

GAO Highlights

Highlights of [GAO-18-553](#), a report to congressional committees

Why GAO Did This Study

The U.S. government sells defense equipment and services worth billions of dollars to foreign partners through the FMS program. DSCA has overall management responsibility for the program, and various other DOD components are responsible for implementing and supporting it. DSCA charges purchasers certain overhead fees for FMS operating costs, including the administrative fee and the CAS fee. Overall administrative expenditures were \$879 million in fiscal year 2017. Overall CAS expenditures were \$182 million in fiscal year 2015—the most recent year available with reliable total balance data. In past audits, GAO and the DOD Office of Inspector General raised questions about DOD's financial oversight of these funds.

House Report 114-537 and Senate Report 114-255 included provisions that GAO review DSCA's use of these funds. This report examines DSCA's financial oversight of DOD components' use of (1) administrative and (2) CAS funds. GAO assessed the reliability of DSCA data for fiscal years 2012 through 2016 (the most recent available) on DOD components' use of these funds. GAO reviewed documentation and conducted interviews with agency officials.

What GAO Recommends

GAO is making 11 recommendations for DSCA to improve its financial oversight of administrative and CAS funds, such as by collecting reliable data on DOD components' use of these funds, and conducting periodic, targeted financial reviews. DOD concurred with GAO's 11 recommendations.

View [GAO-18-553](#). For more information, contact Thomas Melito at (202) 512-9601 or MelitoT@gao.gov.

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FOREIGN MILITARY SALES

Financial Oversight of the Use of Overhead Funds Needs Strengthening

What GAO Found

The Defense Security Cooperation Agency (DSCA) has established some policies and procedures for financial oversight of Department of Defense (DOD) components' use of Foreign Military Sales (FMS) administrative funds for costs related to processing FMS cases, but GAO found certain deficiencies in its oversight. As part of its oversight, DSCA has taken steps such as clarifying guidance on how administrative funds may be used, and developing procedures for reviewing business processes for the use of these funds. DSCA, however, lacks the reliable funding data it needs to ensure proper spending and to inform its budget decisions. DSCA has not conducted regular reconciliations of the data, with its financial service provider, to identify and correct data reliability issues, including gaps and inconsistencies in reported spending for the Army, the Navy, and the Air Force—the primary recipients of this funding. While DSCA conducts reviews of DOD components' business processes, providing an opportunity for sharing information about positive practices and identifying potential problems, it has not followed its annual minimum requirement for the number of reviews to conduct, or its requirement for tracking corrective action items. For example, DSCA was unable to provide an update on the status of action items from most of its reviews conducted since 2012. Moreover, DSCA does not conduct periodic, targeted financial reviews to verify components' obligations and disbursements of administrative funds, raising the risk of misuse of funds.

The Defense Security Cooperation Agency Has Overall Responsibility for Financial Oversight of Foreign Military Sales Overhead Funds



Source: GAO. | GAO-18-553

DSCA also has not developed adequate processes for financial oversight of the use of contract administration services (CAS) funds for costs such as contract management, in accordance with internal control standards. Specifically, DSCA lacks reliable data on DOD components' use of CAS funds. GAO identified inconsistencies in DSCA's data, including no, or low, reported disbursements in some years for three of the four DOD components that received CAS funds in fiscal years 2012 through 2016, which did not align with data that GAO obtained from the components. DSCA has not conducted regular reconciliations of the data, with its financial service provider, to identify and correct data reliability issues. In addition, DSCA does not conduct periodic, targeted financial reviews to verify components' CAS spending. For example, GAO found that at least \$89 million in fiscal year 2016 CAS disbursements were incorrectly processed for the Defense Contract Management Agency—the primary recipient of these funds. DSCA periodically communicates with DOD components about problematic issues, but generally does not take steps to verify spending, including reviewing supporting documentation and any actions taken by components to address such issues. As a result, DSCA raises the risk of unallowable or unapproved payments that could lead to fraud, waste, or abuse of funds.