ASSETS	
Cash/Fund Balance with Treasury	433
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	500
Loans Receivable	8,627
TOTAL ASSETS	9,560
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,996
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,996
Assets to Liabilities Ratio	1.2:1

Supplemental INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Asset and Liability Account Balances And Ratio (Continued)

FY 1993, YEAR END POSITION	TOTAL
ASSETS	
Cash/Fund Balance with Treasury	901
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	426
Loans Receivable	8,958
TOTAL ASSETS	10,285
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	4,148
Accounts Payable, Federal	0
TOTAL LIABILITIES	4,148
Assets to Liabilities Ratio	2.5:1

FY 1992, YEAR END POSITION	TOTAL
ASSETS	
Cash/Fund Balance with Treasury	1,331
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	369
Loans Receivable	9,219
TOTAL ASSETS	10,919
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	4,413
Accounts Payable, Federal	0
TOTAL LIABILITIES	4,413
Assets to Liabilities Ratio	2.5:1

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

Supplemental

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Asset and Liability Account Balances And Ratio (Continued)

FY 1991, YEAR END POSITION	TOTAL
ASSETS	
Cash/Fund Balance with Treasury	34
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	175
Loans Receivable	524
TOTAL ASSETS	733
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	0
Accounts Payable, Federal	0
TOTAL LIABILITIES	0
Assets to Liabilities Ratio	N/A

NARRATIVE:

This performance indicator shows the make up of the assets and liabilities of the account The fund balance with Treasury decreased from FY 1994 to FY 1995 due to disbursements made for direct loans. The loan receivables are lower due to the increase in principal collections in FY 1994 and FY 1995.

SOURCE:

General Ledgers.

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLFA) (Account 4122):

FINANCIAL PERFORMANCE: Reimbursement for Articles and Services

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	**TOTAL**
Total Collections	93,698
FY 1994 ACTIVITY, END OF YEAR POSITION	**TOTAL**
Total Collections	50,666
FY 1993 ACTIVITY, END OF YEAR POSITION	**TOTAL**
Total Collections	0
FY 1992 ACTIVITY, END OF YEAR POSITION	**TOTAL**
Total Collections	0
FY 1991 ACTIVITY, END OF YEAR POSITION	**TOTAL**
Total Collections	0

NARRATIVE:

This account was established in FY 1992. There was no collection activity in FY 1992 or FY 1993. Collections were started in FY 1994.

SOURCE:

General ledgers, Undisbursed Appropriation Account Report (TFS 6653), and Undisbursed Appropriation Accounts - Trial Balance (TFS 6654).

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLFA)(Account 4122):

FINANCIAL CONDITION: Assets to Liabilities Ratio

THOUSANDS ($ X 000)

FY 1995, END OF YEAR POSITION	TOTAL
Assets	2,465,785
Liabilities	2,465,739
Equity	46
Asset to Liabilities Ratio	1:1

FY 1994, END OF YEAR POSITION	TOTAL
Assets	1,946,779
Liabilities	1,946,733
Equity	46
Asset to Liabilities Ratio	1:1

FY 1993, END OF YEAR POSITION	TOTAL
Assets	1,200,046
Liabilities	1,200,000
Equity	46
Asset to Liabilities Ratio	1:1

FY 1992, END OF YEAR POSITION	TOTAL
Assets	345,046
Liabilities	345,000
Equity	46
Asset to Liabilities Ratio	1:1

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FINANCIAL CONDITION: Assets to Liabilities Ratio (Continued)

FY 1991, END OF YEAR POSITION	TOTAL
Assets	N/A
Liabilities	N/A
Equity	N/A
Asset to Liabilities Ratio	N/A

NARRATIVE:

This performance indicator represents the difference between assets and liabilities. The ratio remains constant from FY 1992 through FY 1995. The dollars increased by the new loan agreements signed in FY 1994 and FY 1995. Equity consists of unobligated appropriated funds

SOURCE:

General Ledgers.

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLFA)(Account 4122):

Operating Costs:

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	42,774
Administrative Expenses	0
Total Operating Expenses	42,774

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	38,118
Administrative Expenses	0
Total Operating Expenses	38,118

FY 1993 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	136,746
Administrative Expenses	200
Total Operating Expenses	136,946

FY 1992 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	50,102
Administrative Expenses	0
Total Operating Expenses	50,102

FY 1991 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	N/A
Administrative Expenses	N/A
Total Operating Expenses	N/A

NARRATIVE:

This performance indicator measures the operating expenses for the account. The subsidy expense increased from FY 1994 to FY 1995 due to the increase in loan agreements (dollars) signed in FY 1993. Funds for administrative expenses were apportioned only in FY 1993.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Accounting (FMFDLFA)(Account 4122):

Operating Results

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	98,243
Less: Operating Expenses	(98,243)
Operating Results	0

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	65,566
Less: Operating Expenses	(65,566)
Operating Results	0

FY 1993 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	136,946
Less: Operating Expenses	(136,946)
Operating Results	0

FY 1992 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	50,102
Less: Operating Expenses	(50,102)
Operating Results	0

FY 1991 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	N/A
Less: Operating Expenses	N/A
Operating Results	N/A

NARRATIVE:

This performance indicator measures the operating results of the account. Net results from operations must equal zero for credit reform loans. The dollars increased from FY 1992 to FY 1995 due to increase in loan agreements signed. The account was established in FY 1992, therefore there are no balances for FY 1991.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLFA)(Account 4122):

FINANCIAL CONDITION: Asset And Liability Account Balances And Ratio

THOUSANDS ($ X 000)

FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
ASSETS	
Fund Balance with Treasury	500,186
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal Intra-government	1,487,195
Loans Receivable	9,355
Subsidy	469,049
Total Assets	2,465,785
LIABILITIES	
Accounts Payable, Non-Federal	0
Debt	788,328
Other Liabilities	0
Accounts Payable, Federal	1,677,411
Total Liabilities	2,465,739
Assets to Liabilities Ratio	1:1

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLFA)(Account 4122):

FINANCIAL CONDITION: Asset and Liability Account Balances and Ratio (Continued)

FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
ASSETS	
Fund Balance with Treasury	357,397
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal Intra-government	1,339,104
Loans Receivable	4,151
Subsidy	246,127
Total Assets	1,946,779
LIABILITIES	
Accounts Payable, Non-Federal	0
Debt	413,167
Other Liabilities	0
Accounts Payable, Federal	1,533,566
Total Liabilities	1,946,733
Assets to Liabilities Ratio	1:1

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLFA)(Account 4122):

FINANCIAL CONDITION: Asset and Liability Account Balances & Ratio (Continued)

FY 1993 ACTIVITY, END OF YEAR POSITION	TOTAL
ASSETS	
Fund Balance with Treasury	186.894
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal Intra-government	1,013.152
Loans Receivable	0
Total Assets	1,200.046
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	0
Accounts Payable, Federal	1,200.000
Total Liabilities	1,200.000
Assets to Liabilities Ratio	1:1

FY 1992 ACTIVITY, END OF YEAR POSITION	TOTAL
ASSETS	
Fund Balance with Treasury	50.148
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal Intra-government	294.898
Loans Receivable	0
Total Assets	345.046
LIABILITIES-	
Accounts Payable, Non-Federal	0
Other Liabilities	0
Accounts Payable, Federal	345.000
Total Liabilities	345.000
Assets to Liabilities Ratio	1:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLFA)(Account 4122):

FINANCIAL CONDITION: Asset and Liability Account Balances and Ratio (Continued)

FY 1991 ACTIVITY, END OF YEAR POSITION	TOTAL
ASSETS	
Fund Balance with Treasury	N/A
Inventory	N/A
Advances and Prepayments	N/A
Accounts Receivable, Federal Intra-government	N/A
Loans Receivable	N/A
Total Assets	N/A
LIABILITIES	
Accounts Payable, Non-Federal	N/A
Other Liabilities	N/A
Accounts Payable, Federal	N/A
Total Liabilities	N/A
Assets to Liabilities Ratio	N/A

NARRATIVE:

This performance indicator compares the makeup of the assets and liabilities in the account. The dollar figures increased from FY 1994 to FY 1995 due to the new loan agreements signed in FY 1995.

SOURCE:

General Ledgers.

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Audit Opinion

DEFENSE SECURITY ASSISTANCE AGENCY

PART IV

AUDIT OPINION

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*Page 174 of the Defense Security Assistance Agency, Part IV, Audit Opinion, is blank.

Audit Opinion

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

February 21, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE SECURITY ASSISTANCE
AGENCY

SUBJECT: Disclaimer of Opinion on the Defense Security Assistance Agency Financial Statements for FY 1995 (Project No. 5LG-2029)

Introduction

The Chief Financial Officer (CFO) Act of 1990, as amended by the Federal Financial Management Act of 1994 requires financial statement audits by statutory Inspectors General. That Act prescribes the responsibility of management and auditors with respect to the financial statements, internal controls, and compliance with laws and regulations. The Defense Security Assistance Agency (the Agency), as the funds manager, is responsible for establishing and maintaining an internal control structure and complying with laws and regulations applicable to those funds. The Defense Finance and Accounting Service, Denver Center is responsible for maintaining the accounting system for the funds managed by the Agency. Our responsibility was to express an opinion on the financial statements based on our audit and determine whether internal controls were adequate and whether the Agency complied with applicable laws and regulations.

Disclaimer of Opinion

We were unable to render an opinion on the Agency's financial statements because the Agency did not have sufficient audit trails to identify the contents of the $13.1 billion (83 percent of total liabilities) reported as Other Non-Federal (Government) Liabilities of the Foreign Military Sales Trust Fund. Supporting documentation to allow us to audit $13.4 billion of disbursements for the Foreign Military Sales Trust Fund was unavailable. Additionally, the reported accounts payable of the Foreign Military Sales Trust Fund was unauditable because the Agency did not have an audit trail by vendor or major command. Although a Management Representation Letter was provided to us, the Agency could not attest to the accuracy or completeness of the financial data.

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Audit Opinion

Our review provides a reasonable basis for conclusion on the internal control structure, and compliance with laws and regulations as they relate to the financial statements of the Agency. Our review would not necessarily disclose all internal control and compliance reportable conditions that might also be considered material weaknesses. Reportable internal control and compliance conditions are summarized in this report and will be further addressed in our internal control and compliance report to be published.

Internal Controls

We reviewed the internal control structure of the Agency and obtained an understanding of the internal control policies and procedures. In addition, we reviewed the implementation of the Management Control Program by the Agency managers. We performed applicable tests of the internal control structure to determine whether the controls were effective and working as designed.

The internal control structure was not effective in accounting for and managing resources, ensuring compliance with laws and regulations, and ensuring that the financial statements are free of material misstatements. Management actions are needed to improve the internal controls relating to cash disbursements including transportation disbursements and unmatched disbursements, supporting the general ledger by subsidiary accounts, recording and reporting accounts receivable and accounts payable, accounting for revenues and expenses, follow up on errors reported by the Positive Transaction Control system (a module that verifies the validity of processed transactions), strengthening the electronic data processing security controls, and implementing the Management Control Program.

The Agency and the Defense Finance and Accounting Service, Denver Center Annual Statements of Assurance did not identify any material weaknesses as related to the Agency's activities. Some of the internal control weaknesses or noncompliance with laws and regulations that we identified may result in material misstatements in the financial statements.

Compliance with Laws and Regulations

We tested compliance with material provisions of laws and regulations, such as the Arms Export Control Act, the Federal Managers' Financial Integrity Act, the CFO Act of 1990, and DoD Financial Management Regulations, as they pertain to the accuracy of the financial statements. Compliance issues identified during our review may have a material impact on the financial statements. Those issues pertain to accounting for the Foreign Military Sales Trust Fund accounts receivable, accounts payable, and revenues and expenses and implementing Management Control Program.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Appendix B. Accounting Entries Under Existing and Recommended Accounting Systems

The pro forma entries in this appendix illustrate the accounting entries recorded within the FMS Trust Fund general ledger during execution of a hypothetical FMS case. The variety, number, and timing of the entries may differ according to type of case and circumstances recorded. Under the existing accounting system, DFAS-DE records all collections and disbursements in the unearned revenue account. Under the recommended system, the earned part of collections would be recognized as revenue, and disbursements would be recognized as expenses. New accounts, such as sales, cost of sales, and expense accounts, would be used to determine the net operational results.

Letter of Offer and Acceptance

	Value
A. Contract value	$100,000
B. Total nonrecurring cost	20,000
C. Estimated cost (A + B)	120,000
D. Administrative Fee	3,600
E. Total case value (C + D)	123,600
F. Initial Deposit	35,000
G. Administrative expense disbursed at Trust Fund level to a Military Department with revenues from several cases	4,000

Accounting Entries Under the Existing Accounting System

1. FMS customer provides DFAS-DE with a signed Letter of Offer and Acceptance and the initial deposit. DFAS-DE records receipt.

1011		Funds collected	$35,000	
	2312	Unearned revenue		$35,000

2. DFAS-DE generates the quarterly FMS billing statement.

1313.1		Accounts receivable public-current	$88,600	
	2411	Liability for deposit funds/suspense account		$88,600

3. DFAS-DE receives payment of amount due on the quarterly FMS billing statement.

1011		Funds collected	$88,600	
	2312	Unearned revenue		$88,600
2411		Liability for deposit funds/suspense account	$88,600	
	1313.1	Accounts receivable public-current		$88,600

4. DFAS-DE records the reimbursement for administrative surcharge expenses.

2312		Unearned revenue	$4,000	
	2111	Accounts payable government-current		$4,000
2111		Accounts payable government-current	$4,000	
	1012	Funds disbursed		$4,000

5. The implementing agency reports accrued expenditures unpaid.

2312		Unearned revenue	$100,000	
	2113	Accounts payable-public		$100,000

6. The implementing agency reports payment to the Defense contractor.

2113		Accounts payable-public	$100,000	
	1012	Funds disbursed		$100,000

7. The implementing agency reports self-reimbursement for nonrecurring costs.

2312		Unearned revenue	$20,000	
	1012	Funds disbursed, allotment-direct program		$20,000

Accounting Entries When Revenues and Expenses are Recognized

1. Because transaction 1 includes earned revenue equal to 50 percent of the administrative surcharge, that earned amount would be credited to a revenue account instead of the unearned revenue account. The proposed entry would be:

1011		Funds collected	$35,000	
	2312	Unearned revenue		$33,200
	xxxx	An appropriate revenue account		$1,800

2. Because the amount receivable includes earned revenue for delivered Defense articles and services, in addition to estimated termination liability and other forecasted cash requirements, transaction 2 will have to recognize revenue from deliveries. Assuming termination liability will not be recognized in a separate account, and assuming earned revenue was $50,000, the proposed entry would be:

1313.1		Accounts receivable public-current	$88,600	
	xxxx	An appropriate revenue account		$50,000
	2411	Liability for deposit funds/suspense account (Note: The credit to account 2411 holds termination liability and the forecasted cash requirements)		$38,600

3. In transaction 3, only the unearned collections would be credited to the unearned revenue account. The proposed entry would be:

1011		Funds collected	$88,600	
	1313.1	Accounts receivable public-current		$88,600
2411		Liability for deposit funds/suspense account	$38,600	
	2312	Unearned revenue		$38,600

4. In transaction 4, the actual administrative costs are recorded. A new cost account would be established instead of the unearned revenue account to accumulate those actual costs. The new account will help determine the residual or excess in the surcharge accounts. Assuming the new account is named Actual Administrative Surcharge, the proposed entries would be:

xxxx		Actual administrative surcharges	$4,000	
	2111	Accounts payable government-current		$4,000
2111		Accounts payable government-current	$4,000	
	1012	Funds disbursed		$4,000

5. Although under the existing system, transaction 5 should accrue expenditures, it actually does not. Because the contractor incurred costs were directly chargeable to the foreign military sales case, the proposed entry would include a cost account representing that case. Assuming the account would be titled Incurred Costs: Case No. AB-C-DEF, the proposed entry would be:

xxxx		Incurred Costs: Case No. AB-C-DEF	$100,000	
	2113	Accounts payable-public		$100,000

6. Transaction 6 will not change the accounting treatment.

7. In the proposed system, the unearned revenue will not be debited. Appropriate cost account would be debited. Because the implementing agency incurred costs were directly chargeable to the foreign military sales case, the proposed entry would include a cost account representing that case. Assuming the account would be titled Incurred Costs: Case No. AB-C-DEF, the proposed entry would be:

xxxx		Incurred Costs: Case No. AB-C-DEF	$20,000	
	1012	Funds disbursed, allotment-direct program		$20,000

Appendix C. Audit Process

We examined the September 30, 1995, statement of financial position and the statement of operations and changes in net position and related notes for the FMS Trust Fund. Other combining statements and related notes that DSAA prepared, but not examined by us, included the Statements of Financial Position and the Statements of Operations and Changes in Net Position for the Special Defense Acquisition Fund, Foreign Military Loan Liquidating Account, and Foreign Military Financing Direct Loan Financing Account. The FY 1995 combined DSAA statement of financial position reported assets of $27.4 billion, of which $15.8 billion was for the FMS Trust Fund. The statement of financial position of the FMS Trust Fund included seven accounts including fund balances with the Treasury, cash, accounts receivable - transactions with non-Federal (governmental) entities, accounts payable - transactions with Federal (governmental) entities, accounts payable - transactions with non-Federal (governmental) entities, liability for deposit funds/suspense account - other non-Federal (governmental) liabilities, and unearned revenue - advances from public - other non-Federal (governmental) liabilities. DSAA is responsible for administering the Secretary of Defense security assistance responsibilities and is primarily a policy and management oversight organization. The Military Departments are responsible for implementing and executing the FMS program. DFAS-DE provides centralized accounting services for DSAA. The statement of financial position and the statements of operations and changes in net position on which we made our examination were submitted to us on January 31, 1996.

Scope

We evaluated the DSAA and DFAS-DE internal management control structure related to the FMS Trust Fund. Also, we evaluated compliance with laws and regulations directly affecting the financial statements and other laws and regulations designated by OMB. Our review covered the statement of financial position and the statement of operations and changes in net position and related general ledger account balances as of September 30, 1995. In making our review, we verified or attempted to verify balances to subsidiary records and supporting source documentation generated by the accounting system. DFAS-DE maintained the DIFS, which produced the general ledger accounts for the FMS Trust Fund.

Limitations to Scope. The following circumstances limited our review of the general ledger accounts.

o We were unable to test $13.4 billion of disbursements made in FY 1995, because based on the absence of the needed voucher number and day of disbursement, DFAS, Columbus was unable to readily locate and furnish the sampled disbursement transactions. DIFS did not retain the missing data that DFAS, Columbus, had transmitted to the DIFS at the time of disbursement. Also, absence of a reasonably accessible audit trail precluded us from verifying $370.5 million of undistributed disbursements accumulated since 1989.

o The FMS Trust Fund did not report the Navy accounts payable; therefore, we were unable to identify a universe for testing.

o We were unable to test $13.1 billion recorded in the unearned revenue - advances from public - other non-Federal (governmental) liabilities, because DFAS-DE was unable to provide detail by subsidiary ledger accounts.

Performance Measures. We did not test performance measures. In the overview of the FY 1995 financial statements, DSAA stated that the performance measures were not directly linked to its plans, goals, and objectives. Levels of sales (or most other financial measurements) were not linked to the effective accomplishment of the DSAA mission.

Methodology

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit efforts provided a reasonable basis for our results.

Internal Control Structure. Our consideration of the internal control structure included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances. For those significant policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to assess more fully whether those controls were effective and working as designed.

Significant Policies and Procedures. Significant internal control structure policies and procedures that were considered as part of our understanding of the structure included:

o DoD Financial Regulation volume 15, which establishes procedures for security assistance activities involving accounting, budgeting, fiscal matters,

management, and pricing for reimbursements to DoD appropriation accounts and revolving funds; auditing; international balance of payments; and matters affecting the DoD budget.

o DoD Manual 5105.38, "Security Assistance Management Manual," October 1988, which provides information and instructions needed to carry out the administration of the FMS program and related activities.

Statistical Sampling. Statisticians at the Quantitative Methods Division, Audit Planning and Technical Support Directorate, Inspector General, DoD, developed a statistical sampling plan for testing the FMS Trust Fund disbursements. The audit universe for the FMS Trust Fund consisted of 1,203 disbursing stations with total disbursements of $13.4 billion. The sample transactions were based on the total disbursements made by the disbursing stations in FY 1995. We excluded from the universe all disbursing stations with less than $1 million of disbursements. A total of 117 disbursing stations that disbursed $13.39 billion in 1,707,000 transactions remained in the sampling plan. Although a sampling plan was designed, we were unable to conduct the review because disbursement vouchers were not readily available at DFAS, Columbus.

Computer-Processed Data. We reviewed the DSAA and DFAS organizations' computer-processed data for fund balances with the treasury, accounts receivable, accounts payable, and unearned revenue for the FMS Trust Fund. Based on our review and the tests we conducted, we concluded that the computer-processed data were not totally reliable. A software engineer from our Technical Assessment Division assisted us in evaluating the reliability of the computer-processed data and the adequacy of application-related general controls of DIFS and its Positive Transaction Control subsystem.

Internal Management Control Program. Our internal management control evaluation included obtaining an understanding of management's process for evaluating and reporting on internal control and accounting systems, as required by the DoD Internal Management Control Program. That review also included comparing the material weaknesses related to the financial statements, reported in the entity's Annual Statement of Assurance, to the material weaknesses and reportable conditions we identified. We included tests of management controls considered necessary. We identified FMS Trust Fund significant control procedures as those dealing with accounting for surcharge revenues and expenses, cash management and reconciliation, determination and management of accounts payable and accounts receivable, and electronic data processing controls applicable to the DIFS. As stated in the limitation of scope discussion, we were unable to fully test the controls over accounting for revenues and expenses, cash management, accounts payable, and unearned revenue because adequate audit trails did not exist.

Representation Letters. We received legal and management representation letters from DSAA. The management representation letter stated that DSAA could not attest to the accuracy or completeness of the data contained in its financial statements. See Appendix A for the legal and management representation letters.

Audit Period, Standards, and Locations. This financial statement audit was made from August 1995 through May 1996. We conducted our audit in accordance with the requirements of OMB Bulletins 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, and 94-01. Those auditing standards require us to obtain reasonable assurance about whether the financial statements were free from material misstatement. A complete list of the locations we visited and contacted is in Appendix F.

Appendix D. Summary of Prior Audits and Other Reviews

During the last 3 years, the Inspector General, DoD (IG,DoD), has issued four audit reports and the Army Audit Agency has issued one audit report that affect the financial statements of DSAA. The reported conditions, recommendations, and management comments are summarized below.

IG, DoD, Report No. 94-090, "Management Data Used to Manage the Foreign Military Sales Trust Fund," April 29, 1994, stated that, while the Military Departments and DFAS were providing the kinds of critical management data that DSAA needed to operate and make major financial decisions, the data reported was often incomplete or inaccurate. The report did not make any recommendations because a DoD working group and DFAS were involved in efforts to identify and correct problems of accounting for obligations and disbursements. The same computer systems analyzed during the audit are still used by the Military Departments and DFAS.

IG, DoD, Report No. 93-123, "Consolidating Financial Statements of the Foreign Military Sales Trust Fund - FY 1992," June 24, 1993, expressed an adverse opinion on the financial statements because the statements did not account for revenues, expenses, or the net position of the fund. In addition, accounts payable pertaining to the Army and the Navy were not reported. The report did not make any recommendations. The Under Secretary of Defense (Comptroller) and Chief Financial Officer, and DSAA disagreed with the report's finding on the recognition of revenues, expenses, and net position of the fund. They, however, agreed with the report finding on accounts payable. During the audit of the FY 1995 financial statements, we determined that the problems identified in the report were still uncorrected.

IG, DoD, Report No. 93-121, "Special Defense Acquisition Fund Financial Statements for FY 1992," June 21, 1993, expressed a disclaimer of opinion on the financial statements because the fund did not have a general ledger system that was in compliance with laws and regulations and because the auditors were unable to obtain sufficient, competent evidence and make appropriate tests of the accounting records. In addition, the fund did not use the accrual method of accounting and did not comply with the accounting principles in the DoD Financial Regulation. The report did not make any recommendations.

IG, DoD, Report No. 93-106, "Foreign Military Loan Liquidating Account Financial Statements for FY 1992," June 11, 1992, expressed an unqualified opinion that the financial statements fairly presented, in all material respects,

the assets, liabilities, and net financial position of the account. The audit found no material weakness involving the management control structure and its operation. The account complied, in all material respects, with policies, laws, and regulations. The report did not make any recommendations.

Army Audit Agency Report No. SR 93-780, "Engineering Assistance Agreement Funds-Saudi Arabia," September 9, 1993, stated that the Transatlantic Division, U.S. Army Corps of Engineers did not have supporting documentation for disbursements totaling $24.4 million when it transferred accounting records to DFAS-DE in 1977. As a result, the accounting records for the two organizations have remained out of balance. The report recommended that the $24.4 million be written off against the cost clearing accounts* held within the FMS Trust Fund. The Office of the Deputy Chief of Staff for Logistics, U.S. Army agreed to ask the Deputate for Security Assistance, DFAS-DE for approval to write off the $24.4 million to the cost clearing accounts of the FMS Trust Fund. As of March 1, 1996, no adjustments had been made to bring the accounting records of the two organizations into balance.

*A cost clearing account is an account used when standard rates are employed. The actual expenses are debited to the cost clearing account and the amounts billed to customers are credited to that account. At the end of the fiscal year, the account is closed with analysis performed to determine whether rates require adjustments.

Appendix E. List of Laws and Regulations Reviewed

Laws and regulations affecting the operations of the military assistance program are numerous. The following laws and regulations were considered in compliance testing of the FMS Trust Fund.

o United States Code, title 31, section 3512 (formerly the Federal Managers' Financial Integrity Act of 1982, Public Law 97-225)

o Arms Export Control Act, as amended, Public Law 90-629

o Chief Financial Officers Act of 1990, Public Law 101-576

o OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993

o OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993

o General Accounting Office, "Policy and Procedures Manual for Guidance of Federal Agencies," Title 2, "Accounting," November 14, 1984

o DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

o "DoD Guidance on Form and Content of Financial Statements for FY 1994 and FY 1995 Financial Activity," October 20, 1994

o DoD Financial Management Regulation 7000.14, volume 1, "Financial Management Regulation; General Financial Management Information, Systems, and Requirements," May 1993

o DoD Financial Management Regulation 7000.14, volume 4, "Financial Management Regulation; Accounting Policy and Procedures," January 1995

o DoD Financial Management Regulation 7000.14, volume 5, "Financial Management Regulation; Disbursing Policy and Procedures," December 1993

o DoD Financial Management Regulation 7000.14, volume 15, "Financial Management Regulation; Security Assistance Policy and Procedures," March 1993

o Memorandum of the Under Secretary of Defense (Comptroller), "DoD Accounting Policy and Procedures for Researching and Correcting Unmatched Disbursements and Negative Unliquidated Obligation Transactions," June 1995

o DoD Manual 5105.38-M, "Security Assistance Management Manual," October 1988

o DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988

Appendix F. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller) and the Chief Financial Officer, Washington, DC

Department of the Army

U.S. Army Security Assistance Command-Alexandria, VA
U.S. Army Security Assistance Command-New Cumberland, PA
U.S. Army Missile Command, Huntsville, AL

Department of the Navy

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

Other Defense Organizations

Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service-Columbus Center, Columbus, OH
Defense Finance and Accounting Service-Denver Center, Denver, CO
Defense Accounting Office, Bolling Air Force Base, DC
Defense Finance and Accounting Service-Indianapolis Center, Indianapolis, IN
Defense Accounting Office, Huntsville, AL
Defense Security Assistance Agency, Arlington, VA

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Policy
Under Secretary of Defense (Comptroller) and Chief Financial Officer
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
  Director for Accounting Policy
Assistant Secretary of Defense for International Security Affairs
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

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

Department of the Air Force

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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service-Denver Center
Director, Defense Logistics Agency
Director, Defense Security Assistance Agency

Other Defense Organizations (cont'd.)

Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

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

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 National Security, Committee on Appropriations
  House Committee on Government Reform and Oversight
  House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
  House Committee on National Security

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

JUN 19 1996

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL (OIG)

SUBJECT: Draft Audit Report on Internal Controls and Compliance with Laws and Regulations for the FY 1995 Financial Statement of the Defense Security Assistance Agency (Project No. 5LG-2029.01)

This is in response to your request for review and comments, dated May 10, 1996, on the subject audit report. This office's comments are attached, and include comments from the Defense Finance and Accounting Service.

This office generally concurs with the recommendations in the subject report. I am aware that Mr. Toye discussed with your office a solution to the recurring issue raised in Finding A. I am pleased that this office and the OIG have agreed on that solution, which is reflected in the attached response, since it should result in more favorable future audits.

My point of contact on this matter is Mr. Stephen Tabone. He may be reached at (703) 693-6520.

Alvin Tucker
Deputy Chief Financial Officer

Attachment

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
COMMENTS ON DRAFT OIG REPORT
"INTERNAL CONTROLS AND COMPLIANCE WITH LAWS AND REGULATIONS FOR THE FY 1995 FINANCIAL STATEMENTS OF THE DEFENSE SECURITY ASSISTANCE AGENCY"
DATED MAY 10, 1996
(PROJECT NO. 5LG-2029.01)**

GENERAL COMMENTS

Although detailed comments on the individual findings and recommendations contained in the draft report follow, there is a need to address general concerns on the conduct of the audit, and how the audit results were presented. Other than one brief meeting at the DFAS-Denver Center, the DFAS Headquarters was not provided an opportunity to discuss the findings or recommendations until after the OIG had issued a letter of disclaimer. The short time frame the auditors were working under is understood, but the lack of meetings and discussions with the DFAS Headquarters must not happen in the future. Because of the short time frame, the auditors structured the report to start with their initial audit results at the time the disclaimer letter was issued, and then, chronologically added information from subsequent meetings, as they occurred. As a result, the changing positions and points of view contained in the report are difficult to follow and misleading in some instances. The audit report should not be a chronological list of information, as the auditors understood it, at different stages of the audit. In the future, the auditors should simply state their findings, conclusions and recommendations, in total, based on the results of their audit at the time that their letter is issued, but not prior to validating the information with the DFAS management. In responding to the findings and other comments, it is difficult to determine the current presentation of the facts.

Of particular concern are references to comments made by various DFAS associates, with various levels of experience, during the course of the audit. Frequently, these comments did not represent the DFAS corporate or management position on the issue. Additionally, partial answers, or responses to questions that were not clearly understood, resulted in the auditor coming to inaccurate conclusions. It is essential throughout the audit process that the audit staff raise concerns, questions and potential problems to DFAS management to assure their conclusions are right, and that the auditors have the most accurate information. The audit staff headed down many false trails, and spent a considerable amount of time working with incomplete or inaccurate data. This could have been avoided had there been more open communication between the auditors and DFAS management. If the OIG wants to fairly represent the DFAS position, it should have gone to the OPR on the CFO statements, the Director of Security Assistance Accounting, to confirm what various associates allegedly said. Because of the complexities of the FMS accounting system and the interplay with standard DoD accounting systems, many of the DFAS associates have only a limited view based on the segments for which they are responsible. This can often lead to a narrow understanding, or opinion, on what can be complex questions.

Many such statements were not brought to DFAS senior management's attention until after the audit was complete, and some were not brought to DFAS senior management's attention until the draft report was issued. This office believes that this type of audit demands much better cooperation between the OIG auditors and the DFAS staff. It is obvious that communication between the audit staff and the DFAS accounting staff must be improved. This was agreed to by the DFAS managers and the audit staff during the follow-on meetings. Communication is especially difficult when an audit disclaimer letter is issued before the audit results are presented for comment. This should not happen on future audits of this type.

Broad statements, such as "DFAS internal controls were not adequate to provide reasonable assurance" and "account balance(s) may be materially misstated," are extremely misleading. Many such statements are not supported by the audit findings in this report.

EXECUTIVE SUMMARY

OIG Statement: The DFAS-DE did not account for the revenue and expenses in the FMS Trust Fund Financial Statement. As a result, those financial statements were noncompliant with the Office of Management and Budget Bulletin No. 94-01, and there was no assurance that those statements presented fairly the financial condition of the fund (Finding A).

OUSD(C) Comment: It has been the position of the Department of Defense that revenue and expenses do not exist in the FMS Trust Fund. Accordingly, it is the policy of the OUSD(C) to exclude the reporting of revenue and expenses from the FMS Trust Fund financial statements. Thus, it is incorrect to imply that the financial statements were noncompliant, because the DFAS-DE did not account for revenue and expenses. The Department continues to believe that the OIG is incorrect in its conclusion that the FMS Trust Fund experiences revenue and expenses. However, if the OIG maintains that position, it should not imply that the DFAS-DE is the cause of the OIG perceived noncompliance. Rather, the OIG statement should be reworded as follows:

> "Department of Defense policy did not permit DFAS-DE to account for the revenues and expense in the FMS Trust Fund financial statement. As a result, the OIG believes that those financial statements were noncompliant with the Office of Management and Budget Bulletin No. 94-01, and there was no assurance that those statements presented fairly the financial condition of the fund (Finding A)."

FINDING A. ACCOUNTING FOR REVENUES AND EXPENSES

The DFAS-DE did not account for revenues and expenses in the FMS Trust Fund. The statement of operations and changes in net position, as of September 30, 1995, reported zeros for all revenue and expense accounts. The revenues and expenses were not accounted for because DoD Financial Regulation Volume 15, did not allow revenue and expense recognition. As a result, the

FY 1995 financial statements for the FMS Trust Fund were noncompliant with OMB Bulletin No. 94-01, and there was no assurance that those statements presented fairly the financial condition of the FMS Trust Fund. Specifically,

- the overall performance of the FMS Trust Fund could not be measured,
- analyzing the unearned surcharge revenues and expenses and redistributing the balances were not accomplished, and
- profits and losses to the U.S. Government from the attrition fees paid by the foreign customers were not disclosed in the financial statements.

OUSD(C) Comments:

The absence of revenues and expenses in the FMS Trust Fund financial statements has been a recurring issue. As expressed to the OIG at the conclusion of the audit of the FY 1992 financial statements for the FMS Trust Fund, and at several meetings between representatives of the OUSD(C) and the OIG before, during and at the conclusion of this audit, the FMS Trust Fund was established for the purpose of holding advance payments received from FMS customers. The collection of these advances is not revenue to the U.S. Government, and subsequent payments of such amounts to performing commercial vendors or Federal Agencies does not represent expenses to the FMS Trust Fund.

The Arms Export Control Act requires foreign countries to pay for purchases in advance of delivery--often prior to purchase. Such advance payments are collected into the FMS Trust Fund, and held in individual country accounts. These amounts, although paid into the FMS Trust Fund, remain the property of the applicable foreign governments, and are held "in-trust" by the U.S. Government. As such, these amounts do not represent an asset of, and are not revenue to, the U.S. Government. Instead, the amounts represent cash assets of the FMS Trust Fund and a liability of the U.S. Government. (These amounts are a liability because the U.S. Government does not have ownership of the cash, and must return the cash to the applicable foreign governments, if the amount collected is not needed for the intended purposes.)

Once applicable amounts are paid into the FMS Trust Fund by foreign countries, the amounts generally remain within the FMS Trust Fund until paid to a commercial vendor or performing Federal activity, as reimbursement for expenses incurred by the vendor/Federal activity. Payments from the FMS Trust Fund to either commercial vendors or performing Federal activities, generally would be revenue to the vendor or Federal activity receiving the payment. While some individuals are paid from the FMS administrative charge account, these individuals actually work for the Military Departments or defense agencies and not for the FMS Trust Fund. Additionally, the FMS Trust Fund, itself, does not perform any work, nor does it incur expenses. Further, since the cash in the FMS Trust Fund is not "owned" by the U.S. Government, neither the collection of the advances by the FMS Trust Fund, or payments, to a performing activity, by the FMS Trust Fund, are revenues or expenses to the FMS Trust Fund. Rather, it is the

performing activities--whether commercial vendors or Federal activities--that realize and recognize revenue, and incur expenses related to FMS cases, not the FMS Trust Fund. As such, expenses incurred on behalf of FMS customers, and the offsetting revenue associated with such reimbursement, is properly shown in the performing contractor or Federal Agency's financial statement.

Notwithstanding, that much of the cash collected and disbursed by the FMS Trust Fund represents revenues or expenses to the performing activity, and not the FMS Trust Fund, the OUSD(C) recognizes that the U.S. Government does assume ownership of certain amounts collected by the Defense Security Assistance Agency prior to disbursing such amounts to the performing activities. These amounts include amounts collected into so-called "surcharge accounts--e.g., Packaging, Crating and Handling; Transportation; Administrative/Logistics Support Charges; Attrition; and Contract Administration. Unlike the amounts that remain in the applicable foreign country's account until disbursed from the FMS Trust Fund, these amounts are transferred to, and held and administered by, the Defense Security Assistance Agency until paid to the performing activities. Accordingly, unlike those amounts paid directly from the FMS Trust Fund to performing activities, ownership of funds deposited into these surcharge accounts does transfer to the U.S. Government prior to the payment to the performing activities.

As indicated above, the absence of revenues and expenses in the FMS Trust Fund has been an issue that has been identified previously, and remains unresolved. In order to resolve this issue, the OUSD(C) proposes to take the following actions:

The OUSD(C) will seek the opinion of the Office of Management and Budget as to whether the FMS Trust Fund is subject to the requirement to prepare, and have audited, CFO financial statements, and if so, whether such statements should be included as part of the Department of Defense CFO financial statements.

If the Office of Management and Budget determines that the FMS Trust Fund is subject to the requirement to prepare, and have audited, CFO financial statements, the OUSD(C) will work with the Defense Security Assistance Agency and the Defense Finance and Accounting Service to establish policies and procedures to account for, and report in applicable financial statements, revenues and expenses for the surcharge accounts.

Advance payments, from FMS customers, will continue to be recorded as a liability in the FMS Trust Fund, as is done under current procedures. (Such advance payments include funds to be paid directly to performing vendors and Federal activities, as well as funds to be collected into applicable surcharge accounts.) As is the current practice, the collection of advance payments by the FMS Trust Fund will not be considered revenue, and payments made by the FMS Trust Fund, to performing activities, will not be considered expenses. However, revenue and expenses will be accounted for, and recorded, for those amounts debited and credited to the surcharge accounts.

Recommendations for Corrective Action:

OIG Recommendation A.1.a.: We recommend that the Under Secretary of Defense (Comptroller/CFO) revise DoD Financial Management Regulation (DoD 7000.14-R), Volume 15, "Security Assistance Policy and Procedures," dated March 1993, to require recognition and accounting for the revenues and expenses of the Foreign Military Sales (FMS) Trust Fund, or obtain a waiver from compliance with the Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statement."

OUSD(C) Response to A.1.a.: Partially concur. As stated in responses to this, and prior audits, of the FMS Trust Fund, the OUSD(C) firmly believes that amounts collected from FMS customers in advance of performance remains the property of the foreign countries and does not represent revenue to the FMS Trust Fund. Similarly, payments made from the FMS Trust Fund, to performing activities, on behalf of the foreign countries, does not represent expenses to the FMS Trust Fund. Rather, it is the performing activities that earn revenue [to offset expenses that they have incurred]. However, the OUSD(C) also recognizes that some amounts--those amounts transferred to so-called surcharge accounts--can represent revenue to the U.S. Government. In those instances when revenue is earned by the U.S. Government, it should be accounted for, and reported, as revenue (along with any associated expenses).

Accordingly, if the Office of Management and Budget determines that the FMS Trust Fund is subject to the requirement to prepare, and have audited, CFO financial statements, the OUSD(C) will work with the Defense Security Assistance Agency and the Defense Finance and Accounting Service to establish the policies and procedures to ensure that revenues and expenses are accounted for, and reported in applicable financial statements, for those amounts in the various applicable surcharge accounts. However, all other amounts (advance payments) collected by, and paid from the FMS Trust Fund, for FMS customers, will continue to be recorded as a liability in the FMS Trust Fund, as is done under current procedures. Such advance payments include funds to be paid directly to performing vendors and Federal activities would continue to be accounted for, and reported, in the current manner.

OIG Recommendation A.1.b.: We recommend that the Under Secretary of Defense (Comptroller/CFO) revise DoD Financial Management Regulation (DoD 7000.14-R), Volume 15, "Security Assistance Policy and Procedures," to require recognition and proper reporting of the U.S. Government equity in the attrition surcharge fund balance as a footnote to the financial statement, in a separate fund, or other means of disclosure.

OUSD(C) Response to A.1.b.: Partially concur. If the Office of Management and Budget determines that the FMS Trust Fund is subject to the requirement to prepare, and have audited, CFO financial statements, the OUSD(C) will modify applicable guidance to provide for amounts in the attrition surcharge account to be disclosed as U.S. Government equity.

OIG Recommendation A.2.: We recommend that the Director, Defense Finance and Accounting Service, Denver Center, analyze the surcharge subsidiary ledgers in the unearned

revenue - advances from public account to recommend to the Defense Security Assistance Agency rate changes and redistribution of surcharge account balances.

OUSD(C) Response to A.2.: Partially Concur. As a result of a joint review of security assistance financial management functions performed by the DFAS-DE in February 1996, the USD(C) and PDUSD(P) agreed that analyses of surcharge subsidiary ledgers in the unearned revenue - advances from public account would be conducted by the Defense Security Assistance Agency. The next revision of DoD Financial Management Regulation (DoD 7000.14-R), Volume 15, "Security Assistance Policy and Procedures," will be changed accordingly.

This office does not agree that the DSAA should redistribute any surcharge amounts previously collected. Surcharge amounts charged to FMS countries, based on a stated percentage or other factor, should be treated as a "fixed price" for the applicable service. Additionally, based on the above discussed analysis, such fixed prices can be expected to be adjusted from time-to-time. However, the Department considers ownership of the funds to have passed from the FMS customer, to the Defense Security Assistance Agency, at the time the funds were transferred from the applicable country's account to the applicable surcharge account. As such, applicable foreign countries have no claim on such amounts, and there is no need to redistribute past collections. To the extent that future rates need to be adjusted, they can, and should, be adjusted.

OIG Recommendation A.3.: We recommend that the Director, Defense Security Assistance Agency, adjust the surcharge rates and redistribute the surcharge account balances annually in coordination with the Under Secretary of Defense (Comptroller), using the actual surcharge data and analyses performed by the Defense Finance and Accounting Service, Denver Center, to ensure the FMS Trust Fund operates at no cost or profit to the U.S. Government.

OUSD(C) Response to A.3.: Partially concur. As indicated in the response to Recommendation A.2., the Defense Security Assistance Agency, and not the Defense Finance and Accounting Service, is responsible for analyzing applicable surcharge rates. Also, as discussed in the response to Recommendation A.2., there is no need to redistribute past collections. To the extent that future rates need to be adjusted, they can, and should, be adjusted.

FINDING B. FUND BALANCES WITH THE TREASURY

The DFAS-DE did not have reasonably accessible audit trails to track about $13.4 billion of disbursements, and $370.5 million of undistributed disbursements. Audit trails were inadequate because the Defense Integrated Financial System (DIFS) did not have disbursement voucher numbers and dates traceable to DFAS, Columbus, records. Additionally, the DFAS-DE did not follow up and research undistributed disbursements, and the DSAA had not established a time-phased plan to resolve the undistributed disbursements. As a result, the DFAS-DE internal controls were not adequate to provide reasonable assurance that the $5.5 billion reported in the

Final Report Reference

fund balances with the Treasury was accurate; therefore, that account balance may be materially misstated.

OUSD(C) Comments:

This office strongly disagrees that the audit findings, as reflected in the draft report, support the conclusion that the Treasury FMS Trust Fund balance may be materially misstated. The DFAS-DE balances to Treasury cash, to the penny, each month. The fact that some disbursements are not distributed to a specific country/case for a period of time, and the lack of an easily accessible audit trail, does not support the conclusion that the account balance may be materially misstated. Further, whether the audit trail for disbursements--from the Departmental level accounting system to the source or installation level disbursing system--was not easily accessible is a subjective determination.

This office disagrees with the statement that the DFAS-DE does "not follow-up on undistributed disbursements." The auditors misconstrued the monitorship by the DFAS-DE of undistributed disbursements in the Departmental level system as a lack of emphasis in this area. The Department has a major financial management initiative to resolve problem disbursements. Specifically, in the security assistance area, listings of undistributed disbursements are sent to installation level accounting offices each month. Personnel at the DFAS-DE are assigned to specific activities to assure problem disbursements are worked, and a special projects office has been created to resolve problem disbursements. Significant accomplishments have been made, especially in the past year.

The OIG description of how the disbursement process works in the Department of Defense, as described on page 17 of the draft audit report, is materially misstated. The DoD accounting systems are designed in a hierarchical manner, with source level (book of original entry) in installation level systems. Data is consolidated and reported to intermediate or Departmental level systems, and for FMS, data is further consolidated and reported to an FMS Departmental level system. The OIG auditors failed to confirm with senior DFAS management personnel their concept of how the accounting process works prior to performing the audit.

The OIG description on page 17 of the draft report clearly shows a continued misunderstanding of the disbursing, accounting and reporting process by the OIG. Disbursing stations do not input disbursement data into the DIFS. Additionally, the DFAS-Columbus does not report disbursement data to the DIFS. The DFAS-Columbus operates the installation or source level system. It reports, not to the DIFS, but to one of the three Military Departmental level systems. The disbursement data for all disbursing stations, for each Military Department, is consolidated into Military Department level disbursement reports, which are reported to the Departmental level accounting system, DIFS, and the Treasury. The DFAS personnel were able to locate most of the vouchers by using these Military Department level systems and some research. The DFAS concedes that the audit trail was not convenient for the auditors; however, the audit trail does exist. In addition, enhancements are being made to assure voucher numbers will be in the Military Department level systems to assist in future audits.

Changed, page 17

Additionally, the OIG auditors frequently went to personnel in junior level positions, or personnel who did not have adequate knowledge in the area, and asked questions of corporate DFAS policies, systems or procedures. For example, statements such as that on Page 19 that "DFAS-DE personnel informed us that they have authority over neither the DoD implementing agencies and the disbursing stations, nor all the Defense Accounting Offices" are inaccurate. The DFAS has control over all Defense Accounting Offices. Statements of this nature should be verified before being placed in an audit report. Also on page 21 of the draft report, it is stated that someone at the DFAS-DE did not believe they had authority over some Defense Accounting Offices. The DFAS has procedures to assure centers, DAOs and other network activities cooperate to resolve problem disbursements. This portion of the report also discusses the Departmental level system undistributed account where detail disbursing and accounting station transactions cannot be matched one to one. The DFAS-DE personnel explained to the OIG auditors that the transaction level disbursement clearance process was in the intermediate (MILDEP) and installation level accounting systems, not at the Departmental level DIFS.

Recommendations for Corrective Action:

OIG Recommendation B.1.a.: We recommend that the Director, Defense Finance and Accounting Service, Denver Center, modify the applicable subsystems of the Defense Integrated Financial System to retain the disbursement voucher number and the disbursement day that are transmitted to the DFAS-DE Center by disbursing stations.

OUSD(C) Response B.1.a: Concur. The DFAS will work with system managers to modify the applicable DIFS supporting feeder subsystems to retain the disbursement voucher number and disbursement date. Required changes to MOCAS, CPAS and CMCS will be documented by September 30, 1996, and implemented as resources are available.

OIG Recommendation B.1.b: We recommend that the Director, Defense Finance and Accounting Service, Denver Center, establish management controls to ensure that the Defense Finance and Accounting Service, Denver Center, identify the agencies causing the undistributed disbursements, follow up with those agencies to resolve the amounts in suspense, and implement guidance contained in the USD(C) memorandum, subject: Procedures for Researching and Correcting Unmatched Disbursements and Negative Unliquidated Obligation Transactions.

OUSD(C) Response B.1.b: Concur. Actions are being taken to resolve problem disbursements. On May 6, 1996, the Office of the Under Secretary of Defense (Comptroller) granted the DSAA an extension until September 30, 1996, to obligate amounts for problem disbursements. The DSAA and DFAS were tasked in May 1996 to develop specific plans to better identify and resolve undistributed disbursements. Those plans include the following specific objectives:

- Individual expenditure authorizations (EA) issued to disbursing offices must be reconciled monthly by the DFAS-DE to the detail payments that are issued.

- Reduce the DIFS undistributed disbursements balance to, at most, $200 million.
- The DIFS must begin providing the DSAA with monthly reports that accurately report the statistics of problem disbursements stratified by Component and fund holder.
- The DSAA will institute a management process that highlights and resolves problem disbursements.
- Reduce the January 1996 reported problem disbursements balance by 50 percent.

OIG Recommendation B.2.: We recommend that the Director, Defense Finance and Accounting Service, establish management controls to ensure that disbursing stations identify a valid foreign military sales country, case or surcharge account before processing a disbursement to the Foreign Military Sales Trust Fund.

OUSD(C) Response B.2.: Concur. Actions are being taken to change procedures to assure disbursement transactions identify the foreign customer or surcharge account before disbursements are processed. Systems also have been revised to prevalidate disbursement transactions for certain dollar thresholds. Policy guidance will be issued, by June 30, 1996, to disbursing activities directing that all FMS disbursements must be identified to a valid foreign customer or surcharge account. Systems will be changed to prevalidate disbursement data by September 30, 1996.

OIG Recommendation B.3.: We recommend that the Director, Defense Security Assistance Agency, establish a time-phased plan to resolve the undistributed disbursements.

OUSD(C) Response to B.3.: Concur. See the OUSD(C) response to Recommendation B.1.

FINDING C. LIABILITIES

The DFAS-DE did not have an adequate audit trail to track the accounts payable - transactions with Federal (government) entities, accounts payable - transactions with non-Federal (government) entities, and unearned revenue - advances from public - other non-Federal (government) liabilities, and did not properly accrue accounts payable. The audit trail was inadequate because the DFAS-DE did not ensure inclusion of the Navy accounts payable in DIFS, maintain subsidiary ledgers for the accounts payable and the unearned revenue account, and perform monthly reconciliation with the general ledger. Additionally, the DFAS-DE did not accrue incurred expenses, because it was not required to maintain expense accounts for the FMS Trust Fund. As a result, the DFAS-DE internal controls were not adequate to provide reasonable assurance that the $182 million of accounts payable, and $13.1 billion of unearned revenue were accurate; therefore, those account balances may be materially misstated.

OUSD(C) comments:

This office agrees that the DIFS system did not contain Navy accounts payable data; however, corrective action is being taken to obtain Navy accounts payable information by September 30, 1996. Audit trails for other payables were in place and adequate. This office partially agrees that monthly reconciliations of detail data to general ledger accounts did not occur. This office concurs with the inadequacy of the monthly reconciliations; however, reconciliations of current fiscal year changes to account balances did occur. Procedures have been developed and were implemented for the accounting month of May 1996. However, this office disagrees that subsidiary data for accounts payable and the unearned revenue account were not maintained.

Audit Trail for Accounts Payable: The DFAS advises that the OIG auditors went to the wrong individuals and asked the wrong questions. Further, the auditors did not appear to understand, or accept, that detail, source level transactions are not maintained in any DoD Departmental level accounting system, nor is it practical to do so. The OIG was given a list of summary accounts payable transactions that identified payables to country, case, line, and activity, where the detail data was located. Further, the auditors were shown how to obtain contract/vendor level data on those payables. The individual contacted by the auditors, at the DAO Bolling, either did not understand the question, or did not understand the payables audit trail. The auditors were given a sample of the installation level audit trail and proof that vendor identification can be obtained without element of expense. Again, the information the auditors received from lower level staff personnel was not validated with DFAS management. Had the OIG audit staff come to senior level DFAS personnel early-on in the audit, many of the problems encountered during the audit could have been avoided.

Audit Trail for Unearned Revenue: During the OIG field visit, the auditors jumped to some invalid conclusions, because questions were asked of the wrong people. On March 15, 1996, the OIG auditors met with the DFAS-DE and DFAS-HQ personnel, this represented the first time any issues were presented to the DFAS management level. The DFAS-DE provided detailed audit trails to the auditors. Subsequent to that meeting, the DFAS explained to the auditors how subsidiary data can support more than one account. There is no requirement for separate (duplicative) transactions for every account a subsidiary record supports. In addition to the detail audit trail, the DFAS provided the beginning Unearned Revenue value, current fiscal year debits and credits, and the ending fiscal year values. This information was provided in the format, and at the level, asked for by the auditors. The general ledger balance did agree, to the penny, to the supporting detail, once the proper DFAS personnel were notified of the request, and the correct data was provided. This element of the finding is inaccurate, and it has previously been discussed with the OIG auditors.

Accrual Basis of Accounting: The DFAS agrees that Navy accounts payable were not included in the financial statements. The DFAS is taking action to obtain Navy accounts payable for future reports by September 30, 1996. The DFAS-DE did post all accrued payables known at the central cite on a monthly basis. The DFAS is reviewing possible ways to obtain information about vouchers due and not yet paid from feeder systems. This review will be completed and procedures issued by September 30, 1996.

Accounts Payable Reconciliation: The DFAS advises that DFAS personnel did validate the accounts payable account; however, only the current fiscal year change was validated each accounting period. Existing systems were designed, prior to CFO reporting requirements, to accommodate budget execution DD Form 1176 reporting, which uses current year change in payables. This technique assured the validity of the current year change, but failed to revalidate the initial account balance. Procedures have been changed to assure monthly validation of the entire account balance. It is recognized that accounts payable were not aged at the Departmental level, as described in DoD 7000.14-R, Volume 15. A revision to DoD 7000.14-R, Volume 15, will reflect a change that detailed payable records are only maintained in installation level systems, and therefore, can only be aged at that level. Monitoring payables, and assuring specific vendors are paid promptly, is a function of the installation level accounting activity. Duplicating detail contract and vendor level data in intermediary and Departmental level systems would not be practical and would be very costly.

Unearned Revenue Reconciliation: The OIG auditors were provided a detail audit trail to the Unearned Revenue Account that balanced to the penny. The major issue with this account does not seem to be the DFAS practices, but rather the DoD policy that the FMS Trust Fund does not have revenue, expense or equity. Because the account does not have equity, the DFAS recognizes all cash received as unearned revenue and reduces unearned revenue, as disbursements are made on behalf of the foreign customer.

Key Accounting Requirements: General ledger accounts are balanced to detail source level data in installation level systems frequently. Financial transactions recorded in source level systems are supported with pertinent documents and source records. Data in intermediary and Departmental level systems are supported by detailed transactions and source documents at the installation level accounting office. An audit trail to this data is available in the Departmental level system. While source data is not available in the Departmental level system, as desired by the OIG, such source data should not be duplicated in the Departmental level system. For most data elements, Departmental level systems are only updated monthly as feeder reports are received from subordinate level systems. The OIG auditors attempted to audit the accounts by looking only at the Departmental level systems and not the feeder systems.

Audit Trail for Unearned Revenue: The DFAS-DE provided the OIG auditors documentation that identifies the specific dollar amounts received from each foreign customer. There is no requirement to duplicate subsidiary records for each general ledger account that the data supports. The unearned revenue account has detailed supporting data, and the account is maintained in accordance with DoD policy. The DFAS management explicitly told the OIG auditors that unearned revenue is an account that has supporting subsidiary data that identifies specifically the amount unearned for each customer.

Recommendations for Corrective Action:

OIG Recommendation C.1.: We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) report to the Defense Finance and Accounting Service, Denver

Center, the Navy's foreign military sales accounts payable applicable to transactions with Federal (governmental) entities, and transactions with non-Federal (government) entities, in compliance with the DoD Financial Management Regulation, Volume 15, "Financial Management Regulation; Security Assistance Policy and Procedures," March 1993.

OUSD(C) Response C.1: Concur. The Navy accounts payable should be reported and action is being taken to receive this data by September 30, 1996. However, accounts payable data, if available, should be in accounting systems maintained by the DFAS. The DFAS will make system, or procedural, changes, and work with the Navy, to better ensure that accounts payable information for the Navy is reported.

OIG Recommendation C.2.a: Report the Navy accounts payable in the Defense Integrated Financial System, and the financial statements.

OUSD(C) Response C.2.a: Concur. Action is being taken to receive this data by September 30, 1996.

OIG Recommendation C.2.b: Maintain a subsidiary ledger for the accounts payable to allow identification and testing of audit trails, as required by DoD 7000.14-R, Volume 15.

OUSD(C) Response C.2.b: Concur. With the exception of Navy accounts, which were not reported, an audit trail from the Departmental level system to the installation level accounting system exists today. Examples, of how this audit trail works, were given to the OIG auditors. This audit trail requires that one go to the installation level accounting activity, in order to find aged payables and contract or vendor identification. In Departmental level systems, accounts payable is an overlay figure for each country, case, line, and reporting entity. Changes will be prepared by September 30, 1996, and included in the next revision of DoD 7000.14-R, Volume 15, to recognize that aging and vendor identification is at the installation level.

OIG Recommendation C.2.c.: Request accounts payable aging lists by vendor from those DoD organizations implementing Letters of Offer and Acceptance, summarize those lists at the FMS Trust Fund level, and perform needed analysis to ensure fulfillment of the task assigned by DoD 7000.14-R, Volume 15.

OUSD(C) Response C.2.c.: Partially Concur. Payables information is not available from the Military Departments. Payables can be obtained only from installation level accounting systems maintained by the DFAS. In addition, as mentioned above, DoD 7000.14-R, Volume 15 will be changed to reflect the aging and vendor identification function as an installation level function. Policy changes will be prepared by September 30, 1996, and included in the next revision of DoD 7000.14-R, Volume 15.

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OIG Recommendation C.2.d.: Reconcile accounts payable balances with the supporting documentation or subsidiary records before the preparation of the trial balance as required by DoD 7000.14, Volume 15.

OUSD(C) Response C.2.d.: Concur. Procedures already have been changed to assure the accounts payable account is reconciled to supporting subsidiary data on a regular basis starting with the May 1996 business month.

OIG Recommendation C.2.e.: Implement the DoD 7000.14-R, Volume 15, requirement that subsidiary ledgers be maintained and reconciled monthly for the unearned revenue-advances from public-other non-Federal (government) liabilities account.

OUSD(C) Response C.2.e: Concur. Subsidiary data already exists in support of the unearned revenue account. The DFAS will assure that this data is reconciled to the general ledger account monthly, starting with the June 1996 accounting period.

OIG Recommendation C.2.f.: Establish procedures at the Defense Finance and Accounting Service, Denver Center, to properly accrue the anticipated expenses attributable to the accounts payable at the end of each month.

OUSD(C) Response C.2.f.: Partially Concur. The DFAS will take action to obtain data on payment requests received and due at each month end and not yet paid (accrued accounts payable). Procedures will be issued and implemented by September 30, 1996. Specifics on what is meant by anticipated expenses attributable to the accounts payable is not explained in the audit report. The DoD policy is to report accrued payable based on documented evidence. Further, the Department policy is that there are no expenses in the FMS Trust Fund.

FINDING D. ACCOUNTS RECEIVABLE

The DFAS-DE erroneously classified overcollections from customers as negative accounts receivable - transactions with non-Federal (government) entities, and did not age accounts receivable. The conditions occurred because the DFAS-DE did not periodically review country accounts receivable balances to identify credit balances, and did not implement DoD Financial Regulation Volume 15, regarding aging of receivables. As a result, the DFAS-DE internal controls were not adequate to provide reasonable assurance that the $2.5 billion of accounts receivable reported in the FY 1995 statement of financial position was accurate; therefore, that account balance may be materially misstated.

OUSD(C) Comments: If a customer (country) pays more than it owes, at the country account level, that amount should be posted as a liability. Action is being taken to accomplish this. However, the facts, as stated on page 32 of the draft report, describe adjusting a customer's accounts receivable when it has overpaid on one agreement and underpaid on another agreement

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below the country level. By regulation, country cash, and therefore receivables, is accounted for at country--and not subordinate agreement--level. Adjusting customer accounts receivable for variances within a country program should continue.

Aging of Accounts Receivable: The DFAS-DE does age accounts receivable. The aging technique, as described in DoD 7000.14-R, Volume 15, needs to be changed to more clearly identify a "true receivable" and a "delinquent receivable." A revision to Volume 15 will be prepared by September 30, 1996. In the corporate world a receivable is recognized when goods or services are delivered and is reduced when payment is received. For the Foreign Military Sales Trust Fund, a receivable includes goods and services delivered but not yet paid for, and also includes payments made on behalf of the customer (progress payments), termination liability and the current estimate of future cash needs. Estimates for future cash needs are always a current period value and should not be aged or considered as any part of a delinquent account. The only delinquent accounts are those country accounts, where goods and services have been delivered, payments have been made from the FMS Trust Fund on behalf of the applicable country, and/or the amount of termination liability is in excess of the amounts paid. There are currently two such accounts, and those accounts were reported.

Deleted Page 35

Another statement in this section states "personnel at DFAS-DE, however, stated that they do not intend to age the accounts receivable because aging was not required." This is not the DoD policy, nor is it the position of the DFAS-DE management. Because one employee of the DFAS-DE does not understand the question being asked, or the complex procedures in this area, does not make the statement factual. Again, this data was not verified by the auditors.

Recommendations for Corrective Action:

OIG Recommendation D.1.: Review the accounts receivable - transactions with non-Federal (governmental) entities subsidiary balances periodically, as required by DoD Financial Management Regulation 7000.14, DoD Financial Management Regulation, Volume 15, "Security Assistance Policy and Procedures," March 1993, to ensure net over-collections from customers are reported as a liability of the Foreign Military Sales Trust Fund at the general ledger level.

OUSD(C) Response D.1.: Concur. Any country level credit accounts receivable will be posted as a liability effective with the June 1996 accounting period. However, the DFAS will continue to make adjustments to net overpayments or underpayments at case level within a country's program (vice report as a liability). This is consistent with the policy of managing FMS cash at country level.

OIG Recommendation D.2.: Implement DoD Financial Management Regulation 7000.14, Volume 15, requirement to age accounts receivable.

OUSD(C) Response D.2.: Partially Concur. Accounts receivable currently are being aged. To clarify the aging criteria, a policy change will be prepared by September 30, 1996, and included in the next revision of DoD 7000.14-R, Volume 15.

E. ELECTRONIC DATA PROCESSING CONTROLS

The DFAS-DE did not adequately restrict user and programmer access to the accounting system, and did not follow up to verify that all transactions rejected and suspended by a performance control subsystem of the DIFS were corrected. The review and follow up were inadequate because DFAS-DE did not periodically review eligibility for access, and because managers in charge of monitoring case performance did not implement the policy requiring follow up and resolution of suspended transactions. As a result, unauthorized users had access to sensitive financial information, which may diminish the ability of the internal control structure to provide reasonable assurance of financial and case data processing integrity. Additionally, there was no assurance that reported case performance data were accurate.

OUSD(C) Comments: The security software, user profiles and security policy and procedures conform to DoD Directive 5200.28. No additional limitations are required for the DIFS, and the Financial Systems Activity - Denver is compliant with current rules, regulations, policies, and directives in the areas of internal control and system security and protection of mission critical programs and data.

Controls Over Access to DIFS: The OIG identified over 635 users as remote users having access to financial management ledgers (view only); however, further review by the DFAS established that this is a list of all remote users, not just those users with access to the financial management ledgers. Only ten remote users, all high officials of the DSAA, had access to view this data. Those users will continue to be given access to view this data. The DIFS handbook will be modified to recognize the need for the DSAA to have view only access to financial management data. All other remote users always have been, and will continue to be, restricted from access to this data.

Unauthorized Access to the Electronic Data Processing System: Only ten high ranking DSAA officials had access to view this data. This is a requirement of their position. No breach of security existed. The OIG auditors failed to realize that of the list of remote users they obtained, only 10 users, all with valid need, had access to the data in question.

The policy and procedures for maintaining computer programs are outlined in various Financial Systems Organization policy statements, to include internal control procedures. Mainframe based computer security software prevents general access to computer program source code libraries and production data sets.

The OIG auditors did not review internal control and security features, which have been established at the Defense MegaCenter Oklahoma City, to prevent unauthorized access to both

computer program source libraries and production data sets. A review of those policies, procedures and software would have shown that the general programming population of the Financial Systems Activity - Denver cannot directly modify production source programs. Mainframe based security access software (Computer Associates Top Secret) provide a locked and controlled program library system. Only trusted employees, following restrictive and controlled procedures, can generate auditable routines that will update production source code libraries.

The DIFS programming staff does not have direct access to source programs turned over to the DIFS Systems Test office for Quality Assurance testing. Following established procedures, programmers make modified program object code available to the system test office. Test program source code is moved to a locked and controlled library. Only trusted employees have the necessary authorization and access to this library system. As in the production environment, mainframe security software prevents the unauthorized access to the library system.

Access to production data files also is restricted via mainframe computer based security software. The general programming population and the user community cannot modify production data without proper authorization. Trusted employees do have limited access to production data files for the purpose of providing production support.

Effectiveness of the DIFS Positive Transaction Control Subsystem: Action has been taken to assure monitoring and correcting of these transactions on a regular basis. Procedures will be developed and implemented by September 30, 1996.

Recommendations for Corrective Action:

OIG Recommendation E.1.: Limit the number of the Financial System Activity programmers with access to the production version of the application software of the financial management ledger, to the minimum number needed to service the software as required by DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988.

OUSD(C) Response E.1.: Concur. The DIFS programmers at the Financial Systems Activity - Denver currently are restricted from general access to both production program source code and production data sets. The security software, user profiles and security policy and procedures at the Defense MegaCenter Oklahoma conform to DoD Directive 5200.28. No additional limitations are in order at DIFS, and the Financial Systems Activity - Denver is compliant with current rules, regulations, policies, and directives in the areas of internal control and system security and protection of mission critical programs and data.

OIG Recommendation E.2.: Ensure implementation of Department Operating Instruction 177-39, "Suspended Disbursement, Budget, Performance, and Notification Transactions," March 4, 1992, to monitor lists of suspended transactions and contact and follow

up on actions by DoD implementing agencies to clear performance transactions rejected by the Positive Transaction Control subsystem of the Defense Integrated Financial System.

OUSD(C) Response E.2.: Concur. Procedures are being changed to assure performance rejects are monitored and corrected by September 30, 1996.

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

21 JUN 1996

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DRAFT DODIG AUDIT REPORT ON INTERNAL CONTROLS AND COMPLIANCE WITH LAWS AND REGULATIONS FOR THE FY 1995 FINANCIAL STATEMENT OF THE DEFENSE SECURITY ASSISTANCE AGENCY (PROJECT NO. 5LG-2029.01)

Ref: (a) DODIG memo of 10 May 96

Encl: (1) Department of the Navy Comments.

1. We have reviewed the subject report provided by reference (a). We concur with recommendation C.1 to report to the Defense Finance and Accounting Service, Denver Center, the Navy's foreign military sales accounts payable applicable to transactions with Federal (governmental) entities, and transactions with non-Federal (governmental) entities.

2. Our detailed comments are in enclosure (1).

GLADYS J. COMMONS
Principal Deputy
Assistant Secretary of the Navy
(Financial Management and Comptroller)

Copy to:
NAVINSGEN
FMO-31

DEPARTMENT OF THE NAVY COMMENTS
ON
DODIG DRAFT AUDIT REPORT OF 10 MAY 1996
ON
INTERNAL CONTROLS AND COMPLIANCE WITH LAWS AND REGULATIONS FOR THE FY 1995 FINANCIAL STATEMENT OF THE DEFENSE SECURITY ASSISTANCE AGENCY
(PROJECT NO. 5LG-2029.01

Recommendation

C.1 We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) report to the Defense Finance and Accounting Service, Denver Center (DFAS-DE), the Navy's foreign military sales accounts payable applicable to transactions with Federal (governmental) entities, and transactions with non-Federal (governmental) entities, in compliance with DOD Financial Management Regulation Volume 15, "Financial Management Regulation: Security Assistance Policy and Procedures," March 1993.

DON Comment:

Concur. Based on conversations with the DODIG auditors and DFAS-DE (IFRE) representatives regarding the requirements, we believe that reporting of accounts payable is feasible. We will meet with DFAS-DE representatives by 30 July 1996 to develop specifications to meet this requirement.

It is our opinion that the Volume 15 chapter dealing with the accounts payable reporting process should be modified to clarify the requirements to ensure that all military departments utilize the same methodology on reporting accounts payable.

Defense Security Assistance Agency Comments

DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

19 JUN 1996

In reply refer to:
I-004366/96

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE
OFFICE OF THE INSPECTOR GENERAL, DOD

SUBJECT: Audit Report on Internal Controls and Compliance with Laws and Regulations for the FY 1995 Financial Statement of the Defense Security Assistance Agency (Project No. 5LG-2029.01)

REFERENCE: DODIG Memorandum dated May 10, 1996

The referenced correspondence requested our comments on the subject draft audit report. Our comments are limited to the findings and recommendations addressed to DSAA and we defer to OUSD Comptroller response.

We object to the finding on DSAA's lack of internal controls in (a) the executive summary (page ii) and (b) the reportable conditions and material weaknesses section on internal controls (page 7). DoD policy is to execute FMS transactions through existing DoD systems, including the DoD accounting system. Inherent internal controls of those systems are assumed to be valid for FMS. Recommend deletion of the finding that DSAA's internal control for the FMS Trust Fund needs improvement.

We recommend a minor correction on page 10 concerning contract administration services. The last sentence should read (new wording italicized): "DSAA may waive all or part of those charges *when there is a reciprocal agreement concluded by the OUSD Acquisition.*"

With respect to the recommendations addressed to DSAA, we offer the following:

a. Recommendation A.3., we concur with the intent. DSAA will continue to analyze and monitor the surcharge account balances, and annually, review the rates for recommended rate adjustments or account balance redistribution. For the record, there have been rate adjustments -- the most recent being the attrition charge on training cases. There have also been distributions between surcharge account balances -- the most recent being excess transportation collections to the administrative surcharge account.

The audit findings and recommendation give the impression that compliance with profit or loss determinations is possible on an FMS case by FMS case basis in the surcharge accounts. It is not possible to determine profit and loss to compare surcharge revenue from a specific FMS case to expenses paid from a surcharge account. More specifically, the administrative surcharge revenue from a specific case is not and cannot be matched to the year in which the expense is incurred.

b. Recommendation B.3., we concur. As a minimum, final reconciliation of cost(including disbursements) and performance will be conducted at case closure.

We appreciate the opportunity to review and comment on the draft audit.

James A. McQuality
Comptroller

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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