



February 2019

# FOREIGN MILITARY SALES

## Observations on DOD's Approach to Developing Price and Availability Estimates for Foreign Customers

Accessible Version

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#### Why GAO Did This Study

DOD manages the procurement of billions of dollars in defense items and services on behalf of foreign customers through the FMS program. These sales help support the defense industrial base and are vital to U.S. foreign policy and national security interests.

The FMS process generally begins with a request by a foreign government for information about a U.S. defense item or service. Requests for price and availability data are an optional step in the process. DOD guidance is to generally respond to such requests within 45 days.

The fiscal year 2018 National Defense Authorization Act included a provision for GAO to review DOD's process for developing price and availability data for foreign customers. This report addresses, among other objectives, (1) price and availability requests DOD received from fiscal years 2014 through 2018, (2) how DOD develops price and availability data, and (3) the factors that can influence the timeliness of DOD's responses to foreign customers with price and availability data.

GAO analyzed DOD price and availability data for fiscal years 2014 through 2018, the latest data available; and reviewed documents for a non-generalizable sample of five price and availability responses—varying by estimate value—provided to foreign customers by the Army, Navy, and Air Force. GAO also interviewed defense contractors and DOD officials.

GAO is not making any recommendations at this time.

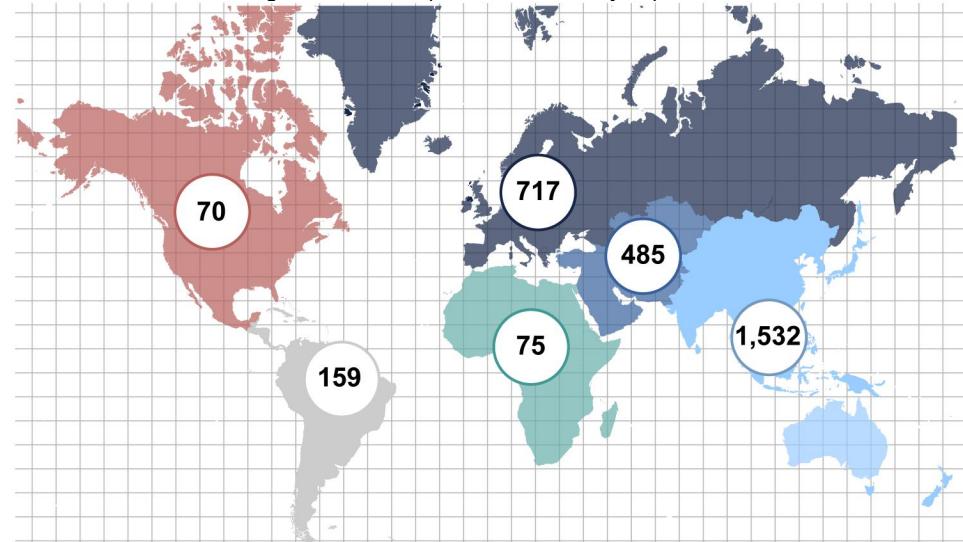
View [GAO-19-214](#). For more information, contact Marie A. Mak at (202) 512-4841 or [makm@gao.gov](mailto:makm@gao.gov).

#### What GAO Found

The Department of Defense (DOD) reported receiving 3,038 requests for Foreign Military Sales (FMS) price and availability data in fiscal years 2014 through 2018 from 93 countries across six geographic regions, as shown in the figure. Foreign customer requests included services and items such as training and support services for weapon systems, missiles, aircraft, and communication equipment.

#### Number of Foreign Military Sales Price and Availability Requests by Region, Fiscal Years 2014 through 2018

Not all countries in each region submitted a price and availability request.



Source: GAO analysis of Department of Defense (DOD) data. | GAO-19-214

DOD officials indicated they generally strove to offer price and availability data that reflected rough order of magnitude estimates of total anticipated costs for a complete and sustainable capability. Contractors often provide input to DOD for these cost and schedule estimates. In the five examples GAO reviewed, DOD officials considered factors such as possible production delays and included anticipated costs for support services, operations, and sustainment, when needed. DOD officials also included FMS administrative charges and, as applicable, nonrecurring and transportation costs. GAO found that when DOD considered these factors in developing the response to the customer, at times, they made adjustments to the estimates provided by contractors to more fully reflect expected costs if the items are purchased.

Among the five examples, GAO found that response times ranged from 45 to 320 days and that a number of factors can affect timeliness. For example, the complexity of the system or capability the customer is interested in acquiring may require involvement from multiple program offices and defense contractors, requiring more time than the 45 days suggested by DOD's guidance.

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#### **Abbreviations**

DSCA	Defense Security Cooperation Agency
DOD	Department of Defense
FMS	Foreign Military Sales

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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February 6, 2019

Congressional Committees

Each year, the United States reports billions of dollars in sales of defense items and services to foreign governments or international organizations. Sales like these can occur through the Foreign Military Sales (FMS) program, wherein the Department of Defense (DOD) manages the procurement process on behalf of the foreign customer. Sales under FMS are vital to U.S. foreign policy and national security interests, and these types of sales also support U.S. defense contractors and suppliers. DOD reported sales totaling over \$55 billion under the FMS program for fiscal year 2018. Further, according to DOD, the U.S. defense industry faces increasing competition from other countries that also produce and sell defense articles and services. U.S. defense contractors have also stated that maintaining a competitive edge even from the outset when foreign customers first request information to gauge the feasibility of a potential purchase of defense items and services is important. DOD is responsible for developing and providing responses to foreign customer requests for price and availability data, which DOD describes as rough order of magnitude estimates. When developing these data, DOD incorporates input from U.S. defense contractors that provide the defense items and services, as needed. However, questions have been raised about DOD's approach for providing estimates during the early stages of the FMS process.

The fiscal year 2018 National Defense Authorization Act includes a provision for GAO to review DOD's process for developing price and availability data.<sup>1</sup> This report (1) describes FMS price and availability requests DOD received from fiscal years 2014 through 2018, (2) assesses DOD's guidance on developing price and availability data, (3) describes how DOD develops price and availability data for the requested capability, and (4) identifies the factors that can influence the timeliness for DOD to provide price and availability data to the customer.

To describe price and availability data requests DOD received, we collected and analyzed data from the Defense Security Assistance

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<sup>1</sup>Pub. L. No. 115-91, § 1268 (2018).

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Management System for fiscal years 2014 through 2018, the latest data available. In addition, we obtained information from officials in the Defense Security Cooperation Agency (DSCA), responsible for managing the system and administering the FMS program. To gain insights about the system and the data produced, we also obtained information from security assistance offices in the three military departments—Army, Navy, and Air Force, which account for the majority of FMS acquisitions. We assessed the reliability of FMS price and availability data by reviewing the data for issues such as missing data elements and duplicates, among other steps. We determined these data were sufficiently reliable for the purposes of reporting information about price and availability requests.

To assess available guidance, we reviewed DSCA and Army, Navy, and Air Force guidance for developing preliminary estimates in response to requests for price and availability data. We compared the guidance to the *Standards for Internal Control in the Federal Government*, which call for agencies to use quality information to achieve their objectives.<sup>2</sup> Specifically, we reviewed the guidance to determine if it contained attributes that contribute to quality information such as identifying the information requirements and relevant data sources needed to develop the price and availability data.

To describe how DOD develops price and availability data and illustrate how these factors influence the process, we selected a non-generalizable sample of five responses using fiscal year 2017 data provided by the military departments. We generally selected the five responses to include a mix of dollar values. The sample includes price and availability data prepared by five offices—referred to as program offices—from the Army, Navy, and Air Force.<sup>3</sup> Because the sample is not generalizable, we cannot report whether the five program offices' practices are consistently used across DOD for all price and availability responses. However, these examples provide useful insights about the process and the assumptions program offices considered when developing price and availability data. For each example, we collected and analyzed the letter of request from foreign customers, price and availability data, DOD's response to the customer, and available supporting documentation such as clarification of

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<sup>2</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

<sup>3</sup>The five offices included four acquisition program offices and one security assistance management directorate. For the purposes of this report, we refer to offices responsible for developing price and availability responses as program offices.

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the customer's request, and data collected from defense contractors or other DOD program offices. We reviewed this information for the assumptions and factors used in developing the data and the various elements that make up the estimates, such as administrative charges and costs for training and spare parts. We interviewed cognizant DOD security assistance and program officials and defense contractor representatives to understand the context and decisions made in developing the price and availability data.

To identify factors that can influence the timeliness of responses, we obtained information from security assistance and program offices within the military departments and DSCA on their approach to develop price and availability responses. We also obtained information from defense contractors and foreign customers who, as stakeholders in the FMS price and availability process, have broad insights and perspectives on the process. To gather input from foreign customers, we interviewed representatives from the Foreign Procurement Group who also solicited information from its members on our behalf.<sup>4</sup> We received responses from 12 countries. To obtain contractor's perspectives, we gathered information from five companies through interviews and attended a meeting hosted by the National Defense Industrial Association. Three of the companies we obtained information from also provided cost and schedule data for four of the examples in our sample. The information we obtained from these foreign customers and defense contractors are not generalizable to all foreign customers and defense contractors but, nonetheless, provided insightful views on the FMS price and availability process. We did not assess the timeliness of when DOD provided responses to foreign customers because DOD does not consistently track information regarding when price and availability data responses are provided to customers, as discussed later in the report. However, information we gathered for the five examples in our sample provided some insight about how long it took DOD to provide a response to the customer. Appendix I contains additional detail on our objectives, scope, and methodology.

We conducted this performance audit from June 2018 to February 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

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<sup>4</sup>The Foreign Procurement Group is a consortium of 46 member countries that purchase U.S. defense items and services through FMS.

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sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

The FMS program, which transfers defense articles and services to international partners and organizations, is essentially an acquisition process through which the U.S. government procures military equipment, training, and other services on behalf of foreign customers.<sup>5</sup> Multiple organizations have a role in the FMS program. The Department of State has overall responsibility for the program, including approving what defense items and services can be sold to specific countries. DOD administers the FMS program and manages the procurements executed within the military departments on behalf of foreign governments. Within DOD, DSCA carries out key functions such as supporting development of policy for FMS. The military departments carry out the day-to-day implementation of FMS procurements which can include providing price and availability data at the customer's request.

Typically, defense items—such as weapon systems—made available for transfer or sale to foreign customers are systems that have completed operational testing and are entering or have entered full rate production. In addition, DOD also sells non-standard items, which are defined as items that DOD does not currently manage and may include items that (1) are commercially available, (2) DOD previously purchased and have since been retired, or (3) were purchased in a different configuration for DOD components. For example, a customer may express interest in buying tanks that DOD no longer buys for its own needs. A customer may also express interest in buying a tank that DOD currently procures but

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<sup>5</sup> The Arms Export Control Act authorizes the sale of defense articles and services to eligible foreign customers under the FMS program, which is one of multiple security cooperation programs that provide for the transfer of defense articles and services to foreign governments. Other security cooperation programs permit foreign governments to procure items directly from industry through a direct commercial sale without the assistance of the U.S. government. In addition, the Foreign Military Financing program provides funding to eligible partner nations to purchase defense articles, services, and training through FMS or, for a limited number of countries, through direct commercial contracts. Further, the Excess Defense Articles program allows partner nations to purchase equipment no longer required by the U.S. government at a reduced price.

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with a radio communications configuration that is different from what DOD uses.

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## FMS Price and Availability Process

A single DOD entity may not have full responsibility for all aspects of responding to a foreign customer's request to purchase U.S. defense items and services. Under DSCA policy, FMS procurements must generally be managed at "no cost" or "no profit" to the U.S. government. DOD's work related to developing price and availability data and other FMS operations is generally paid for through the administrative charges collected from foreign customers. Depending on the complexity of the customer's request, coordination within and across DOD components may be necessary to obtain complete information on pricing and availability. DOD may also need to coordinate with defense contractors who ultimately develop and provide the equipment or services.

The FMS process generally begins when a foreign government submits a letter of request to the Department of State or DOD to purchase defense articles or services. In the letter of request, the foreign customer may express interest in obtaining preliminary price and availability data for the capabilities it seeks. While DOD describes price and availability data as rough order of magnitude estimates, DSCA's guidance does not define the precision of these estimates. According to DOD, FMS price and availability data are non-binding estimates for the defense items and services and are not intended to be budget-quality estimates. Requests for price and availability data can signal to DOD and defense contractors the potential for future sales. DOD and contractors may also draw upon these requests to forecast staffing needs and production line availability.

DOD security cooperation organizations working in U.S. embassies around the world can assist potential customers with defining and refining their requirements prior to submitting a request for price and availability data. The security cooperation organizations engage in this early coordination to help customers articulate their capability needs. This early coordination also gives DOD components advance notice of upcoming

requests so they can initiate technology security and foreign disclosure processes for the timely release of information.<sup>6</sup>

Requests for price and availability data represent an optional step in the process. Customers may forgo the price and availability process and instead submit a formal assistance request for a letter of offer and acceptance, which when signed by the customer and U.S. government becomes an executable FMS case. Figure 1 illustrates where the option to request price and availability occurs in the overall FMS process.

**Figure 1: Illustration of Optional Price and Availability (P&A) Step within the Foreign Military Sales Process**



Source: GAO analysis of Department of Defense information. | GAO-19-214

## DOD Is Reconsidering Options to Implement Recent Legislative Change for FMS Price and Availability Process

The National Defense Authorization Act for Fiscal Year 2017 required DOD to establish a process for defense contractors to provide input on any differences regarding the appropriateness of government price and availability data prior to delivery of formal responses to customers.<sup>7</sup> In response, DSCA issued a policy memorandum in October 2018 that was rescinded 2 months later due to concerns about the sensitivity of information to be shared with contractors. The policy memorandum had instructed DOD components to formally request rough order of magnitude estimates from the prime defense contractor if (1) the total value of the

<sup>6</sup>These processes include, for example, evaluation of the disclosure of advanced technologies and classified information relating to defense articles and services in accordance with applicable policies and regulations.

<sup>7</sup>Pub. L. No. 114-328, § 1297 (2016).

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primary article or service requested exceeds \$50 million, and (2) the customer has a preference for a non-competitive sole source acquisition or only a single source exists for the primary defense item. Additionally, the memorandum stated that DOD components will allow the prime contractor 5 business days to provide feedback on the appropriateness of the estimate for its items that is included in the price and availability response prior to the customer receiving this response. The memorandum had established a formal process to obtain contractor feedback and resolve issues that may occur, such as differences between the program office's and prime contractors' estimates, and emphasized the importance of being aware of program deadlines when following the process to coordinate with contractors. According to a DSCA official, this new policy would have helped alleviate industry concerns about how DOD incorporates estimates provided by industry to develop price and availability responses provided to foreign customers. However, according to DSCA officials, when implementing the process, DOD found that the potential level of detail and precision in price and availability estimates could provide an unfair competitive advantage to contractors coordinating with DOD on price and availability responses to foreign customers. As discussed in further detail later in the report, in some instances we found price and availability estimates DOD offered included more precise information than rough order of magnitude estimates. According to DSCA officials, such information could offer the contractor insight into the government's pricing methodologies. DSCA subsequently rescinded the October 2018 policy memorandum. DSCA plans to conduct a 120-day review to reassess options to find a solution, if any, on what information can be shared with contractors to satisfy the legal requirement to obtain contractor input and feedback on price and availability estimates before DOD responds to customers.

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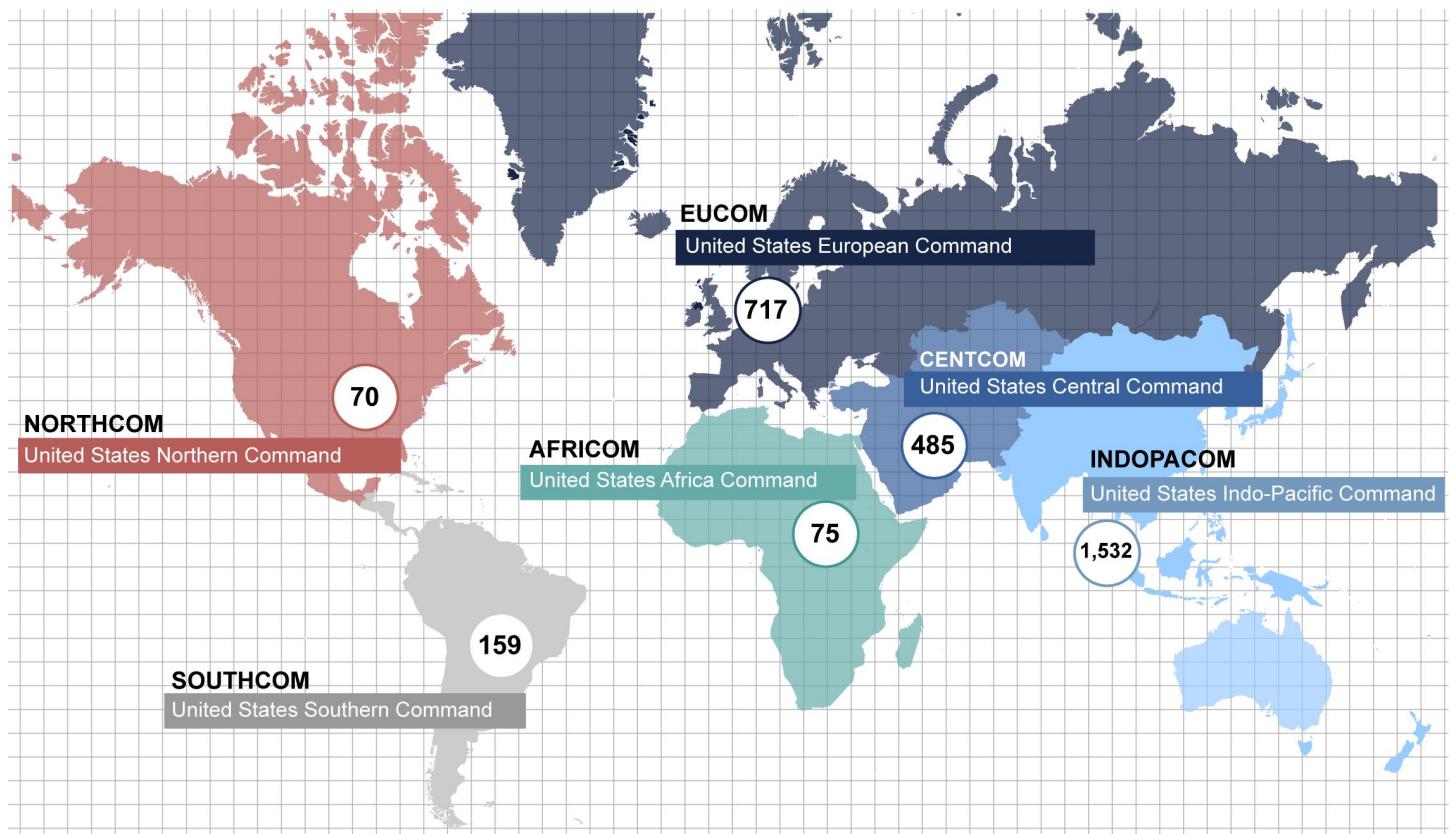
## DOD Received about 3,000 Requests for Price and Availability Data over the Past 5 Years

From fiscal years 2014 through 2018, DOD reported receiving 3,038 requests for price and availability data from foreign customers from 93 countries and the North Atlantic Treaty Organization. Foreign customer requests included services and items such as training and support services for weapon systems, missiles and ammunition, aircraft, and communication equipment. We found that most requests came from the same foreign customers. Specifically, 10 customers accounted for 56 percent of requests, with one customer accounting for 28 percent of all

requests during the 5-year period within our review. Customers in the Indo-Pacific region accounted for the largest share of requests, as shown in figure 2.

**Figure 2: Number of Requests DOD Received for Foreign Military Sales Price and Availability Data by Region, Fiscal Years 2014 through 2018**

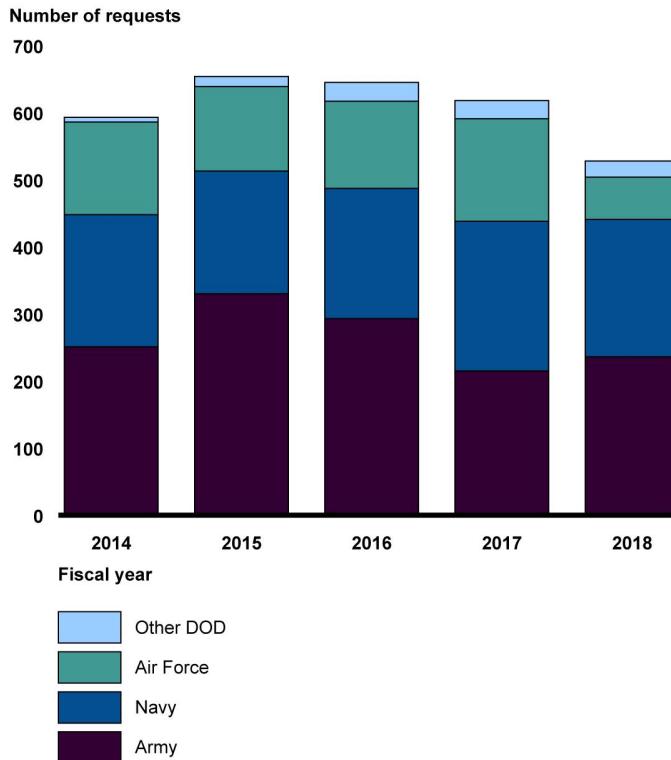
Not all countries in each region submitted a price and availability request.



Source: GAO analysis of Department of Defense (DOD) data. | GAO-19-214

Among DOD components, the military departments—Army, Navy, and Air Force—received almost all price and availability requests, as shown in figure 3. The Army received slightly more requests over the 5-year period, closely followed by the Navy.

**Figure 3: Requests for Foreign Military Sales Price and Availability Data DOD Received by Component, Fiscal Years 2014 through 2018**



Source: GAO analysis of Department of Defense (DOD) information. | GAO-19-214

Note: Other DOD components include the Defense Threat Reduction Agency, Defense Information Systems Agency, Defense Logistics Agency, Missile Defense Agency, and National Security Agency.

Foreign customers we obtained information from noted that they request price and availability data to inform their acquisition strategy, obtain a sense of affordability, and for budget planning. For example, when considering potential acquisition strategies, some customers may request data for different options, variants, or quantities of similar items or services, resulting in multiple requests for price and availability data to inform a potential purchase.<sup>8</sup> In cases when a customer is interested in procuring a specific item, the customer may request data to obtain information about prices and lead times to determine affordability. The

<sup>8</sup>According to DSCA and military department officials, in some cases, DOD may provide multiple responses; in other cases, one response may contain information that addresses multiple scenarios.

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customer may also request the data when considering whether to purchase from the United States or from foreign countries.

Requesting price and availability data can also provide foreign customers with information on whether the U.S. government will make the requested defense item or service available for sale. While preliminary estimates are not an official acknowledgement that the item or service will be made available to the customer, the request can trigger a U.S. government review that includes application of policies that govern the release of certain technologies or systems and a discussion with the customer about the item or service. In some cases, customers can receive responses with partial information if some requested items are not available for release.

DOD does not collect data on which customers' requests for price and availability data resulted in a formal request to purchase defense items or services under FMS. Army security assistance officials told us it can take years between when price and availability data are provided and when a customer submits a request for a letter of offer and acceptance, if at all. For their part, customers we obtained information from noted that there may be numerous reasons for why they might choose not to pursue a potential sale. For example, the item or service could not be made available within a timeframe to meet their needs; the overall capability was not affordable; or price and availability estimates were higher than estimates from other foreign sources.

The military departments do not consistently track information on the status of responses sent to foreign customers. We found the Navy and Army generally captured the status of a response in the system, identifying when a response is in development, has been sent to the customer, or has been canceled but, according to security assistance officials, this information may not be entered consistently.<sup>9</sup> In addition, the Air Force does not generally update the status of a response in the system. Further, Air Force security assistance officials told us the department does not update data in the system to reflect that the Air Force provided price and availability data to the customer. According to DSCA and military department officials, there is no requirement that DOD components record when a response is sent to a customer. A DSCA official told us that DSCA does not have a specific need to monitor the

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<sup>9</sup>According to DSCA and military department officials, DOD cancels some requests because customers choose to withdraw the request or decide to proceed with a formal request for assistance.

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status of price and availability responses, in part because these are not formal offers, and DOD prioritizes data collection for formal FMS cases—cases for which a signed agreement between the U.S. government and foreign customer is in place.

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## DOD’s Guidance Allows for Flexibility in Developing Price and Availability Data and Reflects Leading Practices for Using Quality Information

DSCA has established DOD-wide guidance—the Security Assistance Management Manual—for responding to foreign customers’ requests for information on defense items and services available for purchase through the FMS program. The manual includes some guidance on developing, documenting, and communicating price and availability data to foreign customers, but largely pertains to a customer’s request for a letter of offer and acceptance with the intent to buy. Security assistance officials from across the military departments told us they rely on the manual to guide their efforts throughout the price and availability process, and that DSCA’s guidance provides a framework for the process and is not always prescriptive, allowing military departments latitude in how they implement it. DSCA and military department officials we spoke with said that a flexible process is needed to account for various circumstances specific to each request.<sup>10</sup> The price and availability process outlined in guidance and described by DSCA and military department officials involves input from numerous organizations within and external to DOD, as shown in figure 4. The guidance states the process should be completed within 45 days.

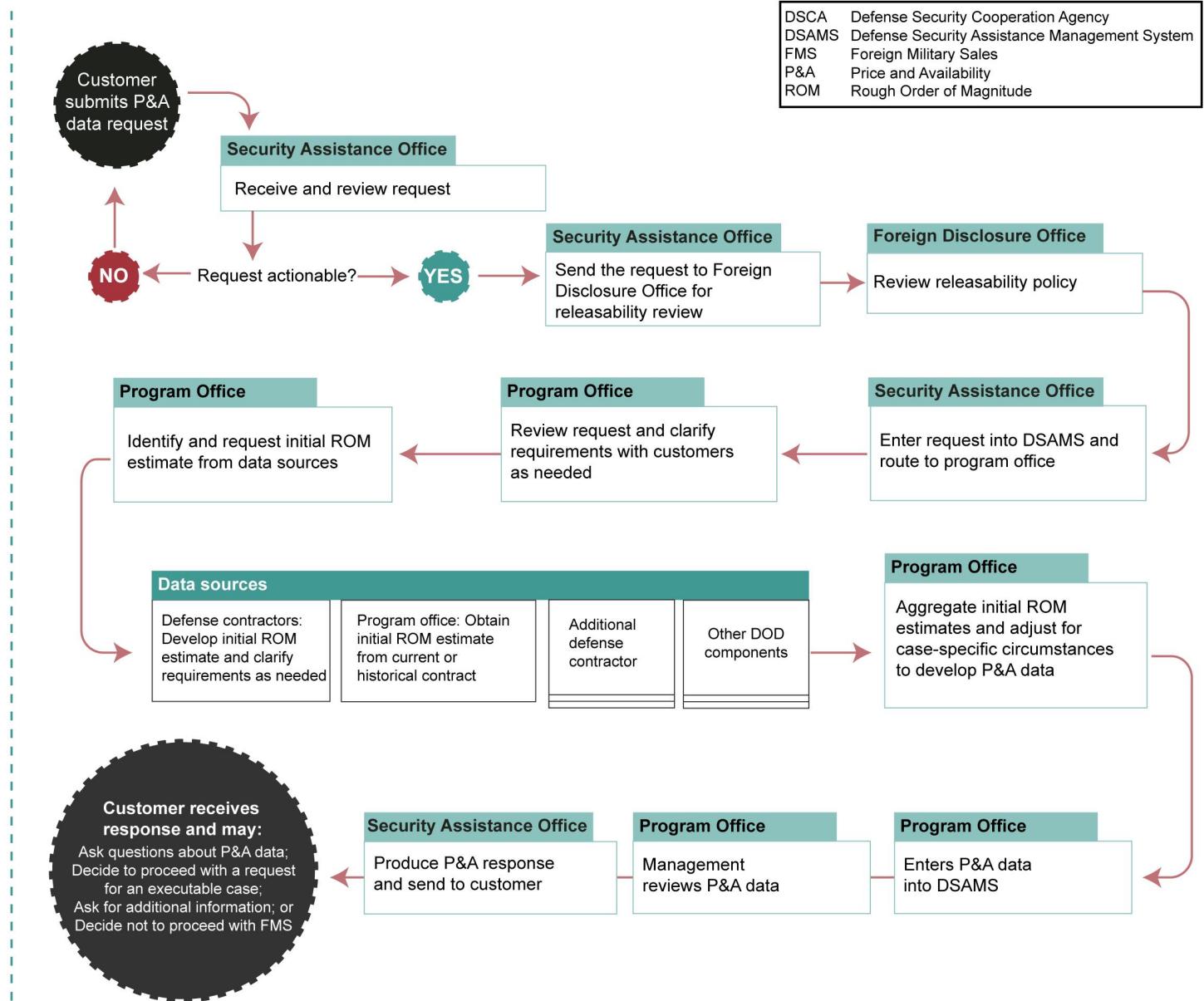
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<sup>10</sup>The military departments also have guidance for the process that generally reflects DSCA’s guidance and in some cases provides more detail. For example, Navy and Air Force guidance calls for security assistance officials to review price and availability responses prior to providing the data to foreign customers.

**Figure 4: Illustration of Process to Develop Foreign Military Sales Price and Availability Data**

Actual steps may vary, for example, depending on the practices of the DOD component implementing the process.

**45 day timeframe**



Source: GAO analysis of Department of Defense (DOD) information. | GAO-19-214

Note: Program office refers to the organization within a DOD component that is responsible for developing the price and availability data.

**Internal Control Standards: Information and Communication**

Internal control standards prescribed for federal agencies call for management to use and communicate quality information to achieve an entity's objectives.

**Information and Communication key attributes include:**

Identifying information requirements

Obtaining relevant and reliable data from internal and external sources in a timely manner; and

Processing data into quality information

Source: GAO. | GAO-19-214

Generally, we found that DSCA's guidance reflected attributes conducive to using quality information as called for by federal internal control standards.<sup>11</sup> For example, the standards call for agencies to define information requirements and obtain relevant data from reliable sources. DOD's guidance reflects this, stating that price and availability data should serve as rough order of magnitude estimates of the cost and availability of defense items or services and are for rough-order planning purposes. The guidance also

- instructs officials to assess whether a foreign customer's request contains the necessary information to develop price and availability data, such as the major item or service, quantity, anticipated delivery schedule, and other specifications;
- suggests that price and availability data also provide customers with information about costs for not only buying equipment but also the related operation and sustainment costs;
- assumes responses will include standard items—nonstandard items require DSCA approval;
- identifies relevant data sources that the military departments can consult to develop price and availability data, such as last contract award, stock price, or information from defense contractors;<sup>12</sup>
- states that military departments and DSCA should use the Defense Security Assistance Management System to prepare responses to price and availability requests;
- suggests that data should be itemized by separating main equipment from training, technical publication, transportation costs, and other elements, as applicable; and
- states that responses should be developed and communicated to customers within 45 days from when DOD receives the request.

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## In Selected Examples, DOD Included Comprehensive Data on Ownership Costs

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<sup>11</sup>GAO-14-704G.

<sup>12</sup>Guidance also notes that DOD components should adjust data sources to account for inflation.

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## When Developing Price and Availability Responses

When selling defense items and services to foreign customers, military department officials indicated that they strive to offer a complete and sustainable capability, referred to as the total package approach. Using this approach, DOD takes into account the related support, such as training, logistics, spare parts, warranties, contractor support, and other considerations necessary for operating and sustaining the defense items or services being purchased. The total package approach represents the initial and follow-on cost of owning and supporting the capability. For example, a DOD program official may develop a cost estimate for the capability, including several years of technical support for maintaining it. DOD may also provide a customer with cost estimates for maintaining the capability over the course of its expected lifetime.

Specifically, in the five examples we reviewed, we found that DOD officials generally used a total package approach when developing price and availability data. For example, military department officials developed price and availability data that not only included the items and services requested by the customer, but also included rough order of magnitude estimates for additional costs to reflect the expected ownership costs. Ownership costs may include development, procurement, operation, and sustainment costs for the defense item, as part of a total package approach. The timeframe of ownership costs provided may vary. According to a DSCA official, ownership costs generally cover the first 2 years. In four of the five cases we reviewed, the customer requested a capability and, in response, the program office provided estimates for not only the equipment but also the support needed to achieve the desired capability ranging from one week of training to five years of technical support. For example, in one case, a customer requested data for a complex naval weapon system that they had not previously used. Navy program officials provided estimates for the system, spare parts, training, and other items as requested by the customer. Program officials also included estimates on radio navigation equipment and software that are essential for the system to function as intended, but were not part of the customer's initial request. Officials stated that they included these additional costs to give the customer a comprehensive view of the costs to acquire, operate, and maintain the weapon system. In the fifth case, program officials told us they did not have to include training or support as this customer was replacing missiles in their inventory, previously purchased through FMS. However, in considering the foreign customer's

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ownership costs, the officials said they included costs for containers for storing the missiles.

For the selected examples, program officials obtained data from defense contractors and previous sales, adjusting estimates from data sources to ensure the price and availability estimate reflected what the customer could expect to pay for the item or service—initial and follow-on cost of owning and supporting the capability—if the customer decided to proceed with the purchase. Defense contractors responsible for providing data for four of the five examples told us they consider the quantity and specific requirements of the request, such as training, spares, and support; as well as inflation and anticipated production and delivery schedules in some cases. We found that for the selected examples program officials adjusted estimates from contractors and other data sources for a number of reasons, such as to account for potential changes in production schedules and adding program management support provided by the U.S. government to administer system upgrades. By accounting for these likely costs, program officials stated that they were providing the customer with estimates that would more closely reflect expected costs if the customer proceeded with the sale. For example:

- In two of the responses we reviewed for missiles and communication systems, Navy and Air Force officials increased contractors' estimates, in part, to account for possible changes to production plans. In the Navy response, for example, program officials increased the contractor's estimate for the missiles by approximately 14 percent. Officials told us this was to account for possible changes in the production schedule and quantity. Contractor representatives told us that their estimate was based on a specific number of missiles being produced in a certain production lot. Program officials told us that the customer would not likely have a signed agreement in place to receive missiles from that specific production lot. According to program officials, this means the price per missile could be higher than forecasted in the contractor's initial estimate because there may be fewer quantities in production, resulting in fixed production costs spread among fewer missiles.
- In an Army response we reviewed for non-standard upgrades to several hundred tanks, the program official used estimates provided by the contractor to develop the price and availability data. These tank upgrades are considered non-standard because the U.S. government no longer uses these tanks. In light of this, the program official included costs for program management support provided by the U.S. government because he said the magnitude of the program would

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likely require an Army office to execute and manage the upgrades, which is projected to last up to 10 years.

- In an Air Force response we reviewed for a warning system, program officials considered historical data from similar DOD contracts. The program officials increased the price by \$2.4 million dollars from past procurements based on the customer's request to add a new full-time onsite engineer to support the warning system. This price also included costs for housing, living allowance, and travel expenses.

Further, in our review of selected cases, we found that program officials may include other charges in price and availability data, such as

- nonrecurring costs that are unique one-time program-wide expenditures for certain major defense equipment sold under the FMS program;<sup>13</sup>
- a contract administration charge—generally, 1.2 percent of the value of procured items—for services such as quality assurance and inspection;
- transportation costs for delivery of the item, which are generally calculated based on rates established by DSCA; and
- an administrative charge—currently set at 3.2 percent of the total value of the sale to recover civilian employee salaries and operational costs for administering the FMS acquisition.<sup>14</sup>

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## Various Factors Can Influence DOD's Approach and the Timeliness of DOD's Responses

Military department officials told us that various factors influence the level of effort and information involved in developing price and availability data, some of which may also affect how long a response takes and whether the 45-day timeframe suggested by DSCA's guidance is achieved. When a foreign customer requests price and availability data, DOD and defense contractors, if involved, expend time and resources to provide a

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<sup>13</sup>Nonrecurring costs include research, development, and one-time production costs, such as expenses for testing equipment. The Arms Export Control Act permits these costs to be waived under certain circumstances.

<sup>14</sup>The administrative charge was previously set at 3.5 percent as of November 1, 2012, but decreased to 3.2 percent effective June 1, 2018. The price and availability examples we reviewed were subject to the 3.5 percent administrative charge.

response, all without any certainty that a sale will materialize. As such, DOD officials and defense contractors determine what level of response is appropriate, given the nature of the customer's request and whether it includes non-standard items or items that require customization, among other things. DSCA and Navy program officials said customers are interested in receiving price and availability responses quickly and recognize that timeliness is an area of concern with the FMS process, in general.<sup>15</sup> Over half of the 12 foreign customers we obtained information from noted that they are concerned with the length of time DOD's responses can take. Lengthy response times could result in customers missing opportunities to consider potential requests in upcoming budget cycles. Several customers communicated that some responses took considerably longer than 45 days, with some taking anywhere from 6 to 12 months. Among the five examples we reviewed, responses took from 45 to 320 days, as shown in table 1.

**Table 1: DOD Response Timeframes for Selected Foreign Military Sales (FMS) Price and Availability Requests**

Description of request	Response timeframe (days)
Equipment and services for 1 warning system	45
4 anti-ship missiles	130
Upgrades for up to 1,400 tanks	250
10 naval weapon systems	252
37 communication systems	320

Source: GAO analysis of Department of Defense (DOD) information. | GAO-19-214

Program and security assistance officials we interviewed told us they consider the following factors:

- **Customer interest and commitment.** Insight into the degree of customer commitment to purchase through FMS may influence the time and resources military departments expend on developing a price and availability response. For example, Air Force security assistance officials told us that they may develop a more detailed

<sup>15</sup>We have previously reported on the challenges DSCA faces in meeting its timeframes to be responsive to foreign customers and recommended DOD take steps to measure timeliness and improve the overall efficiency of FMS processes. GAO, *Foreign Military Sales: Expanding Use of Tools to Sufficiently Define Requirements Could Enable More Timely Acquisitions*, GAO-17-682 (Washington, D.C.: Aug. 14, 2017); and *Foreign Military Sales: DOD Needs to Improve Its Use of Performance Information to Manage the Program*, GAO-17-703 (Washington, D.C.: Aug. 22, 2017).

response if advised by in-country personnel that a request for price and availability data will likely become a request for an actual purchase.

- **Clarity and completeness of customer's request.** Customers may submit requests that lack the clarity and details needed to develop accurate data and estimate delivery timeframes. Several military department officials told us that when reviewing the customer's requests for price and availability data, they often have discussions with customers to clarify requirements and in some cases estimated delivery schedules before developing a response. Defining the customer's requirement—even at this early stage—can be an iterative process that requires multiple interactions between the foreign customer and DOD officials. In one of the examples we reviewed, the defense contractor was also involved. These discussions to clarify the customer's requirements can prolong the process, according to several program officials.
- **Existing policy to release price and availability data.** The U.S. government's relationship with the foreign customer and the type of defense item or service being requested—such as a weapon system with protected critical technologies versus medical evacuation equipment—can influence the length of time to obtain necessary approvals for the release of price and availability data, according to Navy program and Air Force security assistance officials. Requests for price and availability data may spur the U.S. government to review the current list of countries that have access to particular critical technologies, as shown in one Navy response to a request for a ballistic missile defense system. Initially, the Navy's Foreign Disclosure Office determined the system would not be available for potential release and the Navy program office excluded it from the price and availability data. About a year later, according to Navy officials, following a change in U.S. policy, the Foreign Disclosure Office approved the release of price and availability data for the system and the Navy included it in a subsequent price and availability response.
- **Complexity of the request.** Requests for a non-standard system, integration with foreign components, or a complex system may cause program offices to spend additional resources and time to develop price and availability data. For example, in response to a request for a complex weapon system to be integrated into a foreign customer's ship, Navy program officials said that they needed several months to develop price and availability data due to the complexity of this request, which required program officials to work with multiple

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contractors and DOD entities to develop price and availability data. In contrast, Army security assistance officials said that they generally aim to conserve resources and time by developing price and availability data based on standard items, even in instances when customers may request non-standard or complex systems.<sup>16</sup>

- **Existing workload.** The volume of requests and competing priorities can also affect the timeliness and the level of effort applied to the response. For example, Army security assistance officials stated that they may prioritize a customer's request for a letter of offer and acceptance, which initiates an executable FMS case, over a request for price and availability data because there are not resources available to do both at the same time.
- **Availability of requested item or service.** When obtaining the items from defense contractors, for example, military department officials consider production schedule and quantity—both of which require additional assumptions to estimate unknown costs. For items that are in DOD's inventory and will not be replaced, officials are to take into account the item's actual value when developing price and availability data, according to a DSCA publication.
- **External factors.** In cases where a customer is requesting price and availability data to decide whether to purchase defense items or services from the United States or another foreign government, military departments may expend additional resources to develop detailed price and availability data. For example, a Navy security assistance official stated that when officials are aware the customer plans to hold competitions between U.S. and foreign defense contractors, they solicit more detailed technical and cost information from defense contractors to present a competitive estimate.

Individually and combined, these factors, as well as the overall process, can influence response times.

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## Agency Comments

We provided a draft of this report to the Department of Defense (DOD) for comment. DOD's response letter is reproduced in appendix II. DOD

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<sup>16</sup>The Army example we reviewed used a total package approach to developing price and availability data, including rough order of magnitude estimates for logistics, engineering, and spares.

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separately provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees and the Acting Secretary of Defense. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4841 or [makm@gao.gov](mailto:makm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Marie A. Mak  
Director, Contracting and National Security Acquisitions

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*List of Committees*

The Honorable James M. Inhofe  
Chairman  
The Honorable Jack Reed  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable James E. Risch  
Chairman  
The Honorable Robert Menendez  
Ranking Member  
Committee on Foreign Relations  
United States Senate

The Honorable Adam Smith  
Chairman  
The Honorable Mac Thornberry  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable Eliot L. Engel  
Chairman  
The Honorable Michael T. McCaul  
Ranking Member  
Committee on Foreign Affairs  
House of Representatives

# **Appendix I: Objectives, Scope, and Methodology**

In this report, we (1) described foreign military sales (FMS) price and availability requests Department of Defense (DOD) received from fiscal years 2014 through 2018, (2) assessed DOD's guidance on developing price and availability data, (3) described how DOD develops price and availability data for the requested capability, and (4) identified factors that can influence the timeliness for DOD to provide price and availability data to the customer.<sup>1</sup>

To describe requests for price and availability data DOD received from foreign customers, we analyzed data from the Defense Security Cooperation Agency (DSCA). We reviewed data for fiscal years 2014 through 2018, the most recent 5-year period available. DSCA and other DOD components, including the military departments, use the Defense Security Assistance Management System as a workflow resource to process price and availability data requests, among other things. The system does not track which of the estimates result in a letter of offer and acceptance. To assess the reliability of Defense Security Assistance Management System data, we tested for missing data, duplicates, inconsistent coding, and compared data for five examples to price and availability documentation we received from the Army, Navy, and Air Force. We interviewed DSCA officials responsible for the data system to identify the quality controls in place to help ensure the data are accurate

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<sup>1</sup>The fiscal year 2018 National Defense Authorization Act, which mandated this work, also included two additional topics for review. However, due to lack of available data we were unable to conduct work in these areas. Specifically, the mandate included a provision that GAO compare the magnitude of cost differences between FMS price and availability data and direct commercial sales early cost estimates. Direct commercial sales are sales in which U.S. companies are licensed to export directly to foreign customers with no involvement from the U.S. government in the procurement process. We were unable to conduct this work because direct commercial sales data are confidential between the contractor and a customer. In addition, the mandate included a provision that we identify the extent to which DOD has identified instances where discrepancies in pricing for major items or services resulted in the loss of a foreign military sale for a United States commercial entity. According to DOD officials, the department does not collect data that identifies the reasons why a foreign customer may choose to not proceed with an FMS sale after receiving price and availability data because they have not identified a need to do so.

and reliable and discussed military department practices for using the system with security assistance officials. We found that generally the documentation for the five selected preliminary estimates matched the data DSCA provided and requests matched across multiple datasets we received from DSCA. Based on these steps, we determined the data were sufficiently reliable to report examples of the types of items and services requested and the number of requests DOD received by region, DOD component, and foreign customer. We did not report the number of responses DOD provided for these requests or how long it took DOD to provide a response to foreign customers using this data because military departments do not consistently update information in the Defense Security Assistance Management System to track the status of responses or dates when a response is provided to the customer.

To assess available guidance, we reviewed DSCA and Army, Navy, and Air Force guidance for developing preliminary estimates in response to requests for price and availability data. We compared the DOD-wide guidance—the Security Assistance Management Manual—to the *Standards for Internal Control in the Federal Government*, which call for agencies to use quality information collected from relevant and reliable sources.<sup>2</sup> Specifically, we reviewed the guidance to determine if it contained attributes that contribute to quality information such as identifying the information requirements and relevant data sources needed to develop the price and availability data.

To describe factors that DOD considers when developing price and availability data and illustrate how these factors influence the process, we selected a non-generalizable sample of five responses from fiscal year 2017 data provided by the military departments. Fiscal year 2017 represented the last complete year of data available when we selected this sample. Because the sample is not generalizable, we cannot report whether practices used among the responses are used across DOD for all price and availability responses. However, these examples provide useful insight into the process and the assumptions used when developing price and availability data. We selected the five examples—one from Army, two from Navy, two from Air Force—to obtain a variety of responses, including median and large case values and a median response time. We determined there were inconsistencies in the data

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<sup>2</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

provided, but that the data were sufficient for our purposes of selecting a non-generalizable sample from across the military departments.

For each selected example, we collected and analyzed the letter of request, price and availability data, DOD's response to the customer, supporting documentation if provided such as clarification of the customer's request, and data collected from defense contractors or program offices. We reviewed the assumptions and factors used in developing the data and the various elements that make up the data, such as administrative charges and costs for training and spares. We interviewed relevant DOD security assistance and program officials, and defense contractor representatives to understand the context and decisions made in developing, documenting, and communicating the price and availability data.

To identify the factors that can influence the timeliness of responses, we interviewed officials from DSCA and the Army, Navy, and Air Force. We also obtained information from defense contractors and foreign customers who, as stakeholders in the FMS price and availability process, have broad insights and perspectives on the process. To gather input from foreign customers, we interviewed representatives from the Foreign Procurement Group who also solicited information from its consortium of 46 member countries on our behalf.<sup>3</sup> We received responses from 12 countries—one of which was also a customer for one of the examples included in our review. To obtain contractor's perspectives, we gathered information from five companies through interviews and attended a meeting hosted by the National Defense Industrial Association.<sup>4</sup> Three of the companies we obtained information from were involved in providing cost and schedule data for four of the examples in our sample. The information we obtained from these foreign customers and defense contractors is not generalizable to all foreign customers and defense contractors. As mentioned previously, we did not assess the timeliness of DOD's responses because DOD does not consistently track when price and availability data responses are provided to customers in the Defense Security Assistance Management System. However, the information we

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<sup>3</sup>The Foreign Procurement Group is a consortium of 46 member countries that purchase U.S. defense items and services through FMS.

<sup>4</sup>The National Defense Industrial Association includes membership of 1,600 companies and represents a range of large and small business concerns related to defense.

gathered for the five examples in our sample provided some insight about how long it took DOD to provide a response to the customer.

We conducted this performance audit from June 2018 to February 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Appendix II: Comments from the Department of Defense**

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**Appendix II: Comments from the Department  
of Defense**

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**DEFENSE SECURITY COOPERATION AGENCY**  
201 12TH STREET SOUTH, STE 203  
ARLINGTON, VA 22202-5408

JAN 23 2019

Ms. Marie Mak  
Director, Contracting and National Security  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Mak:

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-19-214, "FOREIGN MILITARY SALES: Observations on DoD's Approach to Developing Price and Availability Estimates for Foreign Customers," dated December 12, 2018 (GAO Code 102858).

The Department acknowledges receipt of the draft report and has no further comments to add.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles W. Hooper".

Charles W. Hooper  
Lieutenant General, USA  
Director



# **Appendix III: GAO Contact and Staff Acknowledgments**

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## **GAO Contact**

Marie A. Mak, (202) 512-4841 or [makm@gao.gov](mailto:makm@gao.gov)

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## **Staff Acknowledgments**

In addition to the contact named above, Candice Wright (Assistant Director) and Leslie Ashton (Analyst-in-Charge) managed this review. Bruna Oliveira, Carmen Yeung, Kurt Gurka, Robin Wilson, and Emily Bond made significant contributions to the work.

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# Appendix IV: Accessible Data

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## Data Table

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**Accessible Data for Figure 3: Requests for Foreign Military Sales Price and Availability Data DOD Received by Component, Fiscal Years 2014 through 2018**

Fiscal year	Army	Navy	Air Force	Other DOD
2014	251	197	138	7
2015	330	183	126	15
2016	293	194	130	28
2017	215	223	153	27
2018	236	205	63	24

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## Agency Comment Letter

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### Accessible Text for Appendix II Comments from the Department of Defense

JAN 23 2019

Ms. Marie Mak

Director, Contracting and National Security

U.S. Government Accountability Office

441 G Street, NW

Washington, DC 20548

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The Department acknowledges receipt of the draft report and has no further comments to add.

Sincerely,

Charles W. Hooper

Lieutenant General, USA

Director

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