



# FOREIGN MILITARY SALES

## DOD Should Further Strengthen Financial Oversight of Transportation Fees

Accessible Version

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#### Why GAO Did This Study

From fiscal years 2007 to 2018, DOD collected about \$2.3 billion in fees into the FMS transportation accounts and expended about \$1.9 billion from the accounts. Foreign partners can pay DOD a fee to cover the costs of DOD transporting items. Fees are collected into transportation accounts in the FMS Trust Fund, and expenditures for related transportation are paid from those accounts. DSCA is responsible for financial oversight of the accounts, and DFAS—a service provider to DSCA—also has some accounting responsibilities related to the accounts.

House Report 114-537 and Senate Report 114-255 included provisions that GAO review DSCA's management of FMS fees. This report examines (1) DSCA's oversight of DOD components' activities that affect fees collected into the FMS transportation accounts, and (2) DSCA's financial oversight of expenditures from the FMS transportation accounts. GAO reviewed DOD guidance, analyzed 3 months of DOD expenditure data, and interviewed DOD officials.

#### What GAO Recommends

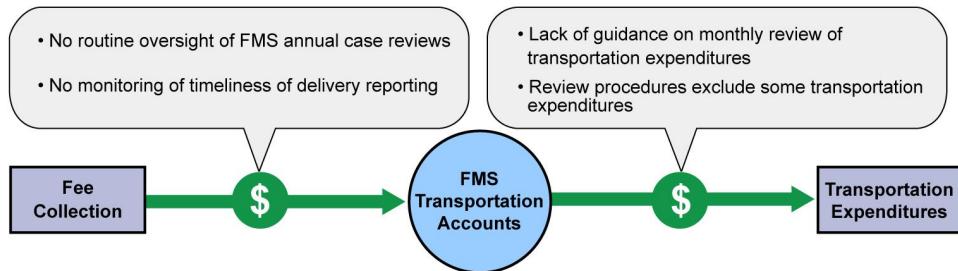
GAO is making five recommendations to DOD to strengthen financial oversight of the FMS transportation accounts, including two recommendations to strengthen DSCA's oversight of fees collected into the accounts, and three recommendations to strengthen DSCA's and DFAS's oversight of expenditures from the transportation accounts. DOD concurred with all of the recommendations and identified actions it plans to take to address them.

View GAO-20-386. For more information, contact Jason Bair at (202) 512-6881 or [BairJ@gao.gov](mailto:BairJ@gao.gov).

#### What GAO Found

The Foreign Military Sales (FMS) program is one of the primary ways the U.S. government supports its foreign partners, by annually selling them billions of dollars of military equipment and services. However, gaps in the Defense Security Cooperation Agency's (DSCA) oversight of Department of Defense (DOD) components' activities increase the risk that fees collected into the FMS transportation accounts may be inaccurate. While DSCA requires components to perform annual reviews of FMS cases to verify the accuracy of transportation fees collected, DSCA does not routinely oversee these reviews. Additionally, DSCA lacks oversight of the timeliness of DOD components' reporting of deliveries, which should occur within 30 days. DSCA officials indicated that they are developing guidance and processes to help address these challenges, but had not completed them as of February 2020.

#### Gaps in Financial Oversight of the Foreign Military Sales (FMS) Transportation Fee



Source: GAO analysis of Department of Defense documents. | GAO-20-386

DSCA's financial oversight of expenditures from the FMS transportation accounts does not provide reasonable assurance that expenditures are allowable and paid from the correct account. In fiscal year 2016, DSCA established internal guidance for financial oversight of expenditures from the accounts. While that guidance includes a process to review expenditures on a monthly basis, DSCA has not established procedures for conducting that review, including how to analyze expenditure data, or identify and address discrepancies. As a result, DSCA may not review FMS transportation expenditures consistently or identify and address discrepancies. GAO found that approximately 19 percent of expenditures reported to DSCA over a 3-month period in fiscal year 2019 inconsistently identified the DOD component responsible for the transaction. For example, a transaction may indicate that both Navy and Air Force are responsible for the shipment. Further, DSCA has not documented how the Defense Finance and Accounting Service (DFAS) should generate the reports DSCA uses for its review, and DFAS's review of expenditures excludes some expenditures from two DOD components. Without a routine process to review expenditures and correct discrepancies, DSCA cannot provide reasonable assurance that all expenditures are allowable and paid from the correct account, raising the risk of misuse of funds. DSCA officials told GAO that they are developing guidance to help address these challenges, and expect to implement it in 2020.

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#### **Abbreviations**

BPC	Building Partner Capacity
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
DSCA	Defense Security Cooperation Agency
FMR	Financial Management Regulation
FMS	Foreign Military Sales
LOA	Letter of Offer and Acceptance
SAMM	Security Assistance Management Manual
State	Department of State
TRANSCOM	U.S. Transportation Command

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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May 6, 2020

Congressional Committees

The Foreign Military Sales (FMS) program is one of the primary ways the U.S. government provides support to its foreign partners, by annually selling them billions of dollars of defense items and services. These items and services range from fighter jets and integrated air and missile defense systems to combat helmets and training on the use of items. From fiscal years 2007 to 2018, these sales totaled \$472 billion. The Department of State (State) and several components of the Department of Defense (DOD) share responsibility for the program, including the Defense Security Cooperation Agency (DSCA), which directs, administers, and provides guidance related to the program, and the Defense Finance and Accounting Service (DFAS), which performs billing and disbursing functions for the program.

To cover the costs of operating the FMS program, DOD charges purchasers certain overhead fees, including a transportation fee to cover any costs to DOD for transporting items. DOD collects the transportation fee from purchasers into a series of transportation accounts in the FMS trust fund.<sup>1</sup> According to DOD, the FMS program is intended to operate on a “no profit, no loss” basis, meaning that purchasers should not be charged excessive fees and fee revenue should cover the program’s operating costs.<sup>2</sup> From fiscal years 2007 to 2018, the FMS program collected around \$2.3 billion in fees into the FMS transportation accounts, and expended around \$1.9 billion from the accounts.<sup>3</sup> Our 2019 review of

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<sup>1</sup>The FMS trust fund is used to account for payments received from purchasers and disbursements made to implement the FMS program.

<sup>2</sup>The Arms Export Control Act authorizes the FMS program and in section 21(a)(1)(C) states, in part, that DOD may sell defense services from DOD and Coast Guard stocks to any eligible country or international organization if such country or international organization agrees to pay, “in the case of the sale of a defense service, the full cost to the United States Government of furnishing such service.” 22 U.S.C. § 2761(a)(1)(C). According to DSCA, DOD’s transportation of FMS goods for purchasers is a service falling under this provision.

<sup>3</sup>The fee DOD charges the purchaser for each individual shipment need not equal DOD’s costs for transporting that individual shipment, but DOD aims to set fees such that the total amount of fees paid by all FMS purchasers approximately equals the costs to DOD for all shipments over time, according to DOD officials.

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the FMS transportation fee accounts found that DSCA had allowed those account balances to grow substantially in recent years due in part to weaknesses in DSCA's management oversight.<sup>4</sup>

House Report number 114-537<sup>5</sup> and Senate Report number 114-255<sup>6</sup> included provisions for us to, among other things, review DSCA's management and use of fees.<sup>7</sup> This report examines (1) DSCA's oversight of DOD components' activities that affect fees collected into the FMS transportation accounts, and (2) DSCA's financial oversight of expenditures from the FMS transportation accounts.

To examine DSCA's oversight of DOD components' activities that affect fees collected into the FMS transportation accounts, we reviewed DOD's current guidance and regulations related to the FMS transportation fee, as well as other documentation and internal guidance developed by DSCA. We also interviewed DSCA and DFAS officials on their implementation of oversight procedures.

To examine DSCA's financial oversight of expenditures from the FMS transportation accounts, we reviewed DOD's current regulations related to financial oversight and transportation, as well as other documentation and internal guidance developed by DSCA and DFAS. We interviewed DSCA and DFAS officials about their internal guidance for and implementation of oversight procedures for expenditures from the FMS transportation accounts. Additionally, in order to help assess the sufficiency of DSCA's and DFAS's guidance for overseeing expenditures from the FMS transportation accounts, we analyzed 3 months of expenditure data for May through July 2019 for the FMS transportation

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<sup>4</sup>GAO, *Foreign Military Sales: DOD Should Strengthen Oversight of Its Growing Transportation Account Balances*, GAO-19-678 (Washington, D.C.: Sept. 24, 2019).

<sup>5</sup>H. Rept. No. 114-537 at 240. This House Armed Services Committee report accompanied H.R. 4909, a bill to authorize appropriations for fiscal year 2017 for military activities of the DOD and for other purposes.

<sup>6</sup>S. Rept. No. 114-255 at 228. This Senate Armed Services Committee report accompanied S. 2943, which was enacted as the National Defense Authorization Act for Fiscal Year 2017.

<sup>7</sup>We have issued three reports since 2018 on DSCA's oversight of the collection and use of the FMS fees: GAO, *Foreign Military Sales: Controls Should Be Strengthened to Address Substantial Growth in Overhead Account Balances*, GAO-18-401 (Washington, D.C.: May 10, 2018); GAO, *Foreign Military Sales: Financial Oversight of the Use of Overhead Funds Needs Strengthening*, GAO-18-553 (Washington, D.C.: July 30, 2018); and GAO-19-678.

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accounts provided by DFAS. We did not conduct any independent testing of the data to determine whether the amounts reflected correct payments for the related transportation provided.

We conducted this performance audit from May 2019 to May 2020 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.

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## Background

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### Roles and Responsibilities Related to Collecting and Expending Transportation Funds

State reviews and approves FMS purchases, while DOD is responsible for program implementation. DSCA administers the FMS program for DOD, including exercising financial management responsibilities for the FMS trust fund, and DFAS provides DSCA's accounting services for FMS. Additionally, various other DOD components have responsibilities related to collecting and expending transportation funds, as shown in figure 1.

**Figure 1: Various DOD Components Are Involved with Foreign Military Sales Transportation**



Source: GAO analysis of Department of Defense (DOD) information. | GAO-20-386

## Regulations and Guidance for the FMS Program

Several DOD publications provide regulations and guidance for the FMS program, including:

- **DOD Financial Management Regulation (FMR).** Managed by the Under Secretary of Defense (Comptroller), the FMR defines financial management requirements for all DOD components, and states that DSCA administers the FMS program and is responsible for monitoring

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the use of the FMS trust fund.<sup>8</sup> The FMR also states that DOD components should maintain documentation that constitutes a complete audit trail.<sup>9</sup>

- **Defense Transportation Regulation.** Managed by the U.S. Transportation Command (TRANSCOM), the Defense Transportation Regulation defines requirements for the transportation of items within the Defense Transportation System, such as the use of unique identifiers for all shipments and how to use and pay commercial carriers, when applicable.<sup>10</sup>
- **Security Assistance Management Manual (SAMM).** Managed by DSCA, SAMM provides guidance to the DOD components that manage or implement the FMS program.<sup>11</sup>

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## Life Cycle of FMS Purchases

Foreign partners that purchase items and services through the FMS program may use their own funds or, if provided, U.S. funds, such as grants or loans provided through Foreign Military Financing.<sup>12</sup> In addition, some FMS purchases are made using funds appropriated to DOD, State, or other U.S. government agencies for Building Partner Capacity (BPC)

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<sup>8</sup>DOD Financial Management Regulation, DOD 7000.14-R, vol. 15, ch. 3-4.

<sup>9</sup>Additionally, standards for internal control in the federal government call for maintaining supporting documentation for financial transactions. Specifically, management should clearly document internal controls and all transactions in a manner that allows the documentation to be readily available for examination. Further, documentation and records are to be properly managed and maintained. See GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 2014).

<sup>10</sup>Defense Transportation Regulation 4500.9-R, Part II, Cargo Movement. The Defense Transportation System is the portion of worldwide transportation infrastructure that supports DOD's transportation needs. Within TRANSCOM, the Military Surface Deployment and Distribution Command provides transportation by sea, rail, or highway, and the Air Mobility Command provides transportation by air. Contracts between TRANSCOM and commercial carriers provide additional commercial resources through the Defense Transportation System. Additionally, the Military Sealift Command provides a subset of FMS transportation via sealift.

<sup>11</sup>"Security Assistance Management Manual," Defense Security Cooperation Agency, accessed February 5, 2020, <https://samm.dsca.mil>.

<sup>12</sup>Foreign Military Financing is a program that provides financing for eligible U.S. partner countries to purchase U.S. defense articles, services, and training either through nonrepayable grants or direct loans. State determines which countries are eligible for Foreign Military Financing, and DOD implements the program.

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programs.<sup>13</sup> These programs purchase items or services for foreign partners through FMS.<sup>14</sup>

The FMS process begins when an eligible entity requests information on defense articles or services for purchase. The responsible DOD component then prepares a Letter of Offer and Acceptance (LOA), which is the legal instrument used by the U.S. government to sell defense articles to a foreign country or international organization under authorities provided in the Arms Export Control Act. The LOA itemizes the defense articles or services offered and, when implemented, becomes an official tender by the U.S. government. Signed LOAs are referred to as “FMS cases,” and the individual items or services included for purchase in the FMS case are referred to as “case lines.”

Once the LOA is signed, the DOD component responsible for the FMS case then manages the contracting or requisition of the equipment or services specified in the agreement, which are then delivered to the foreign partner. Foreign partners have different options available to them for transporting items they purchase through FMS. Other than when purchasing certain hazardous or sensitive items that must be transported via the Defense Transportation System, foreign partners have the option to arrange for their own transportation of FMS items they purchase—such as using a freight forwarder—for all or part of the transportation needed to reach the final destination. On the other hand, BPC programs use the Defense Transportation System to move all their FMS purchases.

When all items have been delivered, all ordered services have been performed, and no new orders exist or are forthcoming, the DOD component responsible for managing the FMS case may mark it as closed.

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<sup>13</sup>According to the Congressional Research Service, BPC may refer to a broad set of missions, programs, activities, and authorities intended to improve the ability of other nations to achieve security-oriented goals shared with the United States and encompasses, among other things, DOD security cooperation and State security assistance efforts funded with U.S. government appropriations.

<sup>14</sup>According to DOD, they return unused foreign partner funds to the partner and unused BPC funds to the U.S. Treasury.

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## FMS Transportation and Fee Calculation

DOD most commonly calculates the FMS transportation fee using a percentage rate applied to the price of the item.<sup>15</sup> The percentage rate varies depending on the extent of the U.S. government's responsibility for transporting the items purchased, as agreed to between DOD and the foreign partner in the LOA. DOD first determines the estimated transportation fees for shipping FMS purchases based on the terms agreed upon in the LOA. When an item is shipped, the transportation fee is collected from the FMS purchaser's account into the FMS transportation accounts.

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## Payment and Tracking of FMS Shipments

Eight transportation accounts within the FMS trust fund are used to hold transportation fees collected from FMS purchasers' accounts, and to pay FMS transportation bills. Seven separate accounts hold transportation funds for certain larger BPC programs.<sup>16</sup> These seven BPC accounts allow BPC program transportation fee collections and expenditures to be tracked. In addition, one main account holds transportation funds for all foreign partner purchasers and smaller BPC programs.

Individual shipments trigger collections into and expenditures from the FMS transportation accounts. As shown in figure 2, after DOD ships an item and DFAS is notified of that shipment—through a process known as delivery reporting—DFAS moves the amount of the related transportation fee from the FMS country or BPC program account into the main transportation account or corresponding BPC program transportation account and records the amount as a collection.<sup>17</sup> DFAS receives monthly bills that include the costs for FMS transportation, which DFAS pays out

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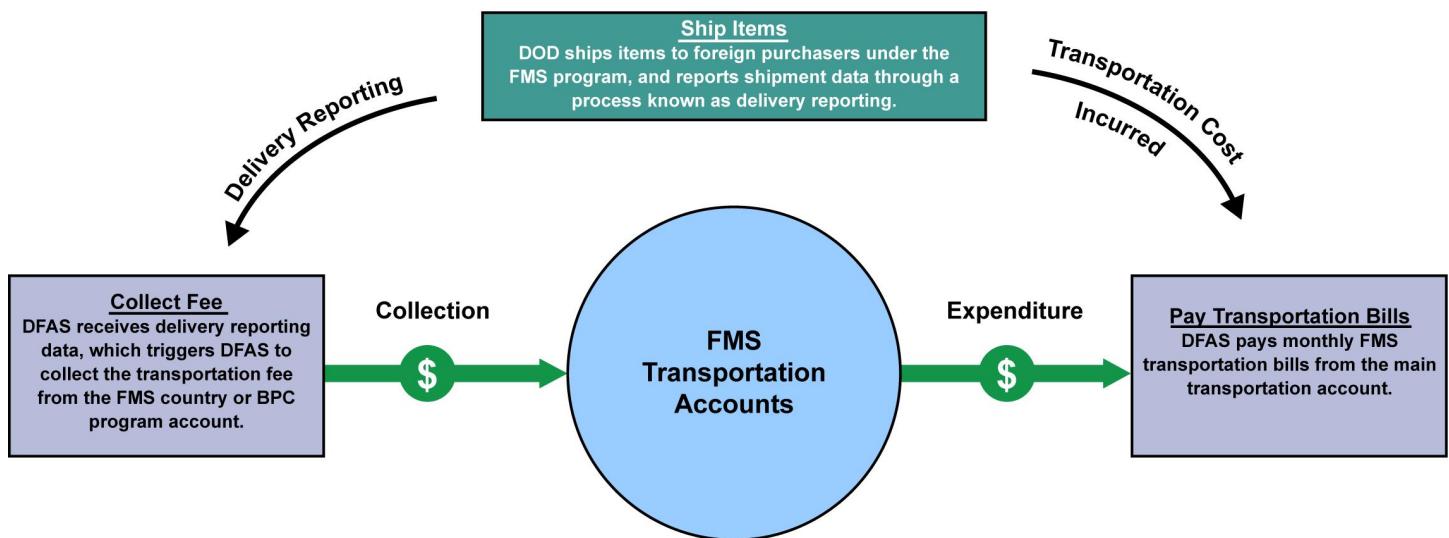
<sup>15</sup>The percentage rate is indicated by a code—referred to as a delivery term code—that is assigned to each case line in an LOA.

<sup>16</sup>These larger BPC programs include the Afghan Security Forces Fund and the Iraq Security Forces Fund. DSCA created the first four BPC accounts in fiscal year 2012, one in fiscal year 2015, and two more in fiscal year 2018.

<sup>17</sup>For purposes of this report, we refer to the funds collected into the FMS transportation accounts from FMS country and BPC program accounts as the transportation fee, and the funds expended from the FMS transportation accounts as transportation expenditures or costs.

of the main transportation account, recording the amount paid as an expenditure.<sup>18</sup>

**Figure 2: Process of Collecting Fees into and Expendding Funds from the Foreign Military Sales Transportation Accounts**



Legend: DOD = Department of Defense, FMS = Foreign Military Sales, DFAS = Defense Finance and Accounting Service, BPC = Building Partner Capacity.

Source: GAO analysis of Department of Defense (DOD) documents. | GAO-20-386

Subsequently, DFAS reviews the transportation bills and associated expenditure transaction data to identify any expenditures associated with the seven BPC programs with dedicated transportation accounts. For any BPC transactions identified, DFAS reimburses the main transportation account for the cost of the expenditure by moving funds from the relevant BPC transportation account into the main transportation account through a process DOD refers to as realignment.

<sup>18</sup>DFAS officials told us that they pay the bills upon receipt, after verifying certain information needed to route expenditures. Subsequently, DFAS reviews the bills and expenditures for realignment and provides their analysis to DSCA.

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## DOD and DSCA Guidance Identifies Controls, but DSCA Lacks Routine Oversight Over DOD Components' Activities

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### DOD and DSCA Guidance Identifies Controls for Fees Collected into the FMS Transportation Accounts

DOD and DSCA guidance to DOD components identifies controls over the information used to calculate the fees collected into the FMS transportation accounts. For example, DOD has various codes that identify the percentage rate used to calculate the transportation fee charged to FMS purchasers.<sup>19</sup> DSCA provides guidance to components on how to use those codes, and components are responsible for managing the use of those codes. Both DSCA's guidance and the FMR require that components maintain documentation, such as documentation of significant events related to delivery transactions and authorized exceptions to normal billing procedures.<sup>20</sup> Additionally, both the FMR and DSCA's guidance to components identifies that components are responsible for submitting delivery reporting within 30 days of completion, which triggers collection of the transportation fee. DSCA's guidance to components requires components to perform various case reviews and reconciliations, including annual case reviews to verify the accuracy of information, such as the accuracy of the codes applied to case lines, as well as the timeliness of delivery reporting.

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<sup>19</sup>Specifically, the percentage rate is indicated by a code referred to as a delivery term code that is assigned to each case line in an LOA and identifies the extent of the U.S. government's responsibility for transporting the items. In some cases, the actual method of transportation may not correspond to what was originally planned for and identified in the LOA, which may have been finalized months or years earlier. In such cases, DOD may apply what is referred to as a transportation bill code to the shipment, which overrides the delivery term code.

<sup>20</sup>DSCA SAMM Chapter 2, C2.1.5.2, Table C2.T1, and Chapter 6, C6.2.4. Additionally, the FMR provides a high-level listing of the minimum required documentation for FMS cases and states that documentation must constitute a complete audit trail. For example, for delivery term codes and transportation bill codes, the FMR guidance indicates that this minimum documentation includes documentation related to delivery transactions and correspondence related to authorized exceptions to the normal billing procedures. See FMR Volume 15, Chapter 6, Table 6-14.

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## DSCA Lacks Routine Oversight of DOD Components' Annual Case Reviews

DSCA's guidance to DOD components requires components to review FMS cases at least annually to verify the accuracy of data—including the accuracy of the transportation fee collected and the timeliness of delivery reporting—but DSCA does not have a routine process to oversee those reviews.<sup>21</sup> DSCA's guidance to components also states that DSCA may request copies of components' annual case reviews for oversight purposes, and DSCA officials told us that they request copies on an ad hoc basis.<sup>22</sup> Although DSCA has oversight responsibility over collections into the FMS transportation accounts, DSCA officials said they do not have a standard process for selecting and examining components' annual case reviews, and do not document their reviews. Federal internal control standards state that management should establish and implement activities to monitor internal control systems and evaluate results, and ensure that activities are performed routinely and consistently.

Management may use ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of the controls in place.<sup>23</sup> Without routine oversight of components' annual case reviews—which could include a process to select annual case reviews for examination, and guidance on how to perform and document examinations—DSCA increases the risk that components may not complete such reviews consistent with DSCA's guidance, thereby increasing the likelihood that fees collected may be inaccurate. Additionally, according to DOD, the FMS program is intended to operate on a "no profit, no loss" basis, and inaccuracies in the collection of the FMS transportation fee could lead to over- or under-collecting fees from an FMS purchaser.

DSCA officials told us that they have begun to work on an initiative to analyze a sample of annual case reviews on a routine basis. According to DSCA officials, the process will include reviewing and documenting cases based on certain events and is expected to be implemented in April 2020. The successful implementation of this initiative may help DSCA ensure

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<sup>21</sup>Specifically, SAMM requires that components review delivery-related data including whether deliveries are reported in an accurate and timely manner, as well as whether the transportation fee collected exceeds the estimated fee. See SAMM Figure A7.C2.F5, A7.C2.F6, and A7.C2.F7.

<sup>22</sup>SAMM Figure A7.C2.F5.

<sup>23</sup>GAO-14-704G.

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that components' annual case reviews comply with DSCA guidance. However, until DSCA fully implements this initiative, the risk remains that components may not complete annual case reviews consistent with DSCA's guidance.

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## DSCA Lacks Oversight of DOD Components' Delivery Reporting

DSCA does not have a process to monitor the timeliness of DOD components' delivery reporting of shipments of items, which triggers collections into the FMS transportation accounts. According to DOD regulations, components are required to submit delivery reporting in their systems within 30 days of shipment.<sup>24</sup> Although DSCA has financial responsibility over collections into the FMS transportation accounts, DSCA officials told us that they do not monitor components' compliance with this regulation. Federal internal control standards state that management should design internal control activities to achieve control objectives and respond to risks, ensure the accurate and timely recording of transactions, and evaluate and document the results of ongoing monitoring activities.<sup>25</sup> Further, the FMR incorporates the federal accounting standards into DOD accounting and financial reporting policy. The federal accounting standards state that revenue transactions—such as the FMS transportation fee—should be recorded when services are provided.<sup>26</sup>

DSCA officials told us that they rely on DFAS to monitor components' delivery reporting. During the course of our review, DFAS officials told us that they began providing a report to DSCA and other components that detailed information on each components' delivery reporting, which was

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<sup>24</sup>FMR vol. 15, ch. 8., Para 080203 B, October 2019. According to the FMR, DOD components are required to report physical deliveries within 30 days of shipment in their financial or logistical system. Component systems transmit the delivery data to DFAS, which uses this information to calculate the actual transportation fee and collect the amount from the associated FMS country account.

<sup>25</sup>[GAO-14-704G](#).

<sup>26</sup>Statement of Federal Financial Accounting Standards 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, paragraph 34.

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based on a prior FMR requirement.<sup>27</sup> Both DSCA and DFAS officials told us that they are working on an agreement that would formalize DFAS's reporting, but have not finalized this agreement as of February 2020. However, DFAS officials told us that they have not followed up with components to verify the accuracy of the delivery reporting, and are not required to do so. While DSCA officials told us that DFAS's reporting may help provide transparency, without a process to oversee that reporting, DSCA's lack of monitoring of components' delivery reporting raises the risk that such reporting may not be timely. As timeliness is an element of accuracy, untimely component delivery reporting may result in the inaccurate collection of related transportation fees into the FMS transportation accounts.<sup>28</sup> A documented process to review reporting and monitor the timeliness of components' delivery reporting—which could include DSCA's review of DFAS's reporting to identify and follow up on discrepancies—could help reduce the risk that transportation fees may not be collected into the FMS transportation accounts in a timely manner. Further, such oversight could assist components during other required reviews, such as annual case reviews.<sup>29</sup>

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## DSCA's Financial Oversight of Expenditures Does Not Provide Reasonable Assurance That Expenditures Are Allowable and Paid from the Correct FMS Transportation Account

DSCA has limited financial oversight of expenditures from the FMS transportation accounts. While DSCA established internal guidance related to monthly reviews of expenditures from the accounts, that guidance lacks procedures to review expenditures and is not fully documented. In addition, DSCA has not provided guidance to DFAS on preparing the reports DSCA uses for its monthly review. Also, DFAS's

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<sup>27</sup>The FMR vol. 15 ch. 8 revision dated March 2017 required DFAS to monitor DOD components' compliance with the FMR requirement to report the delivery of FMS purchases in their systems within 30 days of shipment. The subsequent revision published in October 2019 removed the requirement for DFAS to perform monitoring.

<sup>28</sup>According to Federal Internal Control Standards, for a transaction to be accurate, it should be both recorded correctly and on a timely basis.

<sup>29</sup>Specifically, DSCA SAMM appendix 7 chapter 2 figures A7.C2.F5, A7.C2.F6, and A7.C2.F7 require components to ensure that all deliveries are reported in an accurate and timely manner.

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internal guidance on reviewing and realigning expenditures is inconsistent and lacks key controls and details, such as procedures to provide reasonable assurance that all transportation expenditures are reviewed. As a result, DSCA's financial oversight of the FMS transportation accounts is insufficient to provide reasonable assurance that expenditures paid from the FMS transportation accounts are allowable and paid from the correct account, which limits DSCA's ability to help ensure that relevant BPC program expenditures are paid from the related BPC accounts. During the course of our audits of the FMS program, DSCA officials told us that they began developing new internal guidance to address financial oversight of expenditures from the FMS transportation accounts, and expect it to be implemented by May 2020.<sup>30</sup> However, until DSCA finalizes and implements that guidance, the risk remains that DSCA may use the FMS transportation accounts to pay for unallowable costs, or pay transportation costs from the incorrect account.

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### DSCA Established Some Guidance for the Monthly Review of FMS Transportation Expenditures

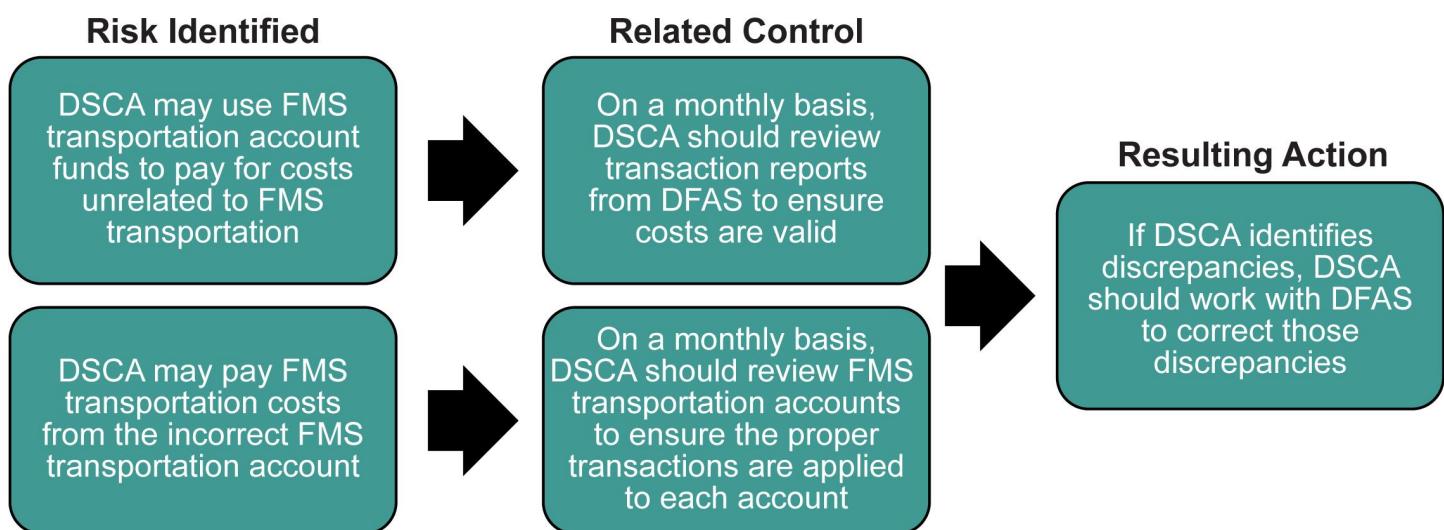
In fiscal year 2016, DSCA established a Managers' Internal Control Program to oversee the FMS transportation accounts, according to DSCA officials. This internal guidance identified the risk that DSCA may use the FMS transportation accounts to pay for unallowable costs—such as those not related to FMS transportation and that may be a result of misuse—or that DSCA may pay transportation costs from the incorrect account. To address these risks, the guidance identified procedures for DSCA to review expenditures. As shown in figure 3, the procedures state that DSCA will review expenditures from the FMS transportation accounts on a monthly basis to ensure costs are valid and applied to the proper account, and to identify and correct discrepancies.<sup>31</sup>

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<sup>30</sup>Specifically, DSCA began developing internal guidance related to following up on discrepancies identified as part of the monthly review of expenditures during audit work performed for [GAO-19-678](#), which began in May 2018. Additionally, during the course of this engagement, DSCA began developing internal guidance to address the monthly review process, as well as guidance to DFAS on preparing the reports DSCA uses for its monthly review.

<sup>31</sup>DSCA's Managers' Internal Control Program procedures also include daily and annual reviews of the FMS transportation accounts. We previously reviewed these procedures and issued recommendations to strengthen DSCA's oversight of the transportation accounts, which DOD has begun to implement. See [GAO-19-678](#). According to DSCA officials, DSCA will publish updated internal guidance that will update the monthly review procedures. As of February 2020, DSCA has not finalized this guidance.

**Figure 3: Risks, Controls, and Actions Related to Financial Oversight of Expenditures from the FMS Transportation Accounts Identified by DSCA's Managers' Internal Control Program Risk Assessment**



Legend: DFAS = Defense Finance and Accounting Service, DSCA = Defense Security Cooperation Agency, FMS = Foreign Military Sales.

Source: GAO analysis of DSCA documentation. | GAO-20-386

DSCA officials told us that to perform their monthly review they use reports provided by DFAS, and DFAS officials told us they provide those reports to DSCA on a monthly basis based on internal guidance.<sup>32</sup> These reports include information on the FMS transportation account balances, and, in addition, DFAS provides supporting documentation that includes:

- copies of bills paid from the accounts and detailed analysis of individual transportation expenditures;
- an analysis of discrepancies DFAS identified for each transaction; and
- financial transactions DFAS performed to reimburse the main transportation account for specific BPC transportation expenditures, through a process DOD refers to as realignment.

<sup>32</sup>According to DFAS officials, DFAS provides two reports to DSCA on a monthly basis: the Cost Charge Account report and the Transportation Reconciliation Report. The Cost Charge Account report is a summary of all FMS overhead account activity, including the FMS transportation accounts. The Transportation Reconciliation Report is a summary of account activity for each of the FMS transportation accounts, including expenses paid from each account and realignment of expenses between the accounts.

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Both DSCA and DFAS officials said they use two pieces of information from the reports and analyses:

- The **transportation account code**, which identifies the DOD component responsible for a particular expenditure, and may provide information on the country or program associated with the transportation expenditure.<sup>33</sup>
- The **transportation control number**, which is a unique 17-character code that is associated with a shipment and used throughout the Defense Transportation System for shipment tracking and payment processing. For FMS shipments, the transportation control number includes information that identifies the DOD component and foreign partner, and may be used to tie a particular transportation expenditure to an FMS case.

The transportation account code and the transportation control number are entered by DOD components directly involved in ordering and processing shipments into their individual systems. Figure 4 provides additional details regarding the composition of the transportation control number.<sup>34</sup>

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<sup>33</sup>DOD, *Defense Transportation Regulation, Part II: “Cargo Movement,” Attachment V7, Security Cooperation Program Shipment Transportation Account Codes* (October 2018).

<sup>34</sup>Both the transportation account code and the transportation control number are defined in DOD’s Defense Transportation Regulation, Part II. See DOD, *Defense Transportation Regulation, Part II: “Cargo Movement,” Appendix V: “Transportation Account Code (TAC) Procedures”* (June 2018) and *Appendix L: “Transportation Control Number”* (June 2016).

**Figure 4: DOD Transportation Control Numbers Include Identifying Information for Foreign Military Sales Transactions**

Digit Meaning	Example	Example Meaning
1: Implementing Agency	B	Army
2-3: Country Code	YY	Bandaria
5: Delivery Term Code	9	Overseas Port of Debarkation
6: Type Assistance Code	N	Foreign Military Sales

Source: GAO. | GAO-20-386

Note: For additional information on the construction of the transportation control number, see DOD, *Defense Transportation Regulation, Part II: "Cargo Movement," Appendix L* (June 2016).

## DSCA Lacks Sufficient Internal Guidance for the Monthly Review of FMS Transportation Expenditures

### DSCA's Internal Guidance Lacks Procedures for Conducting the Monthly Review of Expenditures

DSCA's internal guidance does not contain procedures explaining how DSCA staff should review transportation expenditures. Federal internal control standards state that management should design control activities to respond to risks, implement activities that address those controls, and identify the information requirements needed to achieve objectives.<sup>35</sup> DSCA's monthly review of expenditures from the FMS transportation accounts is meant to provide financial oversight of the accounts, and DSCA's internal guidance establishes that, as part of its monthly review, DSCA should review expenditures to ensure they are allowable and paid

<sup>35</sup>[GAO-14-704G](#).

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from the correct account, and follow up on any discrepancies. However, DSCA's internal guidance does not explain how to review expenditures, and DSCA officials told us that they do not have internal guidance identifying the data needed to oversee expenditures or explaining how they should evaluate expenditure data, which could include steps such as identifying and correcting discrepancies including mismatched, missing, or incomplete entries.

To assess transportation expenditure data reviewed by DFAS and DSCA, we analyzed a nongeneralizable sample of expenditure data for the FMS transportation accounts provided by DFAS for the period from May through July 2019. Over that 3-month period, DFAS reported about 6,200 transportation expenditures totaling approximately \$21.6 million.<sup>36</sup> Our review of those expenditures identified discrepancies or missing data such as transactions with:

- **Mismatched DOD component codes.** Approximately 19 percent of expenditures we examined—representing around \$4 million—had transportation account codes and transportation control numbers identifying different DOD components. According to DFAS officials, if the transportation account code and transportation control number for an expenditure do not identify the same component, the mismatch may be a discrepancy. For example, a mismatch could indicate that staff at a component entered an incorrect transportation account code, or misapplied a transportation account code, which may result in the payment of a non-FMS expenditure from the FMS transportation account.
- **Missing or misformatted control numbers.** Approximately 3 percent of the number of expenditure transactions in our sample—representing around \$40,000—either lacked transportation control numbers or included transportation control numbers that did not contain 17 digits. Without a valid transportation control number, DSCA may not be able to determine whether an expenditure is allowable or paid from the correct account.

Because DSCA's internal guidance lacks procedures—including those explaining what expenditure data is needed to perform oversight and how to evaluate that data for and address discrepancies—DSCA cannot provide reasonable assurance that it appropriately reviews expenditures from the FMS transportation accounts. Without guidance that addresses

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<sup>36</sup>Specifically, we reviewed the transportation account codes and transportation control numbers—both identified by DSCA and DFAS as the key pieces of data needed for financial management of expenditures—as well as the actual cost of each transaction.

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the risk that unallowable costs may be paid from the transportation account, DSCA raises the risk of misuse of funds of the FMS transportation accounts. Additionally, without guidance that identifies and addresses discrepancies—such as missing transportation control numbers—DSCA raises the risk that transportation expenditures may not be paid from the correct account. DSCA officials told us that they were developing new internal guidance and collaborating with DFAS on an initiative to follow up on discrepancies, and expect both to be implemented by May 2020. However, until DSCA finalizes and implements that guidance, the risk remains that DSCA may use the FMS transportation accounts to pay for unallowable costs, or pay transportation costs from the incorrect account.

**DSCA's Internal Guidance Lacks Procedures for Documenting the Monthly Review of Expenditures**

DSCA's internal guidance does not identify how DSCA officials should document their monthly review of expenditures. Additionally, DSCA officials confirmed that they do not document their monthly review of expenditures. DSCA officials told us that while DSCA staff conducted regular monthly reviews, DSCA has not issued specific internal guidance explaining how staff should conduct and document these reviews. Federal internal control standards state that management should develop documentation of its internal control system, document internal control activities such as by documenting that activities occurred, and ensure that activities are performed routinely and consistently.<sup>37</sup> Without internal guidance that identifies how staff should perform and document monthly reviews as well as a process to ensure reviews are documented, DSCA cannot provide reasonable assurance that staff perform monthly reviews consistently. DSCA officials told us that their planned internal guidance should address how the monthly review process is conducted, and should be implemented by July 2020. However, until DSCA finalizes and implements that guidance, DSCA will not have guidance on documenting its monthly review of expenditures consistent with federal internal control standards.

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<sup>37</sup>[GAO-14-704G](#).

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## DSCA Lacks Written Guidance to DFAS on Preparing Monthly Reports

DSCA officials have not provided written guidance to DFAS on preparing the reports and analyses DSCA uses for its monthly review, and, as a result, those reports and analyses may be inconsistent and incomplete. Federal internal control standards state that management should design control activities that respond to risks, document internal controls, communicate required information to external parties, and obtain relevant data from external sources based on information requirements.<sup>38</sup> DFAS officials confirmed that they do not have written guidance from DSCA regarding how to generate the reports for DSCA, such as what analyses to perform on expenditure data.

We found that DFAS's analyses vary and lack key procedures. For example, our review of the expenditure data DSCA received from DFAS for May through July 2019 showed that DFAS performed certain analyses—such as verifying the validity of the transportation control number—on some transactions, but not on others. Additionally, DSCA did not provide DFAS with a complete list of transportation account codes to use to identify transactions for review. As a result, DSCA's review of expenditures based on DFAS's reports—both for allowability, as well as to ensure those transactions are paid from the correct account—excludes some transactions.

Because DSCA has not provided written guidance to DFAS on how to generate the reports needed for its monthly review process—including what analysis to perform on expenditure data—or provided DFAS with the necessary transportation account codes, DSCA cannot provide reasonable assurance that all expenditures from the FMS transportation accounts are allowable and paid from the correct account. Additionally, the lack of consistent identification and review of all transactions by DSCA raises the risk of misuse of funds in the FMS transportation accounts. DSCA officials told us that they are developing guidance in coordination with DFAS, and that it should be implemented by July 2020. However, until DSCA finalizes that guidance to DFAS, DSCA may review inconsistent analyses and may not review all transportation expenditures, and the risk remains that DSCA may use the FMS transportation

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<sup>38</sup>[GAO-14-704G](#).

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accounts to pay for unallowable costs, or pay transportation costs from the incorrect account.

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### DFAS's Internal Guidance on Reviewing Transportation Expenditures Lacks Key Steps

DFAS established procedures to review FMS transportation expenditures and to realign BPC expenditures to the correct FMS transportation accounts in part based on direction from DSCA. However, these procedures lack key steps to ensure that DFAS reviews all expenditures and identifies discrepancies, as well as to address discrepancies that may limit DFAS's ability to identify transactions for realignment. Federal internal control standards state that management should design control activities to respond to risks, implement activities that address those controls, and ensure that activities are performed consistently.<sup>39</sup>

DFAS maintains a separate set of procedures for each of the three transportation service providers that submit FMS transportation bills.<sup>40</sup> The results of DFAS's procedures—such as how transportation expenditures were realigned—are included as supporting documentation for the monthly reports provided to DSCA. Our review of DFAS's realignment procedures determined that the procedures are inconsistent or missing key steps that could help address the risk that expenditures paid from the FMS transportation accounts may be unallowable or paid from the incorrect account.

We found that DFAS's procedures do not ensure that DFAS reviews all transactions, including those that may require realignment. For example, DFAS's procedures for DOD's commercial transportation payment system—known as Syncada—do not include a step for reconciling the amount of the payment to the service provider against a list of detailed expenditure transactions, which may provide assurance that the list of transactions is complete. Specifically, for Syncada, DFAS queries the provider's system using only nine transportation account codes provided by DSCA, which do not include any account codes associated with Navy,

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<sup>39</sup>[GAO-14-704G](#).

<sup>40</sup>The three transportation service providers are the Air Mobility Command, Surface Deployment and Distribution Command, and Syncada. Syncada is the system DOD uses to manage commercial carrier billing, such as for couriers and private shippers.

and only some associated with Air Force.<sup>41</sup> Conversely, the realignment procedures for the Air Mobility Command and the Surface Deployment and Distribution Command include a step for reconciling the amount of the payment to the service provider against a list of detailed expenditure transactions, which helps to provide assurance that the list of transactions being reviewed is complete. Table 1 shows the results of our review of DFAS's realignment procedures and analysis.

**Table 1: DFAS's Review of FMS Transportation Account Expenditures Does Not Provide Reasonable Assurance That All Transactions from Military Departments and Transportation Service Providers Are Included**

Category	Transportation service provider: Air Mobility Command	Transportation service provider: Surface Deployment and Distribution Command	Transportation service provider: Syncada (Private Transportation)
Army	reasonable assurance transactions identified	reasonable assurance transactions identified	reasonable assurance transactions identified
Navy	reasonable assurance transactions identified	reasonable assurance transactions identified	some or all transactions not identified
Air Force	reasonable assurance transactions identified	reasonable assurance transactions identified	some or all transactions not identified

Legend: ✓ = the review process provides reasonable assurance that transactions for the military department are identified. X = some or all transactions for the military department are not identified as part of the review process. DFAS = Defense Finance and Accounting Service, FMS = Foreign Military Sales.

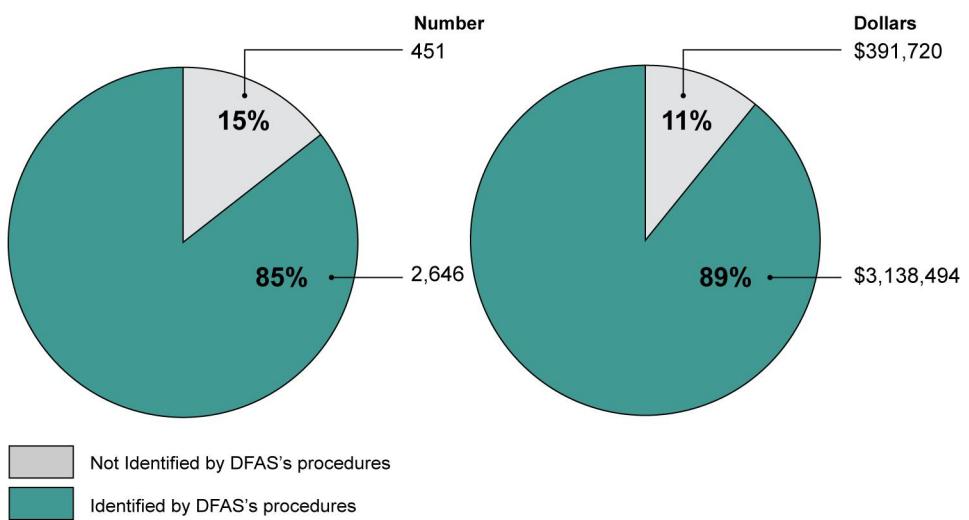
Source: GAO analysis of DOD information. | GAO-20-386

Because DFAS's procedures do not include steps to identify all Navy and Air Force transportation account codes, DFAS does not have reasonable assurance that all expenditures are reviewed by DFAS for realignment and provided to DSCA with the monthly report, which DSCA subsequently uses to review the validity of expenditures. As a result, any of these transactions that should be paid from a BPC transportation account are instead paid from the main FMS transportation account. As shown in figure 5, our review of Syncada expenditure data for May through July 2019 found that the use of DFAS's procedures resulted in approximately

<sup>41</sup>Each military department manages its own transportation account codes. Army uses a general set of account codes for all FMS transportation transactions. Air Force uses a general set of account codes for FMS, but also assigns specific account codes for some BPC cases. Navy assigns account codes based on the FMS partner and case. In fiscal year 2019, Navy used over 2,000 codes.

15 percent of expenditures not being reviewed.<sup>42</sup> Those transactions represent 11 percent of the dollar value of transportation expenditures for that period, or approximately \$392,000.

**Figure 5: Number and Dollar Value of Syncada Transportation Expenditure Transactions Paid from the Main FMS Transportation Account and Not Identified as a Result of DFAS's Procedures, May – July 2019**



Source: GAO analysis of Department of Defense data. | GAO-20-386

Legend: DFAS = Defense Finance and Accounting Service, DSCA = Defense Security Cooperation Agency, FMS = Foreign Military Sales.

Note: On a monthly basis, DFAS pays multiple bills for Syncada, DOD's commercial transportation payment system. Subsequently, DFAS queries Syncada's system based on transportation account codes provided by DSCA to identify expenditures paid from the main FMS transportation account. However, the list of account codes provided by DSCA is incomplete. Because of this, DFAS's procedures do not include steps to identify and review all transactions.

In addition, we found that DFAS's procedures do not address how to correct or follow up on discrepancies. Specifically, all three sets of realignment procedures state that analyzing the list of detailed

<sup>42</sup>We compiled a list of transportation account codes used by Navy and Air Force that were not included in DFAS's procedures, and requested that DFAS query those account codes for the period from May through July 2019. We calculated the percentage of Syncada transactions not identified by DFAS's procedures as a percentage of the total number of Syncada transactions identified by DFAS's procedures combined with the additional transactions identified as a result of DFAS's query of the additional Navy and Air Force account codes. We requested and obtained lists of transportation account codes from Army, Navy, and Air Force used in fiscal years 2018 and 2019, and compared them to the account codes provided to DFAS by DSCA. We did not perform independent test procedures to determine whether the lists of transportation account codes provided to us were complete, and therefore the data presented here may not include all relevant transportation expenditures.

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transactions may identify transactions with discrepancies in their data, but none of the procedures fully address the types of discrepancies or their implications, such as if the expenditure does not include a transportation control number. Rather, according to DFAS officials, if DFAS identifies such a discrepancy with a specific expenditure, that cost remains as an expenditure from the main transportation account.

Because DFAS's procedures do not include steps to reconcile the amount of payments to all service providers against a list of detailed cost transactions or to identify all transportation expenditure transactions, DFAS may not review all FMS transportation expenditures and may not pay all expenditures from the correct transportation account. Additionally, because the list of transportation account codes provided to DFAS does not include all FMS account codes, neither DFAS nor DSCA review all expenditures from the FMS transportation accounts, which raises the risk of unallowable or unapproved expenditures. As a result, DSCA's ability to provide reasonable assurance that all transportation expenditures are allowable and paid from the correct account is limited. DSCA officials told us that they are developing guidance in coordination with DFAS to identify and follow up on discrepancies and clarify how DFAS is to perform its analysis, and that the guidance should be implemented by July 2020. However, until DSCA finalizes that guidance to DFAS, DSCA may review inconsistent analyses and may not review all transportation expenditures, and the risk remains that DSCA may use the FMS transportation accounts to pay for unallowable costs, or pay transportation costs from the incorrect account.

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## Conclusions

DSCA has developed financial oversight procedures for overseeing the billions of dollars that are collected into and expended from the FMS transportation accounts, but we found weaknesses in oversight of both collections and expenditures. Regarding collections, gaps in DSCA's oversight of DOD components' annual case reviews and delivery reporting increase the risk that transportation fees collected may be inaccurate. Similarly, regarding expenditures, we identified gaps in DSCA's oversight. Specifically, DSCA has not established procedures for conducting monthly reviews of expenditures and correcting discrepancies, or defined the information it needs from DFAS. Further, DFAS's procedures to review and realign costs between FMS transportation accounts—which are based on guidance from DSCA—do not ensure that all transactions are included.

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By improving financial oversight of the FMS transportation accounts, DSCA could better ensure the accuracy of fees collected and help provide reasonable assurance that expenditures are allowable and paid from the correct account. DSCA officials told us that they are developing guidance to address these issues, and plan to implement that guidance in 2020. However, until DSCA finalizes and implements that guidance, the risks remain that DSCA may collect inaccurate transportation fees, use the FMS transportation accounts to pay for unallowable costs, or pay transportation costs from the incorrect account.

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## Recommendations for Executive Action

We are making the following five recommendations to DOD:

The Secretary of Defense should ensure that the Director of DSCA implements the planned initiative to routinely examine annual case reviews performed by DOD components to help ensure that fees collected into the FMS transportation accounts are accurate.  
(Recommendation 1)

The Secretary of Defense should ensure that the Director of DSCA works with DFAS and DOD components to establish a written process to monitor the timeliness of components' delivery reporting to help ensure that fees collected into the FMS transportation accounts are accurate.  
(Recommendation 2)

The Secretary of Defense should ensure that the Director of DSCA finalizes and implements internal guidance on how to conduct and document DSCA's monthly review of expenditures from the FMS transportation accounts, including what information should be reviewed and how to identify and follow up on discrepancies.  
(Recommendation 3)

The Secretary of Defense should ensure that the Director of DSCA works with DFAS to finalize written guidance to DFAS on how to generate the reports needed for DSCA's monthly review of expenditures from the FMS transportation accounts, including the type of analysis needed.  
(Recommendation 4)

The Secretary of Defense should ensure that the Director of DSCA works with DFAS and other DOD components to finalize the planned guidance to DFAS for the review and realignment of expenditures from the FMS

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transportation accounts to ensure reviews are consistent and include all expenditures. (Recommendation 5)

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## Agency Comments

We provided a draft of this report to DOD and State for review and comment. DSCA provided written comments on behalf of DOD, which are reprinted in appendix II. DSCA concurred with all of our recommendations, and indicated that it had developed plans to address them and had begun implementing some of those plans. DOD noted that annual case reviews and delivery reporting are not directly related to financial transactions tied to the FMS transportation account. However, both annual case reviews and delivery reporting provide an opportunity for oversight that can help verify the accuracy of data, which affects the accuracy of transportation fees collected from FMS purchasers' accounts into the FMS transportation accounts. We also received technical comments from DOD, which we incorporated in our report as appropriate. State did not provide any written or technical comments.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Secretary of State, and other interested parties. In addition, this 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) 512-6881 or [BairJ@gao.gov](mailto:BairJ@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.



Jason Bair  
Director, International Affairs and Trade

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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 Richard C. Shelby  
Chairman  
The Honorable Dick Durbin  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Lindsey Graham  
Chairman  
The Honorable Patrick J. Leahy  
Ranking Member  
Subcommittee on State, Foreign Operations, and Related Programs  
Committee on Appropriations  
United States Senate

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

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

The Honorable Pete Visclosky  
Chairman  
The Honorable Ken Calvert  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

The Honorable Nita Lowey  
Chairwoman  
The Honorable Hal Rogers  
Ranking Member  
Subcommittee on State, Foreign Operations, and Related Programs  
Committee on Appropriations  
House of Representatives

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# Appendix I: Objectives, Scope & Methodology

This report examines (1) the Defense Security Cooperation Agency's (DSCA) oversight of Department of Defense (DOD) components' activities that affect fees collected into the Foreign Military Sales (FMS) transportation accounts, and (2) DSCA's financial oversight of expenditures from the FMS transportation accounts.

To obtain information on both of our objectives, we reviewed DSCA's guidance related to the FMS program and FMS transportation, and analyzed fiscal years 2007 to 2018 summary collections and expenditures data for the FMS transportation accounts maintained by the Defense Finance and Accounting Service (DFAS) in the Defense Integrated Financial System. We chose to review data from these fiscal years based on data availability. Under a prior review of the management oversight of FMS transportation fees, we assessed the reliability of these data by reviewing for duplicate entries, gaps, and obvious errors, comparing the data to similar data obtained under prior reviews, and interviewing agency officials to clarify questions about how to interpret the data.<sup>1</sup> On the basis of this assessment, we determined these data to be reliable for the purposes of summarizing the total collections into and expenditures from the FMS transportation accounts during fiscal years 2007 to 2018.

To examine DSCA's oversight of DOD components' activities that affect fees collected into the FMS transportation accounts, we reviewed DOD's current guidance related to the FMS transportation fee, as well as other documentation and internal guidance developed by DSCA. We interviewed DSCA and DFAS officials on their implementation of oversight procedures. To determine and assess the controls DSCA should be using to manage and oversee the account, we reviewed DOD's Financial Management Regulation, DSCA's Security Assistance Management Manual, other internal DSCA guidance, federal accounting standards, federal internal control standards, and our prior report on

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<sup>1</sup>GAO, *Foreign Military Sales: DOD Should Strengthen Oversight of Its Growing Transportation Account Balances*, GAO-19-678 (Washington, D.C.: Sept. 24, 2019).

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DSCA's management oversight of the FMS transportation account balances.<sup>2</sup>

To examine DSCA's financial oversight of expenditures from the FMS transportation accounts, we reviewed DOD's current regulations related to financial oversight and transportation, including DOD Financial Management Regulation and DOD Defense Transportation Regulation. Additionally, we reviewed DSCA's Managers' Internal Control Program procedures for monthly FMS transportation account reviews, and we interviewed DSCA officials responsible for these reviews. We also reviewed DSCA's Security Assistance Management Manual, which provides guidance to DOD components related to the FMS program, and DFAS's internal guidance on reviewing and realigning expenditures from the FMS transportation account.

We analyzed a nongeneralizable, 3-month sample of expenditure data for the FMS transportation accounts provided by DFAS for the period from May through July 2019, including transportation service provider bills and detailed transaction-level expenditures. These data included the transportation account codes and transportation control numbers that DSCA and DFAS use to verify that individual expenses are allowable, and to realign transportation expenditures to the correct FMS transportation account. We initially obtained 1 month of transportation expenditure data, but decided to expand our analysis to 3 months of data to account for any variability between months. Additionally, we chose to review data from this period because they were the most current at the time of our request, and therefore the data were compiled using DFAS's current process. We determined this period to be sufficient for our analysis of the data, which DSCA and DFAS use to provide assurance that expenditures from the FMS transportation accounts are allowable and paid from the correct account.

To assess the reliability of these data, we reviewed the data for internal consistency by reviewing for duplicate entries, gaps, and obvious errors; compared them to DOD regulations on transportation account code and transportation control number construction; and interviewed DSCA and DFAS officials about their data collection and verification procedures. We found the data to be sufficiently reliable for our purpose of presenting the total number and dollar amount of transportation expenditures reviewed by DSCA and DFAS for each month, and to identify the number and

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<sup>2</sup>[GAO-19-678](#).

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dollar amount associated with expenditure records where we identified discrepancies. We found instances of blank or incorrectly formatted transportation account codes and transportation control numbers, and instances where the first characters of the transportation account code and transportation control number did not match, which DFAS officials identified as possible discrepancies in the data. As we discuss in the report, these instances raise questions about the reliability of the data for financial oversight, since DSCA and DFAS use this information to ensure that expenditures are allowable and paid from the correct FMS transportation accounts. We did not conduct any independent testing of the data to determine whether the amounts reflected correct payments made toward accurate billings.

To review DFAS's internal guidance for reviewing and realigning expenditures from the FMS transportation account, we reviewed copies of the procedures provided by DFAS for each of the three transportation service providers. We identified major steps in the procedures related to reviewing expenditure data, as well as various internal controls related to analyzing data. We reviewed each of the procedures against one another to determine the extent to which they addressed the same elements, and we compared relevant procedures against standards for internal control related to obtaining, evaluating, and correcting data, to determine whether they were sufficient to provide financial oversight. Additionally, we interviewed DFAS officials responsible for these procedures.

In order to determine whether DFAS's procedures included all expenditures, we requested and obtained information from Army, Navy, and Air Force on the transportation account codes that each component used in fiscal year 2019, and compared them to the account codes provided to DFAS by DSCA and used to query the third-party transportation service provider system for relevant FMS transportation expenses. We identified a list of transportation account codes not queried as part of DFAS's procedures, and we requested that DFAS query the third-party transportation service provider's system for the period of May through July 2019 using that list. We requested data from this period to be consistent with the expenditure data DFAS initially provided us for the same period. We reviewed the resulting data and compared it to the previously-provided data in order to determine the relative size of each data set for this period. We did not independently test to determine whether the lists of transportation account codes provided to us were complete, and therefore the data reviewed may not include all relevant transportation expenditures.

We conducted this performance audit from May 2019 to May 2020 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**



**DEFENSE SECURITY COOPERATION AGENCY**  
201 12TH STREET SOUTH, SUITE 101  
ARLINGTON, VA 22202-5408

Mr. Jason Bair  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Bair:

Enclosed is the Department of Defense (DoD)'s response to the Government Accountability Office (GAO) Draft Report, GAO-20-386, "FOREIGN MILITARY SALES: DoD Should Further Strengthen Oversight of Transportation Fees," dated March 19, 2020 (GAO Code 103539).

Thank you for the opportunity to respond to this report. We appreciate any opportunity to learn how we can improve the effective and efficient management of the FMS Transportation Surcharge Account, which will benefit the entire security cooperation community. I am pleased to see that GAO recommendations generally align with and validate DSCA's existing efforts to refine our processes and procedures to improve the financial management and oversight of FMS Transportation Surcharge Account. Of the five GAO recommendations, we concur with three and concur with comment on two. We have proactively developed corrective actions to ensure timely implementation of all recommendations. I am also pleased to share we have already begun implementing the majority of the recommendations and expect full implementation by the end of this calendar year.

We concur without comment on recommendations 3-5 for establishing and implementing guidance for the monthly review and realignment of expenditures made from the FMS Transportation accounts and are in the process of finalizing this guidance. Additionally, we have drafted procedures for conducting and documenting our monthly reviews, which also clarify the reports required of the Defense Finance and Accounting Service (DFAS) to accomplish this activity and address these recommendations.

Though we concur with recommendations 1 and 2 regarding the implementation of our planned initiative to routinely examine and document DoD component Annual Case Reviews and the establishment of internal guidance on how to monitor the timeliness of components' delivery reporting, we have concerns that GAO is incorrectly asserting that the Annual Case Review and the monitoring of delivery reporting have a direct and traceable link to the collections and disbursements of the FMS Transportation account. The Annual Case Review and delivery reporting are intended to report on the articles and services on an FMS case, and not the transportation costs specifically, unless those costs are on an individual case line (above-the-line). Therefore, although the Annual Case Review checklist includes delivery-related questions, it does not have a direct relationship to the financial transactions (e.g., disbursements) tied to the FMS Transportation account. It only identifies that delivery

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

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reporting is accurate and timely. Further, delivery reporting is required for all articles and services on an FMS case, not just to those with a transportation surcharge element. This includes those items where the customer is paying for them on an FMS case line (above-the-line), as part of a contract, or other customer-paid source, such as a separate transportation case.

That said, we have already begun developing oversight policy for the Annual Case Review compliance assessments and are now in the process of formalizing delivery reporting timeliness monitoring guidance in the Security Assistance Management Manual and in the mission work agreement between DSCA and the DFAS. Though pending formalization, the process itself has already been implemented; DFAS provides a monthly "Score Card" reflecting the delivery reporting activities of each component.

Thank you again for the efforts of your team. Please direct any questions or comments regarding this response to my primary action officer for this matter, Mr. Daniel Rea, daniel.rea2.civ@mail.mil, (703) 614-9955, or the DSCA audit liaison officer, Mr. Eric Ferguson, dsca.audit@mail.mil, (703) 697-9261.

Sincerely,

HOOPER,CHARLE | Digitally signed by  
S WAYNE,1037983 HOOPER,CHARLES.WAYNE.10  
760 3783760  
Date: 2020.04.15 17:59:07 -04'00'

Charles W. Hooper  
Lieutenant General, USA  
Director

Enclosure:  
As stated

**GAO DRAFT REPORT DATED MARCH 19, 2020  
GAO-20-386 (GAO CODE 103539)**

**"FOREIGN MILITARY SALES: DOD SHOULD FURTHER STRENGTHEN  
OVERSIGHT OF TRANSPORTATION FEES"**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATION**

**RECOMMENDATION 1:** The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA implements the planned initiative to routinely examine annual case reviews performed by DOD components to help ensure that fees collected into the FMS transportation accounts are accurate.

**DoD RESPONSE:** Concur with comment. DSCA concurs that a more structured review of the Annual Case Reviews is a best practice and we should implement our planned initiative to routinely examine them. DSCA has already begun developing oversight policy for these reviews and proactively briefed the Implementing Agencies in March 2020.

However, DSCA has concerns that GAO is incorrectly asserting that the Annual Case Review has a direct and traceable link to the collections and disbursements of the FMS Transportation account. The Annual Case Review and delivery reporting are intended to report on the articles and services on an FMS case, and not the transportation costs specifically, unless those costs are on an individual case line (above-the-line). Therefore, although the Annual Case Review checklist includes delivery-related questions, it does not have a direct relationship to the financial transactions (e.g., disbursements) tied to the FMS Transportation account. It only identifies that delivery reporting is accurate and timely. Further, delivery reporting is required for all articles and services on an FMS case, not just to those with a transportation surcharge element. This includes those items where the customer is paying for them on an FMS case line (above-the-line), as part of a contract, or other customer-paid source, such as a separate transportation case.

**RECOMMENDATION 2:** The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA works with DFAS and DOD components to establish a written process to monitor the timeliness of components' delivery reporting to help ensure that fees collected into the FMS transportation accounts are accurate.

**DoD RESPONSE:** Concur with comment. DSCA concurs with the importance of monitoring component delivery reporting, and is formalizing a process which has already been implemented between DFAS and DSCA.

However, DSCA has concerns that GAO is incorrectly asserting that delivery reporting has a direct and traceable link to the collections and disbursements of the FMS Transportation account. Delivery reporting relates to all articles and services on an FMS case, not just to those with transportation surcharge element. This includes those items where the customer is paying for

them on an FMS case line (above-the-line), as part of a contract, or via freight forwarder or other customer paid source such as a transportation case.

**RECOMMENDATION 3:** The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA finalizes and implements internal guidance on how to conduct and document DSCA's monthly review of expenditures from the FMS transportation accounts, including what information should be reviewed and how to identify and follow up on discrepancies.

**DoD RESPONSE:** Concur.

**RECOMMENDATION 4:** The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA works with DFAS to finalize written guidance to DFAS on how to generate the reports needed for DSCA's monthly review of expenditures from the FMS transportation accounts, including the type of analysis needed.

**DoD RESPONSE:** Concur.

**RECOMMENDATION 5:** The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA works with DFAS and other DOD components to finalize the planned guidance to DFAS for the review and realignment of expenditures from the FMS transportation accounts to ensure reviews are consistent and include all expenditures.

**DoD RESPONSE:** Concur.

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

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## **GAO Contact**

Jason Bair, (202) 512-6881 or [BairJ@gao.gov](mailto:BairJ@gao.gov)

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## **Staff Acknowledgments**

In addition to the contact named above, Cheryl Goodman (Assistant Director), Benjamin L. Sponholtz (Analyst-in-Charge), Adam Peterson, and Heather Rasmussen made key contributions to this report. Martin de Alteriis, John Hussey, Christopher Keblitis, Heather Latta, and Grace Lui also contributed to this report.

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# Appendix IV: Accessible Data

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## Data Table

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**Accessible Data for Figure 5: Number and Dollar Value of Syncada Transportation Expenditure Transactions Paid from the Main FMS Transportation Account and Not Identified as a Result of DFAS's Procedures, May – July 2019**

Category	Number	Percentage (number)	Dollars	Percentage (dollars)
Not identified by DFAS's procedures	451	15%	\$391,720.00	11%
Identified by DFAS's procedures	2,646	85%	\$3,138,494.00	89%

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## Agency Comment Letter

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Accessible Text for Appendix II Comments from the Department of Defense

Page 1

Mr. Jason Bair

Director, International Affairs and Trade

U.S. Government Accountability Office

441 G Street, NW

Washington, DC 20548

Dear Mr. Bair:

Enclosed is the Department of Defense (DoD)'s response to the Government Accountability Office (GAO) Draft Report, GAO-20-386, "FOREIGN MILITARY SALES: DoD Should Further Strengthen Oversight of Transportation Fees," dated March 19, 2020 (GAO Code 103539).

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Thank you for the opportunity to respond to this report. We appreciate any opportunity to learn how we can improve the effective and efficient management of the FMS Transportation Surcharge Account, which will benefit the entire security cooperation community. I am pleased to see that GAO recommendations generally align with and validate DSCA's existing efforts to refine our processes and procedures to improve the financial management and oversight of FMS Transportation Surcharge Account. Of the five GAO recommendations, we concur with three and concur with comment on two. We have proactively developed corrective actions to ensure timely implementation of all recommendations. I am also pleased to share we have already begun implementing the majority of the recommendations and expect full implementation by the end of this calendar year.

We concur without comment on recommendations 3-5 for establishing and implementing guidance for the monthly review and realignment of expenditures made from the FMS Transportation accounts and are in the process of finalizing this guidance. Additionally, we have drafted procedures for conducting and documenting our monthly reviews, which also clarify the reports required of the Defense Finance and Accounting Service (DFAS) to accomplish this activity and address these recommendations.

Though we concur with recommendations 1 and 2 regarding the implementation of our planned initiative to routinely examine and document DoD component Annual Case Reviews and the establishment of internal guidance on how to monitor the timeliness of components' delivery reporting, we have concerns that GAO is incorrectly asserting that the Annual Case Review and the monitoring of delivery reporting have a direct and traceable link to the collections and disbursements of the FMS Transportation account. The Annual Case Review and delivery reporting are intended to report on the articles and services on an FMS case, and not the transportation costs specifically, unless those costs are on an individual case line (above-the-line). Therefore, although the Annual Case Review checklist includes delivery-related questions, it does not have a direct relationship to the financial transactions (e.g., disbursements) tied to the FMS Transportation account. It only identifies that delivery

Page 2

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transportation surcharge element. This includes those items where the customer is paying for them on an FMS case line (above-the-line), as part of a contract, or other customer-paid source, such as a separate transportation case.

That said, we have already begun developing oversight policy for the Annual Case Review compliance assessments and are now in the process of formalizing delivery reporting timeliness monitoring guidance in the Security Assistance Management Manual and in the mission work agreement between DSCA and the DFAS. Though pending formalization, the process itself has already been implemented; DFAS provides a monthly “Score Card” reflecting the delivery reporting activities of each component.

Thank you again for the efforts of your team. Please direct any questions or comments regarding this response to my primary action officer for this matter, Mr. Daniel Rea, daniel.rea2.civ@mail.mil, (703) 614-9955, or the DSCA audit liaison officer, Mr. Eric Ferguson, dsca.audit@mail.mil, (703) 697-9261.

Sincerely,

Charles W. Hooper

Lieutenant General, USA Director

Enclosure: As stated

Page 3

GAO DRAFT REPORT DATED MARCH 19, 2020 GAO-20-386 (GAO CODE 103539)

“FOREIGN MILITARY SALES: DOD SHOULD FURTHER STRENGTHEN OVERSIGHT OF TRANSPORTATION FEES”

DEPARTMENT OF DEFENSE COMMENTS TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA implements the planned initiative to routinely examine annual case reviews performed by

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DOD components to help ensure that fees collected into the FMS transportation accounts are accurate.

DoD RESPONSE: Concur with comment. DSCA concurs that a more structured review of the Annual Case Reviews is a best practice and we should implement our planned initiative to routinely examine them. DSCA has already begun developing oversight policy for these reviews and proactively briefed the Implementing Agencies in March 2020.

However, DSCA has concerns that GAO is incorrectly asserting that the Annual Case Review has a direct and traceable link to the collections and disbursements of the FMS Transportation account. The Annual Case Review and delivery reporting are intended to report on the articles and services on an FMS case, and not the transportation costs specifically, unless those costs are on an individual case line (above-the-line). Therefore, although the Annual Case Review checklist includes delivery-related questions, it does not have a direct relationship to the financial transactions (e.g., disbursements) tied to the FMS Transportation account. It only identifies that delivery reporting is accurate and timely. Further, delivery reporting is required for all articles and services on an FMS case, not just to those with a transportation surcharge element. This includes those items where the customer is paying for them on an FMS case line (above-the-line), as part of a contract, or other customer-paid source, such as a separate transportation case.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA works with DFAS and DOD components to establish a written process to monitor the timeliness of components' delivery reporting to help ensure that fees collected into the FMS transportation accounts are accurate.

DoD RESPONSE: Concur with comment. DSCA concurs with the importance of monitoring component delivery reporting, and is formalizing a process which has already been implemented between DFAS and DSCA.

However, DSCA has concerns that GAO is incorrectly asserting that delivery reporting has a direct and traceable link to the collections and disbursements of the FMS Transportation account. Delivery reporting relates to all articles and services on an FMS case, not just to those with transportation surcharge element. This includes those items where the customer is paying for

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**Page 4**

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**RECOMMENDATION 3:** The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA finalizes and implements internal guidance on how to conduct and document DSCA's monthly review of expenditures from the FMS transportation accounts, including what information should be reviewed and how to identify and follow up on discrepancies.

DoD RESPONSE: Concur.

**RECOMMENDATION 4:** The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA works with DFAS to finalize written guidance to DFAS on how to generate the reports needed for DSCA's monthly review of expenditures from the FMS transportation accounts, including the type of analysis needed.

DoD RESPONSE: Concur.

**RECOMMENDATION 5:** The GAO recommends that the Secretary of Defense should ensure that the Director of DSCA works with DFAS and other DOD components to finalize the planned guidance to DFAS for the review and realignment of expenditures from the FMS transportation accounts to ensure reviews are consistent and include all expenditures.

DoD RESPONSE: Concur.

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