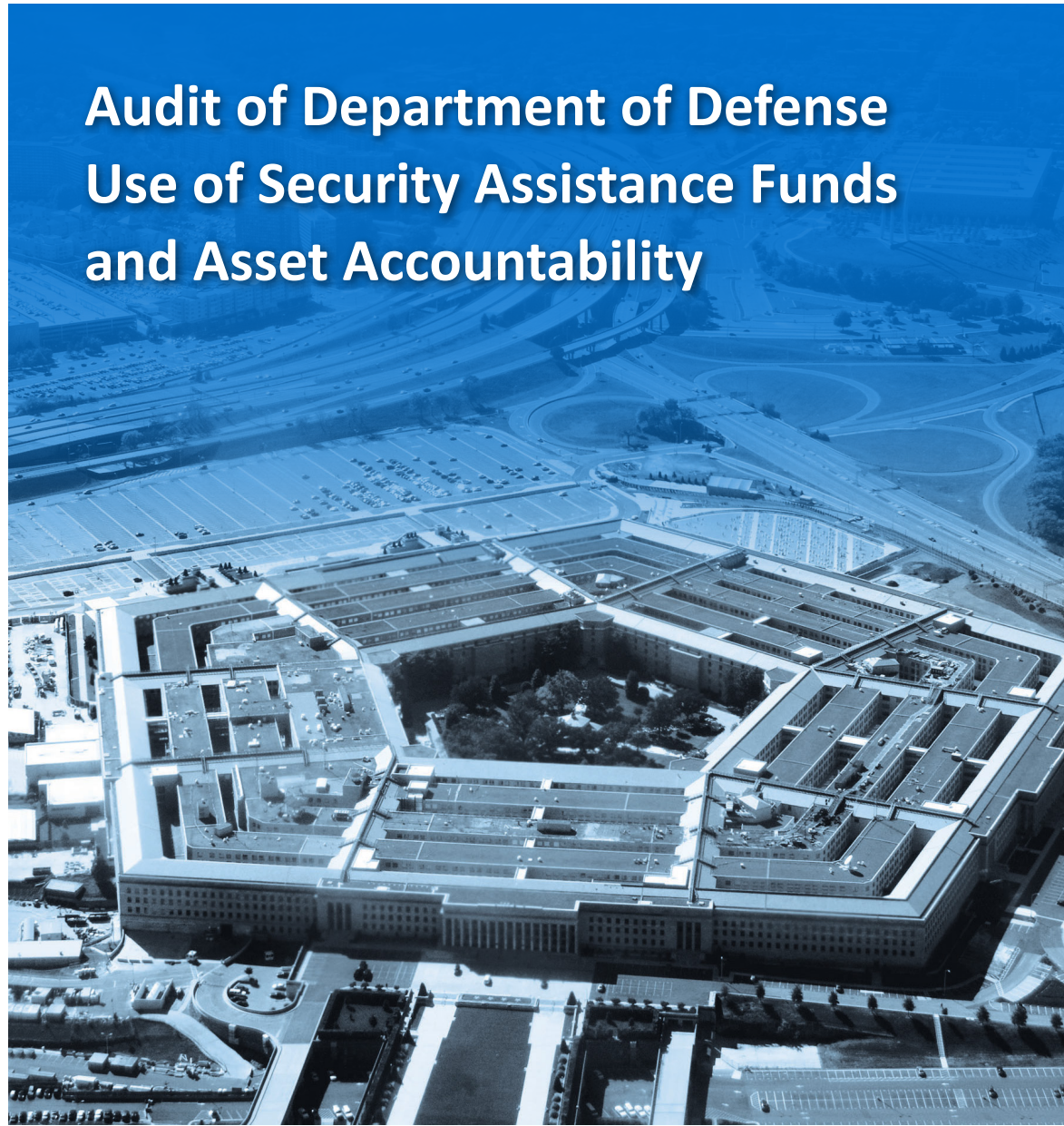




INSPECTOR GENERAL

U.S. Department of Defense

AUGUST 17, 2020



Audit of Department of Defense Use of Security Assistance Funds and Asset Accountability

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of Department of Defense Use of Security Assistance Funds and Asset Accountability

August 17, 2020

Objective

We determined whether the DoD Components recovered their costs for executing security assistance programs and distinguished their assets from those of the security assistance programs.

Background

The Arms Export Control Act and the Foreign Assistance Act authorize the U.S. Government to provide security assistance to foreign customers in the form of defense articles, military education and training, and other defense-related services to advance national policies and objectives.

The Defense Security Cooperation Agency is the DoD agency responsible for directing, administering, and providing guidance for the management of the DoD-executed security assistance programs. The Military Departments and Defense agencies are responsible for daily operational management and decision making for the security assistance programs.

The Arms Export Control Act and the DoD Financial Management Regulation require the DoD to recover its costs for providing support to foreign customers. The DoD charges administrative fees to the customer on the articles and services provided to cover the DoD's overhead costs. The DoD collects the fees in the Foreign Military Sales Trust Fund administrative account and uses the account funds to reimburse the DoD Components for their overhead costs, such as salaries and maintenance costs.

Findings

We determined that the DoD Components did not recover their costs for executing security assistance programs in accordance with the Arms Export Control Act and the DoD Financial Management Regulation. Specifically, the DoD Components did not recover their costs for:

- paying DoD civilians to work on the security assistance programs;
- storing security assistance assets at DoD facilities; or
- maintaining DoD facilities used to execute security assistance programs.

These conditions occurred because the DoD Components did not design or implement a reliable cost accounting method to track their actual costs incurred for executing the security assistance programs. Additionally, DoD Components did not always request reimbursement for their expenses from the Defense Security Cooperation Agency.

By not recovering their expenses paid with appropriated dollars, DoD Components subsidized the security assistance programs with DoD appropriations.

The DoD Components may have violated the "Purpose Statute" by incorrectly using DoD appropriations to pay for security assistance-related overhead expenses when there was a more appropriate appropriation available to pay for these expenses, such as the SDAF and Foreign Military Sales Trust Fund administrative accounts. In addition, by using DoD funds to pay for security assistance programs, the DoD may have fewer funds to meet its operation goals.

We also determined that DoD Component personnel did not maintain accountability of DoD assets or maintain accurate SDAF inventory records in accordance with Office of Management and Budget Circular No. A-123 or the Defense Security Assistance Management Manual.



Results in Brief

Audit of Department of Defense Use of Security Assistance Funds and Asset Accountability

Findings (cont'd)

These conditions occurred because DoD Component personnel did not design or implement an internal control environment to:

- prevent personnel from shipping Army assets to a foreign customer;
- track and maintain SDAF inventory records from the warehouse inventory systems; and
- periodically inspect or review inventory records for accuracy.

DoD Components need to implement effective controls to prevent or detect the unauthorized use or disposition of an entity's assets. Without accurate locations or quantities of SDAF inventory, DoD personnel will not know what the DoD has in storage, which may lead to a shortage of materiel necessary to meet the needs of our foreign partners. Conversely, the DoD may order materiel that the DoD already owns, which could be a waste of funds.

Management Comments and Our Response

We made 23 recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, such as

- recover all security assistance-related salary, storage, and operating costs that the DoD Components did not recover between FYs 2014 and 2019;
- develop, document, and implement Component-level policies and procedures to recover the expenses in future years; and
- perform a preliminary review of potential Antideficiency Act violations that may have occurred within their organizations by subsidizing security assistance-related expenses with appropriated funds.

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, agreed with all 23 recommendations addressed to the Under Secretary; therefore, the recommendations are resolved but will remain open. We will close these recommendations once we verify that the Deputy Chief Financial Officer implements corrective actions that address the intent of the recommendations.

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, also agreed with the potential monetary benefit of \$29.1 million in unrecovered expenses. The Deputy Chief Financial Officer stated that the recovered costs will put dollars back into the U.S. Treasury, and future compliance with cost recovery guidance will ensure that FMS partners are fully paying for services, which will return buying power to the DoD.

The Deputy Secretary of Defense agreed to identify and direct the appropriate official to perform a comprehensive analysis of the functions performed by DoD Components and determine whether the current administrative rates charged to foreign customers are adequate for the DoD to recover its security assistance-related costs. The comments from the Deputy Secretary of Defense addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DoD official completed the analysis, which includes performing an independent and objective review of the current administrative rates charged to foreign customers.



Results in Brief

Audit of Department of Defense Use of Security Assistance Funds and Asset Accountability

Comments (cont'd)

The Deputy Secretary of Defense agreed to develop, document, and implement detailed guidance to the DoD Components that identifies which costs should be covered and the process for recovering the costs. The comments from the Deputy Secretary of Defense addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Deputy Secretary of Defense implements corrective actions that address the intent of the recommendation. Please see the Recommendations Table on the next page for the status of recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Deputy Secretary of Defense	None	A.3.a and A.3.b	None
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD	None	A.1.a through A.1.i; A.2.a through A.2.f; B.1.a and B.1.b; B.2.a through B.2.c	None

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

August 17, 2020

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Audit of Department of Defense Use of Security Assistance Program Funds and Asset Accountability (Report No. DODIG-2020-114)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

This report contains 25 recommendations that we consider resolved. As described in the Recommendations, Management Comments, and Our Response sections of this report, we will close these recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Send your response to either followup@dodig.mil if unclassified or rfunet@dodig.smil.mil if classified SECRET.

If you have any questions, please contact me at [REDACTED].

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Distribution:

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Introduction

Objective

The objective of this audit was to determine whether the DoD Components recovered their costs for executing security assistance programs and distinguished their assets from those of the security assistance programs. See Appendix A for our scope and methodology, and prior coverage.

Background

The Arms Export Control Act (AECA) and the Foreign Assistance Act authorize the U.S. Government to provide security assistance to foreign customers.¹ The U.S. Government provides foreign customers with defense articles, military education and training, and other defense-related services to advance national policies and objectives. The U.S. President assigned administrative responsibilities for executing the following security assistance programs to the Secretary of Defense in Executive Orders 12163 and 13637.²

- Foreign Military Sales (FMS) program
- Special Defense Acquisition Fund (SDAF) program
- Foreign Military Financing program
- International Military Education and Training program

DoD-Executed Security Assistance Programs

Foreign Military Sales Program

The U.S. Government uses the FMS program to provide defense articles, training, and services to foreign partners. The U.S. Government relies on the DoD's acquisition processes and procedures to purchase defense articles, training, or services from commercial vendors on behalf of its partners. The DoD may also provide articles and services from the DoD's existing inventory. If the supply source is new procurement, the DoD Component assigned to the case is authorized to enter into a contract with vendors to provide the article or service requested. Eligible countries may purchase defense articles and services with their own funds or funds provided through U.S. Government-sponsored assistance programs.

¹ Sections 2151 through 2431k and sections 2751 through 2799aa, title 22, United States Code. Security assistance is defined as foreign military sales, military assistance, economic support, military education and training, peacekeeping operations, or antiterrorism assistance.

² Executive Order 12163, "Administration of Foreign Assistance and Related Functions," September 29, 1979. Executive Order 13637, "Administration of Reformed Export Controls," March 13, 2013.

Special Defense Acquisition Fund Program

The SDAF program is one in which the DoD purchases and stores defense articles in anticipation of future sales to foreign governments. By permitting advance procurements, the SDAF enables the DoD to reduce customer wait times for select items and to improve its responsiveness to foreign emergency requirements. The SDAF operates as a financially independent, revolving fund. When the DoD transfers SDAF-purchased assets to a foreign customer, the proceeds from the transaction are reimbursed to the SDAF and used to finance subsequent purchases.³ DoD Components are responsible for purchasing the SDAF inventory from DoD manufacturing facilities or commercial vendors and arranging for the items to be stored until a foreign customer purchases the items. The DoD Components may store items for years before they sell the items to a foreign customer.

Foreign Military Financing Program

The DoD administers the Foreign Military Financing program, which consists of congressionally approved amounts for grants and loans for foreign customers. The funds enable eligible foreign customers to purchase defense articles, services, and training through the FMS program. The program aims to promote bilateral, regional, and multilateral coalition efforts, notably in the global fight on terrorism.

International Military Education and Training Program

The International Military Education and Training program is a DoD-administered program that provides grant assistance for training foreign military and civilian personnel. The program provides participating foreign countries the opportunity to use their resources, including defense articles and services they obtained from the United States, which contributes to greater self-reliance by such countries. Additionally, the program enhances foreign partner capabilities for joint military operations.

Roles and Responsibilities

DoD Directive 5132.03 establishes policy and assigns responsibilities for the administration of security assistance programs to encourage and enable allied and partner nations to apply their military capabilities and capacities, consistent with U.S. strategy, priorities, and defense objectives.⁴ The Defense Security Cooperation Agency (DSCA) is the DoD agency responsible for directing, administering, and providing guidance for the management of the four DoD-executed security

³ The SDAF may also receive funds from asset use charges and rental payments; assets sold and not intended to be replaced; and research, development, and production costs.

⁴ DoD Directive 5132.03, "DoD Policy and Responsibilities Relating to Security Cooperation," December 29, 2016.

assistance programs. The DSCA Director has the authority to delegate the administration of security assistance programs to the Military Departments and Defense agencies, which act as implementing organizations to execute security assistance activities.⁵

The Military Departments and Defense agencies are responsible for daily operational management and decision making for the security assistance programs.

Military Departments

The Secretaries of the Military Departments serve as advisers to the Secretary of Defense on all security assistance-related matters for their Departments. According to the DSCA Security Assistance Management Manual (SAMM), the Secretaries of the Military Departments:⁶

- provide price, source, availability, and lead time data of requested defense articles to develop and implement FMS cases;⁷
- sell and deliver defense articles and services to eligible countries and international organizations; and
- conduct training for foreign military and civilian personnel.

The following Military Department offices provide policy and program oversight for their Department's security assistance programs.

- The Office of the Deputy Assistant Secretary of the Army (ODASA) for Defense Exports and Cooperation (DE&C)
- The Navy International Programs Office⁸
- The Deputy Under Secretary of the Air Force for International Affairs (SAF/IA)

The Military Departments provide support, within their respective fields of responsibility, to the DSCA Director, to assist in carrying out assigned functions of the DSCA, such as training foreign military personnel, responding to customer requests, and monitoring contract execution.

⁵ We refer to the Military Departments and the Defense Agencies as DoD Components throughout the report.

⁶ DSCA SAMM, Section C1.3.2.6, "The Military Departments."

⁷ An FMS case begins when the customer signs the letter of offer and acceptance and provides the initial deposit of funds to the Defense Finance and Accounting Service.

⁸ The Navy Internal Programs Office is also responsible for the U.S. Marine Corps.

Defense Agencies

In addition to the Military Departments, 17 Defense agencies support the DSCA in executing the security assistance programs. For example, the Defense Logistics Agency (DLA) prepares FMS cases to transfer excess defense articles at the DLA disposition centers to foreign customers. The DLA also coordinates with the Military Departments to fill and process FMS orders from stock within DLA distribution centers.

Defense Finance and Accounting Service (DFAS) personnel perform accounting, billing, disbursing, and collecting functions for security assistance programs. They also prepare the annual unaudited financial statements for the security assistance accounts. DFAS, through the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO), issues accounting policies for the security assistance programs. See Appendix B for a complete list of implementing agencies.

Cost Recovery Requirements

According to the AECA, the foreign customer must pay the full amount for the defense articles or services.⁹ The DoD charges administrative fees to the customer on the articles and services provided to cover the DoD's overhead costs. The DoD collects the fees in the FMS Trust Fund administrative account and uses the account balance to fund the administrative costs of DoD Components, such as salaries and shared facility maintenance. The DSCA administers the FMS Trust Fund administrative account, and DFAS provides accounting and financial reporting support to the DSCA and Components. The DSCA provides FMS administrative funds to the DoD Components to cover the Components' administrative expenses. The DSCA also provides SDAF funds to the Components to cover their costs for purchasing and maintaining the SDAF-purchased inventory. The Components may request additional funds from the DSCA if their costs exceed the funding level provided by the DSCA.

The OUSD(C)/CFO approves the administrative fee rate and establishes cost recovery requirements in the DoD Financial Management Regulation (FMR) to implement the AECA requirements. For the purposes of this report, we focused our review on salary expenses, storage fees, and shared facility maintenance expenses. According to the DoD FMR, the DoD Components are required to:¹⁰

- recover actual salary expenses incurred by DoD personnel by incorporating the expenses into the price of the FMS case or the administrative surcharge that the foreign customer pays when it purchases an item;

⁹ Sections 2761, 2762, and 2792, title 22, United States Code.

¹⁰ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

- charge a storage fee equal to 1.5 percent of the annual value of the stored security assistance assets, unless a separate charge is negotiated with the storage facility; and
- recover the cost of maintaining facilities shared between the DoD Components and the security assistance programs.

Mission of Selected DoD Facilities

The DoD facilities we selected to visit have various missions, such as the manufacturing, storage, and shipment of ammunition to foreign customers; providing support services to security assistance programs; and storing and selling excess defense articles to foreign customers.

Crane Army Ammunition Activity and Pine Bluff Arsenal

The Crane Army Ammunition Activity (CAAA) is located at the Naval Surface Warfare Center in Crane, Indiana. Its mission is to produce, store, and ship conventional ammunition, missiles, and related components. The Army Joint Munitions Command (JMC) and Air Force elected to store their SDAF munition inventory at the CAAA. The CAAA generates revenue to pay for its operating costs by charging the Army JMC and the Air Force for storing, managing, and shipping the munitions to foreign customers. The DSCA reimburses the Army JMC and the Air Force with SDAF funds for the payments they made to the CAAA.

The Pine Bluff Arsenal is an Army installation located in Pine Bluff, Arkansas. Its mission is to manufacture, store, and ship specialized munitions and nuclear defense capabilities to the warfighter. In 2014, the U.S. Army Tank-Automotive and Armaments Command (TACOM) Security Assistance Management Directorate (SAMD) paid Pine Bluff Arsenal with SDAF funds to manufacture and store SDAF inventory and ship it to foreign customers.

Letterkenny Munitions Center and Cheatham Annex

The Letterkenny Munitions Center (LEMC), located in Chambersburg, Pennsylvania, is a subordinate command of the CAAA and occupies 16,000 acres of the Letterkenny Army Depot's 18,200 acres. The LEMC conducts regional and contingency distribution of munitions, precision-guided munitions maintenance, and munitions demilitarization. The Navy pays the LEMC to store and manage security assistance assets and ship them to foreign customers.

The Naval Weapons Station Yorktown–Cheatham Annex (CAX) is located in Williamsburg, Virginia, and is the Navy's premier weapons facility. The Navy Installations Command owns the CAX and provides storage space to Naval Sea Systems Command (NAVSEA). NAVSEA uses the space to store security assistance assets.

Wright-Patterson Air Force Base

Wright-Patterson Air Force Base (WPAFB) is located northeast of Dayton, Ohio, and employs more than 27,000 military, civilian, and contractor employees. The base hosts several tenants that have a key role in supporting security assistance programs, including the Defense Institute for Security Cooperation Studies, Air Force Security Assistance Command, and the Air Force Life Cycle Management Center (AFLCMC). Air Force personnel at WPAFB support security assistance in a variety of ways, including providing engineering support to meet exportability requirements for the MQ-9 Reaper and F-16 Fighting Falcon FMS cases.

DLA Disposition Services Richmond

DLA Disposition Services provides disposal management services at over 90 sites worldwide. In addition to disposing of excess property received from the Military Departments, DLA Disposition Services transfers excess defense articles to FMS customers. DLA Disposition Services uses a facility in Richmond, Virginia, as one of its primary locations to store security assistance assets for foreign customers.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.¹¹

We determined that DoD Components did not recover their costs for executing security assistance programs in accordance with the AECA and DoD FMR. We also determined that the DoD Component personnel did not maintain accountability of DoD assets or maintain accurate SDAF inventory records in accordance with Office of Management and Budget (OMB) Circular No. A-123 or the SAMM. We will provide a copy of the report to the senior official responsible for internal controls in the Office of the Deputy Secretary of Defense and OUSD(C)/CFO.

¹¹ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding A

The DoD Did Not Recover its Costs in Accordance With the Arms Export Control Act and the DoD FMR

The DoD Components did not recover all of their costs for executing security assistance programs in accordance with the AECA and the DoD FMR. The DoD Components did not recover their costs for:

- paying DoD civilians to work on the security assistance programs;
- storing security assistance assets at DoD facilities; or
- maintaining DoD facilities used to execute security assistance programs.

These conditions occurred because the DoD Components did not design or implement a reliable cost accounting method to track their actual costs incurred for executing the security assistance programs. Additionally, DoD Components did not always request reimbursement for their expenses from the DSCA.

The DSCA provides the DoD Components with security assistance funds to execute the security assistance programs. DoD Components used DoD appropriations to pay for security assistance-related expenses instead of the available security assistance funds. As a result, DoD Components may have violated the “Purpose Statute” and the Antideficiency Act by incorrectly using DoD appropriations to pay for security assistance-related overhead expenses. The DoD Components should have paid for these expenses with SDAF and FMS Trust Fund administrative accounts, which were the most appropriate appropriations to pay for these expenses. In addition, the DoD Components did not recover their expenses paid with appropriated dollars from the DSCA, which resulted in subsidizing foreign customer purchases with funds intended for DoD programs. By using DoD funds to pay for security assistance programs, the DoD may have fewer funds to meet its operational goals outlined in the FY 2018-FY 2022 National Defense Business Operations Plan.

The DoD Did Not Comply With the Arms Export Control Act and the DoD FMR

According to the AECA, the foreign customer must pay the full amount for the defense articles or services. The DSCA provides security assistance funds to the DoD Components to cover the Components' administrative expenses. The Components may request additional funds from the DSCA if they anticipate that their costs will exceed the funding level provided by the DSCA. The OUSD(C)/CFO provides additional cost recovery guidance to the DoD Components in the DoD FMR. However, we determined that DoD Components did not recover their costs in accordance with the AECA and DoD FMR for:

- paying DoD civilians to work on the security assistance programs;
- storing security assistance assets at DoD facilities; and
- maintaining DoD facilities used to execute security assistance programs.

DoD Components Did Not Recover Costs for Security Assistance-Related Civilian Salaries

The DoD FMR requires DoD Components to recover actual salary expenses incurred by DoD personnel by incorporating the expenses into the price of the FMS case or administrative surcharge that the foreign customer pays when it purchases an item.¹² Salary expenses for which the DoD Components should recover include salary wages, insurance, and other employee benefits. The DSCA provides the DoD Components with security assistance funds to pay for their salary-related expenses. However, we determined that the DoD Components did not request a sufficient amount of security assistance funds to pay for salary expenses nor did the Components recover their costs from the DSCA for such expenses in accordance with the AECA and the DoD FMR. This occurred because the DoD Components did not design and implement a reliable method to identify which of their employees support the security assistance programs or the amount of time their employees spent on the programs. Additionally, DoD Components did not always request reimbursement from the DSCA.

Defense Logistics Agency

The DLA did not recover approximately \$2.3 million in salary expenses for 30 DLA employees who supported security assistance programs in 2019 in accordance with the AECA and DoD FMR. According to DLA personnel, the DLA paid the 30 employees \$2.3 million from the DoD defense-wide working

¹² DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

capital fund in 2019 despite receiving FMS administrative funds for civilian payroll expenses. In addition, the DLA did not attempt to recover its civilian payroll costs from the DSCA. This also occurred in prior years, as some of the 30 employees have been supporting the security assistance programs since 2004. For example, three employees worked at DLA Disposition Services Headquarters in Battle Creek, Michigan, between FYs 2015 and 2018, performing billing and financial management tasks for FMS cases. DLA Disposition Services paid the three DLA civilian personnel from the DoD defense-wide working capital fund during this period and did not attempt to recover the salary expenses from the DSCA. We consider the \$2.3 million in unrecovered salary expenses for the 30 DLA employees in 2019 to be a potential monetary benefit to the DoD. If the DLA does not implement corrective action to recover all security assistance-related civilian personnel salary expenses from the DSCA, it could potentially cost the DLA approximately \$13.5 million in salary expenses for the 30 employees over the next 6 years.¹³ We consider the \$13.5 million in future salary expenses to be a future potential monetary benefit to the DoD.

We determined that the DLA did not recover salary expenses because it did not design or implement a reliable method for tracking which of its employees supported the security assistance programs or the time the employees spent on the programs. When asked to provide a list of all DLA employees who support the security assistance programs, the DLA provided a list of 35 employees but acknowledged that the list was incomplete because any DLA employee could support the programs.¹⁴ For example, a distribution employee may pack and ship supplies to fill an FMS order, but does not record this time as supporting security assistance programs. The DLA cannot request adequate funding levels or recover its salary-related expenses without knowing which of its employees support the security assistance programs.

In addition, the DLA did not request reimbursement for the 30 employees because the DLA did not consider their salary expenses for working on FMS-related matters as security assistance expenses. According to DLA personnel, the DLA seeks reimbursement for only five employees but plans to request reimbursement for the three Battle Creek employees in FY 2020. However, the DLA does not plan to pursue cost recovery for any additional employees from the DSCA in future years because the DLA does not consider the salaries of those employees to be security assistance-related expenses. Instead, the DLA plans to continue billing DoD Components through its defense working capital fund cost recovery process for any other employee who supports the security assistance programs. The DLA needs to

¹³ This total will not equal due to rounding. See Appendix A for an explanation of the calculation.

¹⁴ Of the 35 employees identified by the DLA, 5 were paid with security assistance funds.

revise its cost recovery processes and request that the DSCA reimburse them for all DLA security assistance-related salary expenses in accordance with the AECA and DoD FMR in future years.

Air Force

SAF/IA personnel did not recover approximately \$0.1 million in salary expenses paid to a Deputy Division Chief who supported security assistance programs in 2019 in accordance with the AECA and DoD FMR. Despite receiving FMS administrative funds from the DSCA to pay for civilian payroll expenses, SAF/IA paid a Deputy Division Chief a total of \$0.1 million from Air Force operations and maintenance to manage Air Force human capital and budget portfolios for security assistance programs on a full-time basis in 2019. In addition, SAF/IA personnel did not attempt to request reimbursement from the DSCA for the \$0.1 million paid from Air Force operations and maintenance funds. This condition likely began in December 2010 when the Deputy Division Chief started employment with SAF/IA. We consider the \$0.1 million in unrecovered salary expenses to be a potential monetary benefit to the DoD. If SAF/IA does not request reimbursement for the Deputy Division Chief's salary expenses, it could potentially cost SAF/IA approximately \$0.8 million in salary expenses over the next 6 years.¹⁵ We consider the \$0.8 million in future salary expenses to be a future potential monetary benefit to the DoD.

SAF/IA personnel stated that they did not recover the \$0.1 million in salary expenses because the Deputy Division Chief's position was not a designated security assistance position in the Air Force or Defense Civilian Payroll System (DCPS). According to SAF/IA personnel, SAF/IA is authorized only 29 security assistance-funded positions and they do not pursue recovery for any additional personnel regardless of whether they are providing support to security assistance programs. SAF/IA personnel are still required to comply with the cost recovery requirements in the AECA and DoD FMR regardless of position designations in civilian payroll systems. SAF/IA personnel should be aware of the requirements, as they are responsible for providing policy oversight to the Air Force for security assistance programs. In addition, SAF/IA personnel stated that 29 security assistance-funded positions are not adequate to meet the demand of SAF/IA's foreign customers. Therefore, SAF/IA needs to request additional positions if its current staff level is inadequate to support its security assistance mission.

¹⁵ This total will not equal due to rounding. See Appendix A for an explanation of the calculation.

With the exception of the 29 security assistance-funded positions, the Air Force does not have a reliable method for identifying its employees or the amount of time its employees spent supporting security assistance programs. According to SAF/IA personnel, the Air Force does not maintain a list of individuals who support the security assistance programs in any Air Force information system. In addition, personnel who support the programs do not record their time as security assistance on their timecards. The Air Force estimated that between 3,198 and 3,966 Air Force civilian employees supported security assistance programs in FY 2019 but could not provide a list of the employees or the amount of time they each worked on the programs in a timely manner. The Air Force estimated that it would take approximately 6 months to develop the list. Without a list of personnel and timecards with job-specific details, the Air Force is unable to verify that it recovered the salaries paid to its employees to support security assistance programs. Because the Air Force was unable to provide us a list of personnel who support security assistance programs on a part-time or full-time basis, we were unable to determine the total dollar amount of salary expenses that the Air Force did not recover in 2019 or in prior years. However, based on the Air Force assertion that up to 3,966 civilian employees support the security assistance programs and one Air Force employee incurred approximately \$0.1 million in costs in 2019, there is potentially millions of dollars in unrecovered salary expenses.

In addition, the Air Force did not always request reimbursement for salary-related expenses from the DSCA. For example, AFLCMC personnel at WPAFB did not attempt to recover salary expenses for employees in the MQ-9 program office who spent less than 10 percent of their time on the security assistance portion of the program. This occurred because MQ-9 program personnel incorrectly applied the cost recovery requirements in the DoD FMR. While the DoD FMR is vague and inconsistent, the Air Force is still required to recover its salary expenses in accordance with the AECA.¹⁶ Additionally, local AFLCMC guidance requires AFLCMC employees to track and recover any portion of their time spent on security assistance programs. Specifically, the guidance requires employees in Air Force-funded positions to report their time spent on the FMS Resource Allocation worksheet, an Excel-based tool developed by AFLCMC personnel to track the time spent by their employees on security assistance activities. In addition, the guidance requires AFLCMC employees working on security assistance to account for 100 percent of their time on the FMS Resource Allocation worksheet. We recommend that the USD(C)/CFO work with the DoD Components to:

- identify and track all the DoD civilian employees who provide any support to the security assistance programs;

¹⁶ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

- determine whether their current staff level is adequate to support their security assistance mission and request additional security assistance-funded positions, as needed;
- identify and recover all security assistance-related salary expenses for each DoD civilian employee between FYs 2014 and 2019 from the DSCA; and
- develop, document, and implement Component-level policies and procedures to identify, track, and recover all salary expenses for DoD civilians who support security assistance programs in future years.

We also recommend that the USD(C)/CFO revise DoD FMR Volume 15, Chapter 7, to clarify that DoD Components are required to recover all security assistance-related salary expenses.

The DoD Needs to Implement System Changes to the Defense Civilian Payroll System

The DoD may resolve its challenges with recovering security assistance-related salary expenses by implementing system changes to the DCPS.¹⁷ DoD employees who support security assistance full-time are not always paid directly from the FMS Trust Fund. Additionally, the DCPS cannot pay employees who split their time between DoD and security assistance programs from multiple appropriations. Instead, DoD civilians are paid from DoD appropriations, and DoD Components are forced to make unnecessary and time-consuming accounting adjustments to reimburse DoD appropriations from the FMS Trust Fund. The DoD could improve and simplify its business processes if the DCPS could pay DoD civilian employees from the appropriation that corresponds to the work performed. We recommend that the USD(C)/CFO work with DoD Components to:

- identify all of the DoD civilians who support security assistance programs full-time and ensure their positions are designated as security assistance positions within the DCPS. Employees who support security assistance programs full-time should be paid directly from the FMS Trust Fund;
- reprogram DCPS to allow for DoD civilian employees to be paid from multiple appropriations; and
- recover the security assistance-related costs from the DSCA for changes to the DCPS necessary to correct position records and to pay personnel from multiple appropriations.

¹⁷ The DCPS is owned and managed by DFAS and contains DoD civilian payroll position records, including the name of the agency for which the employee works and the appropriations from which the employee is paid.

Some DoD Components Did Not Recover Their Costs for Storing Security Assistance Assets at DoD Facilities

The DoD FMR requires DoD Components to charge a storage fee equal to 1.5 percent of the annual value, or 0.125 percent per month, of the stored security assistance assets, unless the DoD Components negotiate a separate fee with the storage facility.¹⁸ However, we determined that the DoD Components did not recover their costs for storing security assistance assets at DoD facilities from the DSCA. This occurred because DoD Components did not:

- design or implement a reliable method to calculate actual storage costs incurred, or
- request reimbursement from the DSCA for storing security assistance assets.

The Army Did Not Recover Storage Expenses at the Crane Army Ammunition Activity and Pine Bluff Arsenal

Army personnel did not recover at least \$0.6 million for costs related to storing security assistance assets at the CAAA and Pine Bluff Arsenal between FYs 2014 and 2019 in accordance with the AECA and DoD FMR.¹⁹ Specifically:

- the Army JMC did not recover \$0.4 million in Army operations and maintenance funds paid to the CAAA to store SDAF munition inventory between FYs 2017 and 2019; and
- TACOM SAMD personnel did not charge \$0.1 million to store SDAF inventory between FYs 2014 and 2019 at the Pine Bluff Arsenal. In addition, they did not recover at least \$0.04 million in Army operations and maintenance funds paid to the Pine Bluff Arsenal to dispose of SDAF inventory in FY 2019.

CAAA personnel charged the Army JMC to receive and store SDAF-purchased munitions based on the munitions weight. Based on the fees charged by the CAAA to receive and store the munitions, we determined that Army JMC personnel paid the CAAA \$0.7 million in Army operations and maintenance funds to receive and store SDAF munition items between FYs 2017 and 2019. The Army JMC received only \$0.2 million in reimbursement from the DSCA. This occurred because Army JMC personnel did not design or implement a reliable method to calculate actual storage costs incurred. Instead, Army JMC personnel relied on the reimbursement rate prescribed in the DoD FMR, 1.5 percent of the item's value, to recover their

¹⁸ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

¹⁹ The totals in this section will not equal due to rounding. See Appendix A for an explanation of the calculations.

costs. However, the DoD FMR reimbursement rate was not sufficient for Army JMC personnel to recover their actual costs for storing SDAF munitions at the CAAA, as required in the AECA.

In 2013, TACOM SAMD personnel contracted Pine Bluff Arsenal personnel to manufacture 12,753 chemical-biological masks for TACOM SAMD's SDAF inventory. TACOM SAMD personnel paid for the production with security assistance funds. Pine Bluff Arsenal personnel stored 5,414 of the masks, valued at \$1.9 million, at their facility between FYs 2014 and 2019. TACOM SAMD personnel did not charge the DSCA the annual 1.5 percent storage fee, or \$0.1 million to store the masks in accordance with the DoD FMR during this period. Instead, TACOM SAMD personnel stated that all overhead costs, including storage expenses, were included in the unit price of the masks. However, TACOM SAMD personnel could not explain or provide adequate documentation to support how the unit prices were calculated or which overhead costs were included in the unit price, if any. In addition, TACOM SAMD personnel acknowledged that they did not recover additional costs incurred for maintaining the SDAF masks, such as periodic inspections and inventory counts. They also stated that they charged other DoD Components the costs for inspecting and counting SDAF-purchased inventory because the chemical-biological masks were comingled with other DoD inventory. We could not quantify the amount charged to DoD Components because TACOM SAMD personnel could not produce adequate documentation to support costs charged to DoD Components.

TACOM SAMD personnel did not recover at least \$0.04 million in Army operations and maintenance funds paid to the Pine Bluff Arsenal to dispose of SDAF inventory in FY 2019. TACOM SAMD personnel did not monitor their SDAF inventory; therefore, they did not realize that the SDAF inventory had exceeded its shelf life or that Pine Bluff Arsenal personnel disposed of the inventory. Because of our findings, TACOM SAMD personnel acknowledged the need to recover TACOM SAMD's disposal costs and agreed to work with the ODASA (DE&C) and DSCA to recover the disposal costs at the conclusion of this audit. We consider the \$0.6 million in Army operations and maintenance funds that the Army did not recover to be a potential monetary benefit to the DoD. If the Army does not start tracking actual security assistance-related expenses, such as costs to store, maintain, and dispose of inventory, it could cost the Army additional funds in future years.

The Navy Did Not Recover Storage Expenses at the Cheatham Annex

Navy personnel did not recover at least \$0.08 million in fees for storing 18 security assistance assets, valued at \$1.6 million at the CAX between FYs 2017 and 2019 in accordance with the DoD FMR. In FY 2015, Naval Sea Systems Command purchased 10 Rigid Hull Inflatable Boats for its SDAF inventory and arranged to store the boats at the CAX facility beginning in FY 2016. Naval Sea Systems Command determined the storage costs to be \$8,712 each year, which it paid to the CAX for FY 2016 storage expenses.²⁰ However, this was the last payment that Naval Sea Systems Command made to the CAX despite storing the boats through FY 2019. Navy personnel at the CAX facility did not request additional payments from Naval Sea Systems Command between FYs 2017 and 2019, which totaled an additional \$0.04 million.

Naval Sea Systems Command also stored eight boats purchased by a foreign customer through the FMS process at the CAX. Naval Sea Systems Command personnel determined that the storage costs at the Navy CAX facility were \$12,000 per year and paid the first payment to the facility in FY 2016. This was the last payment that Naval Sea Systems Command made to the CAX facility for storing the FMS boats. Navy personnel at the CAX facility did not request additional payments from Naval Sea Systems Command between FYs 2017 and 2019, which totaled an additional \$0.04 million. According to Navy personnel, the Navy did not recover storage costs for the security assistance assets at the CAX because the Navy had competing priorities and it did not believe that processing the reimbursement was worth the effort. Navy officials agreed that the Navy should have charged the DSCA the storage costs for the 18 security assistance assets on an annual basis.

We consider the \$0.08 million in unrecovered storage expenses to be a potential monetary benefit to the DoD. If the Navy does not request reimbursement for future storage expenses, it could potentially cost the Navy approximately \$0.1 million in storage expenses over the next 6 years.²¹ We consider the \$0.1 million in future storage expenses to be a future potential monetary benefit to the DoD.

²⁰ Naval Sea Systems Command provided the CAX with a prorated amount of funds for storage in FY 2015, which was \$3,272.

²¹ This total will not equal due to rounding. See Appendix A for an explanation of the calculation.

The Air Force Recovered Storage Costs at the Crane Army Ammunition Activity

We determined that the Air Force recovered its costs for storing its SDAF munitions at the CAAA, which was \$0.05 million in FY 2019. The Air Force requested a job cost estimate from the CAAA before storing the munitions and requested the DSCA to pay the costs for storing the assets. The Air Force used the \$0.05 million that the DSCA provided to pay for the storage costs at the CAAA.

We recommend that the USD(C)/CFO work with the DoD Components to:

- identify and recover any storage costs that they did not recover for storing security assistance assets at all DoD facilities between FYs 2014 and 2019 from the DSCA; and
- develop, document, and implement Component-level policies and procedures to identify, track, and recover storage expenses for storing security assistance assets at DoD facilities in future years.

DoD Components Did Not Recover Costs For Maintaining Facilities and Leasing Commercial Office Space Used to Execute Security Assistance Programs

The DoD FMR requires DoD Components to recover the cost of maintaining facilities shared between the DoD Components and the security assistance programs.²² The Air Force provides administrative space for approximately 1,336 civilian employees at WPAFB who work at least part time on security assistance programs. We determined that the Air Force did not recover its costs for maintaining the WPAFB facilities shared with security assistance programs in accordance with the AECA and DoD FMR. Additionally, we determined that the Air Force incurred unnecessary lease expenses by providing administrative space to the security assistance programs.

We also determined that Navy personnel did not recover shared operating costs from the DSCA for storing security assistance boats at the CAX facility. These conditions occurred because DoD Component personnel did not design or implement a reliable method to account for maintenance costs for providing administrative space to security assistance programs. In addition, DoD Component personnel did not always request reimbursement from the DSCA for security assistance-related expenses.

²² DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

The Air Force Did Not Recover Shared Maintenance Costs at Wright-Patterson Air Force Base

We determined that the Air Force did not recover \$0.4 million in FY 2019 to maintain administrative office space shared by the DoD and security assistance programs. WPAFB Air Force civilian employees who support security assistance programs occupied 339,000 of the total 2.1 million square feet, or 16.2 percent, in 20 buildings. The Air Force spent \$2.0 million of its operations and maintenance funds to maintain the 20 buildings in FY 2019. Air Force personnel at WPAFB stated that they did not request reimbursement from the DSCA for any portion of the maintenance costs for the space used for security assistance programs in these buildings. However, we determined that WPAFB personnel should have requested the DSCA to reimburse them 16.2 percent, or \$0.4 million, for the maintenance and operating costs for facilities shared with the security assistance programs. We consider the \$0.4 million in Air Force funds that the Air Force did not recover to be a potential monetary benefit to the DoD. If the Air Force does not request reimbursement for shared maintenance and operating expenses, it could potentially cost the Air Force \$2.1 million in maintenance and operating costs at the WPAFB over the next 6 years.²³ We consider the \$2.1 million in maintenance and operating expenses to be a future potential monetary benefit to the DoD.

The Air Force did not recover maintenance and operating costs at WPAFB because the Air Force did not design or implement a reliable cost accounting method to recover actual security assistance-related costs. For example, WPAFB did not know the physical locations of security assistance personnel so that the Air Force could account for the shared maintenance and operating costs for the administrative space.

In addition, due to a space shortage at the WPAFB of approximately 1,000 seats, the Air Force leased 45,288 square feet of commercial space to provide workspace to approximately 300 employees supporting an Air Force Tanker program while employees supporting security assistance programs remain at WPAFB. Air Force personnel estimate that the first payment will be due in September 2020 and will cost the Air Force \$0.7 million annually, or \$3.6 million for the lease term, from its procurement funds.²⁴ The commercial space costs the Air Force 288 percent more per square foot to lease than its sustainment costs for the administrative space at the WPAFB.²⁵ In addition to the annual lease cost, the Air Force is also required to pay a one-time expense of \$4.8 million for initial construction to prepare the space

²³ This total will not equal due to rounding. See Appendix A for an explanation of the calculation.

²⁴ This total will not equal due to rounding. See Appendix A for an explanation of the calculation.

²⁵ The Air Force pays \$4.06 per square foot to sustain existing administrative space. The leased space costs the Air Force \$15.75 per square foot.

to meet the Air Force's needs. We consider the \$8.4 million in lease expenses as a potential monetary benefit to the DoD because the Air Force could have relocated employees supporting security assistance programs and requested that the DSCA pay for the lease with FMS Trust Fund administrative funds. If the Air Force relocates these employees, it could save approximately \$8.4 million over 5 years.²⁶

The Navy Did Not Recover Shared Maintenance Costs at the Cheatham Annex

Navy personnel did not recover their operating costs for storing security assistance assets in accordance with the AECA and DoD FMR at the CAX facility. According to Navy personnel, the annual operating costs for the warehouse used to store the SDAF boats was \$0.07 million per year. Navy personnel stated that they did not recover the expenses, or reimburse the Navy operation and maintenance account, because the space used to store the SDAF-purchased boats was available and not needed for storing Navy assets. We consider the \$0.07 million in operating costs that the Navy did not recover to be a potential monetary benefit to the DoD. If the Navy does not implement corrective actions, it could cost the Navy \$0.4 million over the next 6 years. We consider the \$0.4 million to be a future potential monetary benefit to the DoD.

We recommend that the USD(C)/CFO work with the Deputy Under Secretary of the Air Force for International Affairs to relocate security assistance personnel and necessary equipment from WPAFB to commercial lease space. The relocation expenses and commercial lease space should be paid with FMS Trust Fund administrative funds.

We also recommend that the USD(C)/CFO work with the DoD Components to:

- recover all operating costs that the DoD Components did not recover for providing administrative space to security assistance personnel at all DoD facilities between FYs 2014 and 2019 from the DSCA;
- develop, document, and implement Component-level policies and procedures to identify, track, and recover all operating costs for the DoD facilities used to support security assistance programs in future years. This includes identifying where employees who support security assistance programs sit at all DoD facilities; and
- perform an assessment of DoD facilities to determine if administrative space shortages exist and can be reduced by relocating security assistance personnel to commercial lease space. The assessment should be provided to the DoD Office of Inspector General for review.

²⁶ The lease term is 5 years. The total will not equal due to rounding. See Appendix A for an explanation of the calculation.

Potential Monetary Benefits

The DoD Components paid for security assistance-related expenses with DoD appropriations despite receiving security assistance funds to pay for these expenses. In addition, the DoD Components did not always request reimbursement from the DSCA for these expenses in accordance with the AECA and DoD FMR. Therefore, we consider the \$29.1 million in unrecovered expenses to be a potential monetary benefit to the DoD. The following table shows the potential monetary benefit and the DoD account impacted.

Table. The DoD's Unrecovered Security Assistance Expenses (in millions)

Component	Potential Monetary Benefit	DoD Accounts Impacted
DLA	\$15.8	TI 97 4930; Defense Wide Working Capital Fund
Air Force	11.8	TI 57 3400; Operations and Maintenance TI 57 3010; Aircraft Procurement
Army ¹	0.8	TI 21 2020; Operations and Maintenance
Navy ²	0.7	TI 17 1804; Operations and Maintenance
Total	\$29.1	

¹ Army total includes \$0.2 million in potential monetary benefit discussed in Finding B.

² Navy total will not equal due to rounding. See Appendix A for an explanation of this calculation.

Source: The DoD OIG.

Potential Antideficiency Act Violations

The “Purpose Statute” states, “Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.”²⁷ With limited exception, the DoD does not receive appropriated dollars to execute the security assistance programs. The DSCA provides the DoD Components with security assistance funds, including SDAF and FMS Trust Fund administrative funds, to pay for the Components’ administrative costs. The administrative costs include salary expenses, storage costs, and facility maintenance expenses. The DoD Components may request additional funds from the DSCA if their anticipated costs exceed the funding level provided by the DSCA. The DoD Components did not always request sufficient funding to cover their administrative expenses or use the FMS Trust Fund administrative funds available to pay for security assistance-related expenses. Instead, the DoD Components paid for administrative expenses with DoD appropriated funds intended for other DoD operations. Therefore, we determined that the Army, Navy, Air Force, and DLA personnel potentially violated the Purpose Statute and the Antideficiency Act.

²⁷ Chapter 13, Title 31, “Money and Finance,” Section 1301.

The DoD Components should have paid for these expenses with SDAF and FMS Trust Fund administrative accounts, which were the most appropriate appropriations to pay for these expenses.

In his August 2018 letter to the Comptroller General of the United States, the Deputy Secretary of Defense acknowledged that DoD appropriated funds are generally not available for purposes of providing security assistance. The limited exceptions include permissible training and congressional legislation that authorizes training and other types of foreign assistance funded with Title 10 funds. In his letter to the Comptroller General, the Deputy Secretary of Defense stated, “Outside of such exceptions, the use of operational funds for foreign assistance purposes is a violation of the Purpose Statute (31 U.S.C. §1301) as well as the [Antideficiency Act] (31 U.S.C. §1301).” According to the DoD FMR, when the OUSD(C) is informed of a potential violation by an audit report, the OUSD(C) may direct the Components to initiate a preliminary review of the circumstances surrounding the potential violation.²⁸ Therefore, we recommend that the USD(C)/CFO work with the appropriate personnel at the Army, Navy, Air Force, and DLA to perform a preliminary review of potential Antideficiency Act violations that may have occurred within their organizations by subsidizing security assistance-related expenses with appropriated funds. The review should be completed within 16 weeks of initial discovery as required by the DoD FMR, and the results of the preliminary investigation should be provided to the DoD Office of Inspector General.

Security Assistance Programs Pose a Risk to the DoD’s Operational Success

The security assistance programs are embedded in every echelon of the DoD, which creates significant challenges for the DoD Components to recover actual costs incurred for executing the programs. We identified significant and pervasive deficiencies throughout the DoD for capturing and recovering security assistance related operating costs, which resulted in \$29.1 million in potential monetary benefit to the DoD and potential Purpose Statute and Antideficiency Act violations.

In the 2018 National Defense Business Operations Plan, the DoD Office of the Chief Management Officer acknowledged the importance of accounting for all security assistance-related costs, stating that the proper cost accounting aids in both strategic and tactical-level business decisions. However, we determined that the DoD does not have the cost accounting practices in place to accurately capture actual costs incurred for executing the programs. The DoD relies on the program’s

²⁸ DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 14, “Administrative Control of Funds and Antideficiency Act Violations,” Chapter 3, “Antideficiency Act Violation Process.”

historical operating cost data to develop the FMS administrative surcharges, which is the DoD's only mechanism to recover its costs. If the DoD cannot accurately account for its costs, it is impossible for the DoD to ensure that it is charging a sufficient fee to recover its costs for executing the programs.

Furthermore, the perception throughout the DoD is that the Components do not pursue full cost recovery for providing support to the security assistance programs because the programs are part of the DoD's core mission. However, the security assistance programs are not included in any of the DoD's budget requests with the rest of its operations. Foreign customers deposit funds into the FMS Trust Fund, the Federal Reserve, or commercial bank accounts, and make payments to DFAS on a quarterly basis to purchase defense articles and services. The customer pays fees to cover the DoD's administrative costs incurred to provide the defense articles and services to the customer. While we recognize that the DoD is administratively responsible for the programs, it cannot subsidize foreign aid with its appropriations. By using DoD appropriations to pay for the security assistance programs, the DoD may have fewer funds to meet its operational goals outlined in the FY 2018-FY 2022 National Defense Business Operations Plan.

Due to the pervasive cost recovery problems identified in this report, including the general misunderstanding of the cost recovery requirements, the DoD should review its policies and processes for recovering costs associated with executing the security assistance programs. A recent Government Accountability Office report stated that the FMS Trust Fund administrative account grew from \$391 million to \$4.1 billion between FYs 2007 and 2017.²⁹ The FY 2019 account balance was \$5.2 billion. Therefore, there are funds in the account to reimburse the DoD for its costs. We recommend that the Deputy Secretary of Defense identify and direct the appropriate official to:

- perform a comprehensive analysis of the functions performed by DoD Components and determine whether the current administrative rates charged to foreign customers are adequate for the DoD to recover its costs for providing security assistance support; and
- develop, document, and implement detailed guidance to the DoD Components that identifies which costs should be covered and the process for recovering the costs.

²⁹ Report No. GAO-18-401, "FMS: Controls Should Be Strengthened to Address Substantial Growth in Overhead Account Balances," May 2018.

We also recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- track the dollar amount of costs recovered for security assistance-related administrative expenses, including salary, storage, and facility expenses;
- track the dollar amount of future savings for security assistance related administrative expenses, including salary, storage, and facility expense; and
- require the Service audit organizations and internal audit organizations within the DoD Components to audit their organizations' security assistance-related cost recovery processes and procedures on an annual basis.

Recommendations, Management Comments, and Our Response

Revised Recommendation

As a result of discussions with management, we revised Recommendation A.1 to clarify that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, needs to work with the DoD Components to perform the actions detailed in Recommendations A.1.a through A.1.l.

Recommendation A.1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the DoD Components to:

- a. Identify and track all the DoD civilian employees who provide any support to the security assistance programs.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO, agreed with the recommendation, stating that the DoD FMR requires DoD Components to recover the full cost of providing general administrative support to the FMS program.³⁰ In addition, the DCFO stated that the SAMM provides additional guidance to the DoD Components for recovering manpower costs.³¹ The DCFO stated that the OUSD(C) will work with DoD Components to ensure that controls are in place to comply with Department policy.

³⁰ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

³¹ SAMM, Section 9.3.1, "Recovery of Cost," and Section 9.4.2, "Manpower in Support of FMS Programs."

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We recognize that the DoD FMR and SAMM provide the DoD Components with guidance for recovering civilian payroll expenses. However, neither the DoD FMR nor the SAMM require that the DoD Components identify and track all of the civilian employees who provide support to the security assistance programs. By identifying and tracking which employees support the programs, the DoD Components will ensure that they are recovering all civilian payroll expenses for the necessary personnel. We will close the recommendation once we verify that the OUSD(C) and the DoD Components have developed and implemented a process for identifying and tracking all civilian employees who support the security assistance programs.

- b. Determine whether their current staff level is adequate to support their security assistance mission and request additional security assistance-funded positions, as needed.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the DoD Components to review current processes, including performing an evaluation of current staffing levels required to support their security assistance missions. The DCFO stated that the DoD FMR requires the DoD Components to submit FMS and Contract Administrative Services budget requests annually, which is an opportunity for the Components to request the needed resources.³² Following the assessment, the DSCA will make any needed adjustments through its annual Security Assistance Program and Budget Review process.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. The Security Assistance Program and Budget Review process relies on historical cost data, including personnel expenses, to determine future administrative budgets. While historical personnel expense data is a reasonable baseline, the DoD Components should not rely solely on this data to make future staffing decisions. For example, DoD civilians often support both DoD and security assistance missions simultaneously; therefore, the DoD Components should consider the

³² DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 2, "Finance."

impact that potential competing priorities have on determining their resourcing needs. We will close the recommendation once we verify that the OUSD(C) and the DoD Components have determined whether their staffing levels are adequate to support their security assistance missions and requested additional security assistance-funded positions, if needed.

- c. Identify and recover all security assistance-related salary expenses for each DoD civilian employee between FYs 2014 and 2019 from the Defense Security Cooperation Agency.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the DoD Components to identify and recover all security assistance-related salary expenses for each DoD civilian employee between FYs 2014 and 2019.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. In order to recover the salary expenses incurred between FYs 2014 and 2019, the OUSD(C) and the DoD Components will first need to identify which employees supported the programs during this period, which will assist in resolving Recommendation A.1.a. We will close the recommendation once we verify that the OUSD(C) and the DoD Components have identified and recovered from the DSCA all security assistance-related salary expenses for each DoD employee between FYs 2014 and 2019.

- d. Develop, document, and implement Component-level policies and procedures to identify, track, and recover salary expenses for DoD civilians who support security assistance programs in future years.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the DoD Components to ensure that controls are in place to comply with the cost recovery requirements in the DoD FMR.³³ This includes developing, documenting, and implementing Component-level policies and procedures.

³³ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

Our Response

The comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) and the DoD Components have developed, documented, and implemented Component-level policies and procedures to identify, track, and recover salary expenses for those employees who support security assistance programs.

- e. **Identify all DoD civilians who support security assistance programs full-time and ensure their positions are designated as security assistance positions within the Defense Civilian Payroll System. Employees who support security assistance programs full-time should be paid directly from the Foreign Military Sales Trust Fund.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the DSCA and the DoD Components to review the feasibility of identifying all DoD civilians who support security assistance programs full-time and ensure their positions are designated as security assistance positions within the DCPS.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. In response to Recommendation A.1.a, the DCFO agreed to identify and track all DoD civilian employees who provide any support to the security assistance programs. As a part of the review, we recommend that the OUSD(C)/CFO also identify the personnel who support the security assistance programs on a full-time basis. This will assist the USD(C)/CFO in ensuring that each employee's positions are properly recorded in the DCPS. We will close this recommendation once we verify that the OUSD(C) and the DoD Components have identified the DoD civilians who support security assistance programs full-time and ensured that their positions are designated as security assistance positions within the DCPS.

- f. Reprogram the Defense Civilian Payroll System to allow for DoD civilian employees to be paid from multiple appropriations.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will evaluate automated alternatives that could ensure appropriate civilian personnel costs are charged to the appropriate FMS accounts. The DCFO stated that reprogramming the DCPS will be one of the alternatives reviewed. In FY 2019, DFAS, the owner of the DCPS, conducted a business case analysis of the system change request required to allow an employee to be paid from more than one line of accounting. Findings at the time indicated significant cost and risk related to this kind of change.

Our Response

The comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We recognize that DFAS performed a business case analysis in FY 2019; however, DFAS personnel could not provide us the detail-level data to support their analysis. Therefore, it is unclear how DFAS personnel performed the calculation or what costs they considered in their analysis. We encourage the OUSD(C) to review the business case analysis again and revise as appropriate, and to recognize that a portion of the cost of the system changes will be paid from the FMS Trust Fund. The OUSD(C) and DFAS should also consider the cost of not reprogramming the DCPS, such as the costs incurred by the DoD Components to adjust payroll records and transfer funds between the security assistance accounts and DoD accounts. We will close the recommendation once we verify that the OUSD(C) and DFAS have an automated process in place to pay each civilian employee from multiple appropriations.

- g. Recover the security assistance-related costs from the Defense Security Cooperation Agency for changes to the Defense Civilian Payroll System necessary to correct position records and to pay personnel from multiple appropriations.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that costs related to implementing an automated solution discussed in Recommendation A.1.f will be recovered from the DSCA, as appropriate.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) recovered from the DSCA all security assistance-related costs incurred from implementing Recommendation A.1.f.

- h. Identify and recover any storage costs that they did not recover for storing security assistance assets at all DoD facilities between FYs 2014 and 2019 from the Defense Security Cooperation Agency.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the DSCA and the DoD Components to ensure compliance with both policy and guidance included in the DoD FMR and the SAMM.³⁴

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) and the DoD Components have identified and recovered from the DSCA all costs for storing security assistance assets at DoD facilities between FYs 2014 and 2019.

- i. Develop, document, and implement Component-level policies and procedures to identify, track, and recover storage expenses for storing security assistance assets at DoD facilities in future years.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that clear policy and procedural guidance already exist. The DCFO stated that the OUSD(C) will work with the DSCA and the DoD Components moving forward to ensure that these controls are implemented.

³⁴ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing." DSCA SAMM, Section 9.5, "FMS Charges," Table C9.T4, "Table of Charges."

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We recognize that the DoD FMR and SAMM provide policy and procedural guidance to the DoD Components in recovering storage related expenses. However, the DoD FMR and the SAMM do not require the DoD Components to develop policies and procedures to recover storage-related expenses. We will close the recommendation once we verify that the OUSD(C) and the DoD Components have developed and implemented Component-level policies and procedures to identify, track, and recover expenses for storing security assistance assets at DoD facilities.

- j. Recover all operating costs that the implementing agencies did not recover for providing administrative space to security assistance personnel at all DoD facilities between FYs 2014 and 2019 from the Defense Security Cooperation Agency.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the DoD FMR requires the Components to recover the costs for providing facility space to the security assistance programs. The DCFO stated that the OUSD(C) will work with the DoD Components to recover from the DSCA all operating costs that the Components did not recover for providing administrative space to security assistance personnel at DoD facilities between FYs 2014 and 2019, in accordance with the DoD FMR.³⁵

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) and the DoD Components have identified and recovered from the DSCA all operating costs for providing administrative space to security assistance personnel at DoD facilities between FYs 2014 and 2019.

³⁵ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

- k. **Develop, document, and implement Component-level policies and procedures to identify, track, and recover all operating costs for DoD facilities used to support security assistance programs in future years. This includes identifying where employees who support security assistance programs sit at all DoD facilities.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the DSCA and the DoD Components to ensure that guidance, processes, and procedures are in place to comply with the policy in the DoD FMR.³⁶

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) and the Components have developed, documented, and implemented policies and procedures to recover all operating costs for DoD facilities used to support the security assistance programs. This includes identifying where employees who support the programs sit at all DoD facilities.

- l. **Perform an assessment of DoD facilities to determine whether administrative space shortages exist and can be reduced by relocating security assistance personnel to commercial lease space. The assessment should be provided to the DoD Office of Inspector General for review.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the DoD Components to perform the assessment to determine whether potential administrative space shortages exist and can be reduced by relocating security assistance personnel to commercial lease space. The DCFO also stated that the results of the review will be provided to the DoD Office of Inspector General.

³⁶ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing."

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we review the results of the assessment and any applicable solutions.

Recommendation A.2

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. Revise DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 15, “Security Cooperation Policy,” Chapter 7, “Pricing,” to clarify that DoD Components are required to recover all security assistance-related salary expenses.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will revise the DoD FMR to clarify that DoD Components must recover all security assistance-related salary expenses.³⁷ Additionally, the OUSD(C) will work with the DSCA and the DoD Components to ensure that their guidance and procedures are updated.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) has revised the DoD FMR to clarify that the DoD Components must recover all security assistance-related salary expenses.

- b. Work with the Deputy Under Secretary of the Air Force for International Affairs to relocate security assistance personnel and necessary equipment from Wright-Patterson Air Force Base to commercial lease space. The relocation expenses and commercial lease space should be paid with Foreign Military Sales administrative funds.**

³⁷ DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 15, “Security Cooperation Policy,” Chapter 7, “Pricing.”

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the Deputy Under Secretary of the Air Force for International Affairs to relocate the personnel and equipment from WPAFB to commercial space.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) worked with the Deputy Under Secretary of the Air Force for International Affairs to relocate the security assistance personnel and equipment from WPAFB to commercial lease space. In addition, we will verify that the relocation and commercial lease space expenses were funded from the FMS administrative account.

- c. **Work with the appropriate personnel at the Army, Navy, Air Force, and Defense Logistics Agency to perform a preliminary review of potential Antideficiency Act violations that may have occurred within their organizations by subsidizing security assistance-related expenses with appropriated funds. The review should be completed within 16 weeks of initial discovery as required by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 14, "Administrative Control of Funds and Antideficiency Act Violations," Chapter 3, "Antideficiency Act Violation Process," and the results of the preliminary investigation should be provided to the DoD Office of Inspector General.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the initial assessment performed by the OUSD(C) determined that no Antideficiency Act violations occurred. However, the DCFO agreed to work with the DoD Components to perform a preliminary investigation and provide the results to the DoD Office of Inspector General.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. The OUSD(C) has not provided any legal analysis to support its initial assessment that the DoD Components did not violate the Purpose Statute or the Antideficiency Act. During its preliminary investigation, the OUSD(C) should ensure that each DoD

Component is properly performing the three-part test to determine whether the security assistance-related expenditures are necessary expenses of the particular DoD Appropriation. This includes determining whether:

1. the expenditure bears a logical relationship to the appropriation sought to be charged;
2. the expenditure is prohibited by law; and
3. the expenditure falls within the scope of some other appropriation or statutory funding scheme.

Furthermore, in his 2018 letter to the Comptroller General of the United States, the Deputy Secretary of Defense acknowledged that DoD appropriated funds are generally not available for purposes of providing security assistance. He also stated that outside of limited exception, the use of operational funds for foreign assistance purposes is a violation of the Purpose Statute as well as the Antideficiency Act. If the OUSD(C) and the DoD Components determine that they did not violate the Purpose Statute or Antideficiency Act, the OUSD(C) will need to explain why this determination does not align with that of the Deputy Secretary of Defense. We will close the recommendation once we review the results of the preliminary investigation.

- d. Track the dollar amount of costs recovered for security assistance-related administrative expenses, including salary, storage, and facility expenses.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C), in coordination with the DSCA and the DoD Components, will track the dollar amount of costs recovered for security assistance-related administrative expenses for prior years.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) has tracked the amount of costs recovered for security assistance-related administrative expenses.

- e. **Track the dollar amount of future savings for security assistance-related administrative expenses, including salary, storage, and facility expenses.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the DSCA and the DoD Components to track the dollar amount of future savings for security assistance-related administrative expenses.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) has procedures in place to track the amount of future savings for security assistance-related administrative expenses and provide the savings for FY 2021.

- f. **Require the Service audit organizations and internal audit organizations within the DoD Components to audit their organizations' security assistance-related cost recovery processes and procedures on an annual basis.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C) will work with the Military Components, recommending that they direct their audit organizations to conduct annual security-assistance related audits and address findings in their annual Statements of Assurance.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved and will remain open. We will close the recommendation once we verify that the OUSD(C) issued requirements to the DoD Component audit organizations to audit their organizations' security assistance-related cost recovery processes on an annual basis.

Recommendation A.3

We recommend that the Deputy Secretary of Defense identify and direct the appropriate official to:

- a. Perform a comprehensive analysis of the functions performed by DoD Components and determine whether the current administrative rates charged to foreign customers are adequate for the DoD to recover its costs for providing security assistance support.**

Deputy Secretary of Defense Comments

The Deputy Secretary of Defense agreed with the recommendation, stating that a review of policies, processes, and systems related to functions performed by DoD Components and a review of the cost recovery processes for providing security assistance support will be conducted. The Deputy Secretary of Defense plans to complete these reviews by December 31, 2020.

Our Response

Comments from the Deputy Secretary of Defense addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DoD official completed the analysis, which includes performing an independent and objective review of the current administrative rates charged to foreign customers.

- b. Develop, document, and implement detailed guidance to the DoD Components that identifies which costs should be recovered and the process for recovering the costs.**

Deputy Secretary of Defense Comments

The Deputy Secretary of Defense agreed with the recommendation, stating that the results from the review conducted in response to Recommendation A.3.a and other actions taken in response to other recommendations in this report will be used to revise the current guidance. The Deputy Secretary also stated that the guidance will be documented and implemented to recover all required costs.

Our Response

Comments from the Deputy Secretary of Defense addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the revised guidance identifies which costs the DoD Components can recover and the process for recovering the costs.

Management Comments on Potential Monetary Benefits

A summary of management comments on potential monetary benefits and our response is in Appendix C.

Finding B

The DoD Needs to Improve Asset Management

We determined that DoD Component personnel did not maintain accountability of DoD assets or maintain accurate SDAF inventory records in accordance with Office of Management and Budget Circular No. A-123 or the DSCA Security Assistance Management Manual (SAMM).³⁸ Specifically:

- Army personnel inadvertently shipped 630 Army chemical-biological masks to foreign customers and misplaced 10 SDAF-purchased chemical-biological masks; and
- ODASA (DE&C) and SAF/IA personnel did not maintain accurate inventory records, such as the inventory's location, quantity, or National Stock Number.

These conditions occurred because DoD Component personnel did not design or implement an internal control environment to:

- prevent personnel from shipping Army assets to a foreign customer,
- track and maintain SDAF inventory records from the warehouse inventory systems, and
- periodically inspect or review manual inventory records for accuracy.

DoD Components need to implement effective controls to prevent or detect the unauthorized use or disposition of an entity's assets. DoD Components need to distinguish DoD assets from those of the security assistance programs so that the assets are available for the intended customer, including foreign partners. In addition, without accurate locations or quantities of SDAF inventory, DoD personnel will not know what the DoD has in storage, which may lead to a shortage of materiel necessary to meet the needs of our foreign partners. Conversely, DoD personnel may order materiel that the DoD already owns, which is a waste of funds.

³⁸ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016. DSCA SAMM, Section C11.9.5, "Inventory Control and Reporting of SDAF Assets."

The DoD Needs to Improve the Safeguarding of Assets and Maintaining Inventory Records

The DoD has the critical responsibility of maintaining accountability for DoD and security assistance program assets. This responsibility includes distinguishing between the two sets of assets so that the DoD can supply U.S. and foreign military forces with the correct items. OMB Circular No. A-123 requires DoD employees to safeguard their assets and DoD management to establish internal controls to achieve this objective. In addition, the SAMM requires inventory managers to maintain accountability of all SDAF inventory. We determined that TACOM SAMD personnel did not establish a control environment to maintain accountability of Army assets at the Pine Bluff Arsenal in accordance with OMB Circular No. A-123. We also determined that ODASA (DE&C) and SAF/IA personnel did not maintain accurate records for SDAF inventory, which may prevent the Army and Air Force from distinguishing or accounting for security assistance assets in the future.

Army Personnel Did Not Safeguard DoD Assets

TACOM personnel inadvertently shipped 630 chemical-biological masks, valued at \$216,064, to foreign customers from their Army stock rather than the SDAF stock designated for foreign customers. TACOM personnel entered the incorrect ownership code on the materiel release order, which caused Army personnel to fill the foreign customer orders with Army masks rather than SDAF masks. While the ownership codes were designed to help Army personnel distinguish their assets from those of the SDAF program, the codes were not effective. Therefore, Army personnel did not maintain accountability of Army assets from those of the SDAF program in accordance with OMB Circular No. A-123 or the SAMM.

Furthermore, TACOM SAMD and Pine Bluff Arsenal personnel could not replenish the Army stock with SDAF masks because both the SDAF and Army masks had exceeded their shelf life and were disposed of in 2019. Specifically, 5,412 SDAF chemical-biological masks, valued at approximately \$1.9 million, were stored at the Pine Bluff Arsenal between FYs 2014 and 2019 before disposal.³⁹ In addition, based on our inquiry, TACOM SAMD personnel determined that Pine Bluff personnel misplaced 10 additional SDAF-purchased masks, valued at \$0.003 million, that also need to be disposed because they exceeded their shelf life. As of December 2019, neither TACOM SAMD nor Pine Bluff personnel could account for the physical location of the 10 missing chemical-biological masks.

These conditions occurred because Army personnel did not establish or implement an internal control environment to prevent Army personnel from shipping their assets to foreign customers, such as requiring a supervisor to review all security

³⁹ The Army has yet to dispose of 2 masks, which brings the total to 5,414 masks.

assistance related materiel release orders. Additionally, neither ODASA (DE&C) nor TACOM SAMD personnel monitored their inventory levels. They were unaware that Army personnel sent Army assets to foreign customers or that the SDAF inventory had either expired or been misplaced until we requested and reconciled Pine Bluff Arsenal inventory reports.

The DoD uses the chemical-biological masks to protect DoD personnel from field concentrations of chemical and biologic agents, toxins, and radiological fallout particles. The Army needs to implement effective controls to protect this critical safety equipment and to ensure that this equipment is available for the intended customer, including the DoD and foreign customers. According to the SAMM, the purpose of the SDAF program is to have defense articles readily available to meet the needs of foreign customers and to reduce the need to divert DoD inventory to meet urgent foreign customer demand.⁴⁰ Due to a lack of internal controls, TACOM SAMD personnel did not meet the primary goal of the SDAF because the Army masks were provided to foreign customers despite TACOM SAMD having SDAF masks available to ship to a foreign customer. We consider the \$0.2 million in assets that the Army shipped to foreign customers a potential monetary benefit to the DoD because the Army will have to repurchase these items. We recommend that the USD(C)/CFO work with the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation to:

- recover funds from the DSCA in the amount equal to the current market price of the chemical-biological masks that Army personnel shipped to foreign customers; and
- initiate an investigation to determine why the SDAF masks were misplaced and take appropriate action in accordance with the DoD FMR.

We recommend that the USD(C)/CFO work with the Under Secretary of Defense for Acquisition and Sustainment and the DoD Components to:

- develop, document, and implement Component-level inventory management policies and procedures to prevent DoD personnel from shipping DoD assets to foreign customers, unless a valid reason exists. The procedures should include a supervisory review of all materiel release orders to foreign customers. The review should be documented and maintained in the case files; and
- develop, document, and implement an internal control environment at DoD facilities that prevents DoD assets from being misplaced in the future.

⁴⁰ DSCA SAMM, Section C11.9, "Special Defense Acquisition Fund." According to the SAMM, the SDAF is authorized in Section 51 of the AECA, 22 United States Code, Section 2795.

ODASA (DE&C) and SAF/IA Personnel Did Not Maintain Accurate SDAF Inventory Records

In response to our data requests, ODASA (DE&C) personnel provided inaccurate quantities and locations for their SDAF inventory. ODASA (DE&C) personnel stated that they perform quarterly data calls with the Army Security Assistance Enterprise to track quantities and locations of SDAF inventory. ODASA (DE&C) personnel consolidate the information from the Army Security Assistance Enterprise and report inventory information, such as quantity and location, to DSCA personnel. The DSCA uses the information to oversee the SDAF program and reports to Congress the items that the DoD purchased and sold through the SDAF program. However, we determined that the July 2019 ODASA (DE&C) inventory report did not include accurate quantities and locations of inventory.

For example, according to the inventory report, the ODASA (DE&C) was storing 10,000 120-millimeter mortars with fuses, valued at \$2.7 million, at the CAAA. However, during our inspection of CAAA inventory in July 2019, we determined that the ODASA (DE&C) was actually storing 20,000 mortars with fuses, valued at \$5.4 million. ODASA (DE&C) personnel stated that they inadvertently omitted an Army program office update to the 120-mm mortar quantities.

In another example, the July 2019 report stated that the ODASA (DE&C) was storing 4,794 chemical-biological masks, valued at \$1.8 million, at the Edgewood Arsenal in Edgewood, Maryland. However, we determined that the location and quantity reported were incorrect. The masks were actually located at the Pine Bluff Arsenal in Pine Bluff, Arkansas, until they were disposed of in 2019. Additionally, the Pine Bluff Arsenal had 5,414 masks on hand rather than the reported quantity of 4,794. TACOM SAMD personnel stated that the inventory report location was inaccurate because they accidentally provided the location of the chemical-biological masks materiel owner rather than the physical location of the masks on the inventory report. Additionally, due to staff turnover, TACOM SAMD personnel could not explain when the quantities were first reported incorrectly but stated that the quantities were incorrect because of the incorrect ownership code and misplaced masks.

SAF/IA personnel also provided inaccurate information on their July 2019 SDAF inventory report. For example, SAF/IA personnel reported 102 inventory items, valued at \$498,372, with the incorrect National Stock Number, which we discovered during our inspection at the CAAA. SAF/IA personnel stated that the stock number was transposed when they manually input the information into their Excel worksheet.

ODASA (DE&C) and SAF/IA personnel did not maintain accurate inventory records for two reasons. First, ODASA (DE&C) and SAF/IA personnel do not have access to the warehouse inventory systems managed by facility personnel to generate inventory reports. Instead, they rely on a manual process that is prone to human error, such as data calls and tracking records in spreadsheets. Second, they did not have processes or procedures in place to ensure that periodic inspections of inventory levels at the storage facility or supervisory reviews of manual inventory records submitted were performed. We recommend that the USD(C)/CFO, work with the Under Secretary of Defense for Acquisition and Sustainment and the DoD Components to incorporate all security assistance assets into their inventory and property management systems. The DoD Components should be able to identify the quantity, location, and value of security assistance assets in their custody on demand when requested by management and stakeholders.

Lack of Safeguarding and Inaccurate Inventory Records Could Impact the DoD's Operational Readiness

Maintaining physical security of assets and accurate inventory records are essential to the operational success of both DoD and security assistance programs. There can be significant consequences if the DoD does not maintain accountability of its assets. For example, critical safety equipment, such as chemical-biological masks, may not be available to train or deploy the warfighter. Without accurate locations or quantities of SDAF inventory, DoD personnel will not know what the DoD has in storage, which may lead to a shortage of materiel necessary to meet the needs of our foreign partners. Conversely, DoD personnel may order materiel that the DoD already owns, which is a waste of funds. In addition, accurate SDAF inventory records allows Congress and the Secretary of Defense to make informed decisions on the budget and operation of the SDAF in future years, including budgeting for costs and planning stock levels. Lastly, National Stock Numbers are an essential part of the military's logistics supply chain used in managing, moving, storing, and disposing of materiel. Without accurate National Stock Numbers, inventory managers may not be able to make key decisions related to the materiel, such as identifying the shelf life of an item or identifying the correct spare parts.

Most DoD Components Distinguished Between DoD and Security Assistance Assets

We determined that the DoD Components distinguished their assets from those of the security assistance programs at the CAAA, LEMC, CAX, and DLA Disposition Services Richmond. CAAA personnel were storing 2.6 million SDAF assets, valued at \$39.6 million, on behalf of the Army and Air Force, and CAAA personnel could easily identify these assets in the storage structures and inventory systems.

We verified that CAAA personnel accounted for the entire SDAF inventory. Although not required, CAAA personnel segregated the SDAF inventory into separate storage structures to prevent DoD assets from being comingled with SDAF inventory.

Navy personnel were storing \$25.2 million in SDAF inventory at LEMC. The SDAF inventory included three components of a weapon system—1,002 weapon guidance sections, 1,432 warheads, and 50 rocket motors. We verified that LEMC personnel accounted for the entire SDAF inventory. We verified that LEMC personnel accounted for 408 FMS assets valued at \$702,080, such as rocket motors and warheads. Navy personnel stored 18 security assistance boats at the CAX, valued at \$1.6 million. CAX personnel accounted for all assets at the time of our visit.

DLA Disposition Services Richmond distinguished DoD assets from those of the security assistance programs. We verified that 392 FMS vehicles, valued at \$55.7 million, were accounted for at the facility. DLA personnel labeled vehicles as “FMS” in the storage yard.

Recommendations, Management Comments, and Our Response

Revised Recommendation

As a result of discussions with management, we revised Recommendation B.2 to clarify that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, needs to work with the Under Secretary of Defense for Acquisition and Sustainment and the DoD Components to perform the actions detailed in Recommendations B.2.a through B.2.c.

Recommendation B.1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation to:

- a. Recover funds from the Defense Security Cooperation Agency in the amount equal to the current market price of the chemical-biological masks that Army personnel shipped to foreign customers.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C), in coordination with the Deputy Assistant Secretary of the Army for Defense Export and Cooperation, will determine whether the Army personnel shipped the masks to foreign customers or disposed of them after they

exceeded their shelf life in 2019. The OUSD(C) will take actions to recover funds from the DSCA, as appropriate.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. As noted in the report, we determined, and Army personnel agreed, that Army personnel shipped Army-procured chemical-biological masks to foreign customers instead of SDAF-procured masks. Because Army personnel inadvertently shipped Army-procured masks rather than the SDAF-procured masks, the SDAF masks remained in the SDAF stockpile until they exceeded their shelf life and were disposed of in 2019. We will close the recommendation once we verify that the OUSD(C) and the Deputy Assistant Secretary recovered funds from the DSCA FMS Trust Fund equal to the current market price of the chemical-biological masks shipped to foreign customers.

- b. Initiate an investigation to determine why the Special Defense Acquisition Fund masks were misplaced and take appropriate action in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 12, "Special Accounts, Funds, and Programs," Chapter 7, "Financial Liability for Government Property Lost, Damaged, Destroyed, or Stolen."**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C), in coordination with the Deputy Assistant Secretary of the Army for Defense Export and Cooperation, will conduct an investigation to determine why the SDAF chemical-biological masks were misplaced.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the OUSD(C) and the Deputy Assistant Secretary performed an investigation and took action, as appropriate.

Recommendation B.2

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Under Secretary of Defense for Acquisition and Sustainment and the DoD Components to:

- a. Develop, document, and implement Component-level inventory management policies and procedures to prevent DoD personnel from shipping DoD assets to foreign customers, unless a valid reason exists. The procedures should include a supervisory review of all materiel release orders to foreign customers. The review should be documented and maintained in the case files.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C), in coordination with the Office of the Under Secretary of Defense for Acquisition and Sustainment and the DoD Components, will develop, document, and implement Component-level inventory management policies and procedures to prevent DoD personnel from shipping DoD assets to foreign customers.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DoD Components developed, documented, and implemented policies and procedures that prevent DoD assets from being shipped to foreign customers in the future. The policies and procedures should include requirements for supervisory review and document retention.

- b. Develop, document, and implement an internal control environment at DoD facilities that prevents DoD assets from being misplaced in the future.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C), in coordination with the Office of the Under Secretary of Defense for Acquisition and Sustainment and the DoD Components, will develop, document, and implement an internal control environment at DoD facilities that prevents DoD assets from being misplaced in the future.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DoD Components developed, documented, and implemented internal controls at DoD facilities to prevent DoD assets from being misplaced in the future.

- c. Incorporate all security assistance assets into their inventory and property management systems. The DoD Components should be able to identify the quantity, location, and value of security assistance assets in their custody on demand when requested by management and stakeholders.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the OUSD(C), in coordination with the Office of the Under Secretary of Defense for Acquisition and Sustainment and the DoD Components, will incorporate all security assistance assets into their inventory and property management systems.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DoD Components recorded all security assistance assets in their inventory and property management systems. Specifically, the DoD Components will need to demonstrate that they can generate inventory reports identifying the quantity, location, and value of the security assistance assets in their custody.

Management Comments on Potential Monetary Benefits

A summary of management comments on potential monetary benefits and our response is in Appendix C.

Appendix A

Scope and Methodology

We conducted this performance audit from April 2019 through July 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.

Our announced objective was to determine whether the DoD Components identified and reported the security assistance program assets to the DSCA and excluded these assets from their financial statements. Additionally, we were going to determine whether the DoD was recovering its costs for managing and provided security assistance program assets. We revised the audit objective because we are in the middle of an ongoing discussion with OUSD(C) and Federal Accounting Standards Advisory Board personnel related to the financial reporting of the security assistance programs. We are waiting for a final determination from the board on how the DoD should financially report the security assistance programs. The revised objective was to determine whether the DoD Components recovered their costs for executing security assistance programs and distinguished their assets from those of the security assistance programs.

To achieve our audit objective, we observed cost and asset management processes and procedures implemented at the Army, Navy, Air Force, and the DLA.

We planned our audit procedures to determine whether these DoD Components recovered salary, storage, and maintenance expenses incurred for executing the security assistance programs. We interviewed key management officials at these DoD Components and reviewed process documentation. We also interviewed management officials at the DSCA to understand their role in the process of reimbursing the DoD Components for the expenses they incurred for executing the security assistance programs. In addition, we reviewed applicable public laws, OMB Circular No. A-123, the DoD FMR, and the SAMM.

The audit team selected the following locations to interview facility personnel, observe operations, and perform audit procedures.

- Crane Army Ammunition Activity in Crane, Indiana
- Edgewood Arsenal in Edgewood, Maryland
- Cheatham Annex in Williamsburg, Virginia

- Letterkenny Munitions Center in Chambersburg, Pennsylvania
- DLA Disposition Services in Richmond, Virginia
- Wright-Patterson Air Force Base near Dayton, Ohio

The audit team selected the CAAA because this location stored Army, Air Force, and DLA assets. Additionally, the CAAA had the largest quantity of SDAF inventory items (2.6 million) with the largest dollar value (\$36.9 million), which belonged to the Army and Air Force. The team calculated the quantity and value from FY 2019 second quarter inventory reports provided by the DoD Components.

The team originally selected Edgewood Arsenal in Edgewood, Maryland, to inspect inventory; however, after we selected the site, the Army stated that the assets were actually located at the Pine Bluff Arsenal in Pine Bluff, Arkansas. We did not visit Pine Bluff because the assets were disposed at the time of our site visit request. We discuss these deficiencies in the report findings.

We selected the CAX and LEMC because these locations collectively stored 1,637 items of the Navy's SDAF inventory worth \$19.6 million. This is approximately 97 percent of its SDAF inventory value. We selected the DLA Disposition Services facility in Richmond, Virginia, because it is one of two locations where the DLA stores security assistance assets. The other is located in Barstow, California, and it was more cost-effective to visit Richmond rather than Barstow.

While on site, the audit team met with facility inventory managers to understand how they receive, store, inspect, and ship SDAF inventory items. We also met with finance and budget personnel to understand how the facility calculates and tracks overhead costs, such as salaries, storage and facility maintenance. We also discussed how the facility and DoD Components request reimbursement for providing support to security assistance programs.

Salary Expenses

The DLA provided a list of the 30 employees who supported the security assistance programs in 2019 for which their salaries were not reimbursed by the DSCA. The DLA also provided the percentage of time each employee spent on the programs, the employee's 2019 salary, GS level, location, and the Office of Personnel Management pay scale applicable for each employee. We used this information to calculate that the DLA did not recover \$2.3 million (\$2,254,794) in salary expenses in 2019. The team used similar information provided by the Air Force to calculate the \$0.1 million (\$140,632) in unrecovered salary expenses for the Deputy Division Chief at the SAF/IA. We multiplied the 2019 unrecovered salary expenses

by 6 years to determine that if the DLA and Air Force do not implement our recommendations, it could cost them approximately \$ 13.5 million (\$13,528,762) and \$0.8 million (\$843,792) in future salary costs, respectively. ⁴¹

Storage, Maintenance Costs, and Inventory Inspections

We relied on Army-provided inventory and cost data to calculate the \$0.4 million (\$411,913) in unrecovered operations and maintenance funds paid to the CAAA to store SDAF munitions between FYs 2017 and 2019. From CAAA personnel, we obtained rates that they charge for receiving and inspecting the SDAF inventory. We multiplied the activity rates by the item weight or total hours spent performing the activity. Once we calculated the total cost (\$654,134), we deducted the amount that the Army received from the DSCA as reimbursement (\$242,221). We calculated the \$0.1 million (\$139,241), in unrecovered storage costs by multiplying the 1.5 percent required by the DoD FMR by the value of the masks (\$1,856,541) by the number of years the items were stored (5 years). We relied on the unit cost (\$7.20) provided by Army personnel to calculate the \$0.04 million (\$38,966) in unrecovered disposal costs at the Pine Bluff Arsenal for the 5,412 disposed chemical-biological masks.

To calculate the \$0.04 million (\$37,938) in unrecovered storage expenses for the SDAF boats, we multiplied the acquisition value (\$1,210,236) by .125 percent for each month the asset was at the CAX (33 months). We then deducted the funds the Navy provided to the CAX to store the boats (\$11,984). To calculate the \$0.04 million (\$36,000) in unrecovered storage expenses for the FMS boats, we multiplied the storage fee negotiated by Navy personnel (\$12,000) by the years that they did not charge storage (3 years). We multiplied the annual storage costs for the SDAF boats (\$8,712) and FMS boats (\$12,000) by six to determine that if the Navy does not implement our recommendations, it could cost them an additional \$0.1 million (\$124,272) in future storage costs.

To calculate the \$0.4 million in maintenance and operating costs that the Air Force did not recover, the team used a WPAFB-provided list of employees who support security assistance programs at WPAFB (1,336). We requested a list of the buildings that these employees occupy to determine whether the Air Force was requesting reimbursement for these maintenance costs (20 buildings). We requested data, such as total square feet and maximum occupancy of each building, to determine that security assistance personnel occupy 16.2 percent of the 20 buildings at WPAFB. We multiplied the total maintenance costs (\$1,976,858) and operating costs (\$193,304) by 16.2 percent to determine that the Air Force did

⁴¹ Total will not equal due to rounding.

not recover \$352,264 in shared maintenance and operating costs.⁴² We multiplied the FY 2019 unrecovered maintenance and operating costs by 6 years to determine that if the Air Force does not implement our recommendations, it could cost the Air Force approximately \$2.1 million (\$2,113,582) in future expenses costs.⁴³ The Air Force provided the lease agreement that included the annual costs (\$713,286). We multiplied the annual lease cost by the number of years in the lease agreement (5) to determine that if the Air Force does not implement our recommendations, it could cost the Air Force approximately \$3.6 million in future lease costs. We added the lease costs (\$3.6 million) to the one-time initial construction expense (\$4.8 million) to get a total of approximately \$8.4 million in lease expenses.

The Navy provided the maintenance costs associated with storing the SDAF boats at the CAX (\$67,295). We multiplied the unrecovered costs by six to determine the \$0.4 million (\$403,770) in future operating costs.

The team relied on unit price data provided by the Army for the chemical-biological masks (between \$294.94 and \$342.97 per mask) to calculate the value of the:

- 630 chemical-biological masks shipped to foreign customers (\$216,064);
- 5,412 SDAF chemical-biological masks that were disposed of (\$1.9 million); and
- 10 misplaced chemical-biological masks (\$3,429).

To confirm the existence and accuracy of the SDAF inventory, we reconciled the SDAF inventory listings provided by the DoD Components to the inventory located at the facility. Furthermore, we inspected the inventory to determine whether that the inventory information provided by the DoD Components was accurate, including the inventory's location, quantity, description, and National Stock Number. Additionally, we verified that the inventory information from the facility floor reconciled with the information reported in the inventory systems. We relied on inventory values provided by the DoD Components.

Use of Computer-Processed Data

We used computer-processed data provided by the DoD Components. The DoD Components used various forms, such as spreadsheets, to provide us with information related to cost and asset management. Based on our analysis, we determined that the DoD Components did not have data or the data they provided were inaccurate. Most of the data provided by the Components were manually

⁴² Total will not equal due to rounding.

⁴³ Total will not equal due to rounding.

input into spreadsheets or other electronic files. The DoD Components did not have complete lists of civilian employees who support the security assistance programs. In addition, cost data for storage and unit prices were not always available. The inventory spreadsheets did not contain accurate quantities, locations, and values. Furthermore, the DoD Components did not have accurate office locations for employees who support security assistance programs to calculate shared maintenance costs. While we identified several errors in the data, we determined that the data were sufficiently reliable to be used for the report to draw conclusions and make recommendations. We discuss the unreliable data in the report findings.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued three reports discussing the DoD-executed security assistance accounts. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

GAO

Report No. GAO-18-553, “Foreign Military Sales: Financial Oversight of the Use of Overhead Funds Needs Strengthening,” July 2018

The DSCA established certain policies and procedures for financial oversight of administrative funds; however, the DSCA did not have reliable funding data or assurance that these funds were being used for the purpose intended. In addition, the GAO found that the DSCA has not developed adequate processes for financial oversight for the use of contract administration services funds for costs such as contract management.

Report No. GAO-18-401, “FMS: Controls Should Be Strengthened to Address Substantial Growth in Overhead Account Balances,” May 2018

The DSCA set a minimum desired level for the overhead account; however, the DSCA has not completed timely comprehensive reviews of the administrative fee rate nor has the DSCA established a method to calculate an upper bound of a target range for the account balance. Specifically, the GAO found that the FMS account balance grew from \$391 million to \$4.1 billion between FYs 2007 and 2017 partially because of the lack of timely rate reviews. In addition, the GAO found that the FMS contract administrative services account grew from \$69 million to \$981 million between FYs 2007 and 2015 partially because of not setting an upper bound.

DoD OIG

Report No. DODIG-2019-085, "Audit of the Defense Security Cooperation Agency-Security Assistance Accounts," May 8, 2019

We determined that the DSCA and DFAS-Indianapolis misstated assets and liabilities on the September 30, 2017, DSCA-Security Assistance Accounts balance sheet. Specifically, DSCA and DFAS-Indianapolis personnel did not report up to \$410.7 million in inventory; transfer up to \$745.5 million in available collections received in DoD Miscellaneous Receipt accounts to the SDAF; and did not report Accrued Unfunded Annual Leave balances for Army, Air Force, and Other Defense Organization personnel who support the security assistance programs. Additionally, DSCA and DFAS-Indianapolis personnel overstated the Navy Accrued Unfunded Annual Leave balance by \$1.3 million.

We also determined that the DSCA and DFAS-Indianapolis personnel did not have effective controls over financial reporting for the security assistance accounts. Specifically, DSCA and DFAS-Indianapolis personnel did not perform Fund Balance With Treasury reconciliations of the security assistance account accounting records; document the complete consolidation, reconciliation, and reporting processes for all security assistance accounts financial activity in standard operating procedures, process narratives, or process maps; or comply with the mission work agreement established between them.

Appendix B

Implementing Organizations (In Alphabetical Order)

Implementing Organizations
Air Force
Army
Chief Management Officer
Defense Advanced Research Projects Agency
Defense Contract Audit Agency
Defense Contract Management Agency
Defense Finance and Accounting Service
Defense Information Systems Agency
Defense Logistics Agency
Defense Security Cooperation Agency
Defense Threat Reduction Agency
Joint Strike Fighter Program
Missile Defense Agency
Navy (including the U.S. Marine Corps)
National Geospatial Agency
National Security Agency
Office of the Under Secretary of Defense-Comptroller
Special Operations Command
U.S. Army Corps of Engineers
Washington Headquarters Services

Appendix C

Potential Monetary Benefits

Recommendation	Type of Benefit	Amount of Benefit	Account
A.1.c	Reimbursement of Costs	\$15.8 million (DLA)	TI 97 4930; Defense Working Capital Fund
A.1.c	Reimbursement of Costs	\$0.9million (Air Force)	TI 57 3400; Operations and Maintenance
A.1.h	Reimbursement of Costs	\$0.6 million (Army)	TI 21 2020; Operations and Maintenance
A.1.h	Reimbursement of Costs	\$0.2 million (Navy)	TI 17 1804; Operations and Maintenance
A.1.j	Reimbursement of Costs	\$2.5 million (Air Force)	TI 57 3400; Operations and Maintenance
A.1.j	Reimbursement of Costs	\$0.5 million (Navy)	TI 17 1804; Operations and Maintenance
A.1.k	Reimbursement of Cost	\$8.4 million (Air Force)	TI 57 3010; Aircraft Procurement
B.1.a	Reimbursement of Cost	\$0.2 million (Army)	TI 21 2020; Operations and Maintenance

Management Comments on Potential Monetary Benefits and Our Response

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed that the \$29.1 million in unrecovered expenses represents a potential monetary benefit to the DoD. The DCFO stated that the recovered costs will put dollars back into the U.S. Treasury, and future compliance with cost recovery guidance will ensure that FMS partners are fully paying for services, which will return buying power to the DoD.

Our Response

Comments from the DCFO addressed the potential monetary benefits. The DCFO will need to work with the DSCA to obtain reimbursement for the \$29.1 million in unrecovered security assistance-related expenses. The funds should be reimbursed to the appropriate DoD operational account.

Management Comments

Deputy Secretary of Defense Comments



DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

JUN 24 2020

MEMORANDUM FOR ACTING INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE

SUBJECT: DoD Office of Inspector General Draft Report, "Audit of the Department of Defense
Use of Security Assistance Funds and Asset Accountability"

My responses to your recommendations in the draft report, "Audit of the Department of
Defense Use of Security Assistance Funds and Asset Accountability," dated May 15, 2020
(Project No. D2019-D000FP-0139.000) are attached.

Our Security Assistance mission is a critical enabler supporting the second pillar of the
National Defense Strategy that emphasizes the importance of our allied coalitions. Ensuring that
we provide appropriate stewardship and accounting for resources supporting this business area is
equally important.

My office welcomes continued collaboration with the DoD Office of Inspector General to
ensure our efforts are synchronized to produce only the most substantive and value-added
program improvements. My point of contact regarding this response is [REDACTED]
[REDACTED]

Attachment:
As stated



OSD004953-20/CMD007055-20

Deputy Secretary of Defense Comments (cont'd)

Attachment

DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT - DATED MAY 15, 2020

“AUDIT OF DEPARTMENT OF DEFENSE USE OF SECURITY ASSISTANCE FUNDS
AND ASSET ACCOUNTABILITY”

PROJECT NO. D2019-D000FL-0139.000

DEPUTY SECRETARY OF DEFENSE
RESPONSES TO RECOMMENDATIONS

RECOMMENDATION A.3

We recommend that the Deputy Secretary of Defense identify and direct the appropriate official to:

- a. perform a comprehensive analysis of the functions performed by DoD Components and determine whether the current administrative rates charged to foreign customers are adequate for the DoD to recover its costs for providing security assistance support; and.

Concur. A review of policies, process, and systems related to the functions performed by DoD components while recovering costs for providing security assistance support will be conducted with an estimated completion date of December 31, 2020.

- b. develop, document, and implement detailed guidance to the DoD Components that identifies which costs should be covered and the process for recovering the costs.

Concur. Using feedback from the review described in the recommendation above, and related remediation efforts from other recommendations or preparations for future financial audits, the required adjustments will be made to current guidance. Resulting guidance will be documented and implemented to recover all required costs.

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

June 16, 2020

MEMORANDUM FOR PROGRAM DIRECTOR FOR AUDIT, FINANCIAL
MANAGEMENT AND REPORTING, DEPARTMENT OF
DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Department of Defense Office of Inspector General Draft Report, "Audit of the
Department of Defense Use of Security Assistance Funds and Asset Accountability"

Attached are my responses to your recommendations in the draft report, "Audit of the
Department of Defense Use of Security Assistance Funds and Asset Accountability," dated
May 15, 2020 (Project No. D2019-D000FP-0139.000).

The Department's Security Assistance business is a critical enabler for the second pillar
of the 2018 National Defense Strategy—support for our allied coalition partners. Conducting
this mission in a consistent, well-documented, well-controlled manner that ensures the required
recovery of our costs is important for stewardship and accountability. Policies to support this
requirement are largely in place, however your report indicates that the execution of these
policies has not always taken place in a manner that recovers all appropriate costs from our
security assistance customers. As indicated in the attached, we will take actions in response to
your recommendations, and use assessments from related reviews directed by the Deputy
Secretary of Defense, to address processes, systems, and controls deficiencies.

We leverage the Department's infrastructure to provide cost-effective quality products
and services to Foreign Military Sales customers. Unfortunately this same business
infrastructure currently does not include the kind of cost accounting capabilities to efficiently
differentiate and charge those costs. Your report highlights this issue and will require near-term
and practical solutions. Your audit approach began at the component level, bringing my office
and the Defense Security Cooperation Agency into the discussion very late in the process. This
resulted in an extended coordination period and discussions with your audit team, to ensure all
parties reached understanding and agreement on recommendations.

My office welcomes continued collaboration with the DoD Office of Inspector General to
ensure our efforts are synchronized to produce only the most substantive and value-added
program improvements. Please direct any questions or comments regarding this response to

[REDACTED]

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Date: 2020.06.16 20:41:42 -04'00'

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments (cont'd)

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
RESPONSE TO
DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL
DRAFT AUDIT “AUDIT OF THE DEPARTMENT OF DEFENSE USE OF SECURITY
ASSISTANCE FUNDS AND ASSET ACCOUNTABILITY”
MAY 15, 2020, PROJECT NO. D2019-D000FP-0139.000**

Revised Recommendation

As a result of discussions with management, we revised Recommendation A.1 to clarify that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, needs to work with the DoD Components to perform the actions detailed in recommendations A.1.a through A.1.i.

Recommendation A.1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the DoD Components to:

- a. Identify and track all the DoD civilian employees who provide any support to the security assistance programs.

Concur. Current policy and Security Assistance direction provide clear guidance relating to DoD civilian employee support, however compliance may not always be consistent and well-documented. The DoD Financial Management Regulation (DoD FMR), DoD 7000.14-R, Volume 15, Chapter 7, requires DoD components that provide general administrative support to the Foreign Military Sales (FMS) program must recoup the full cost to provide such support. In addition, Defense Security Cooperation Agency (DSCA) Security Assistance Management Manual (SAMM), Chapter 9, 9.3.1 and 9.4.2, covers manpower requirements. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) will work with DoD components to ensure controls are in place to support appropriate compliance with Department policy.

- b. Determine whether their current staff level is adequate to support their security assistance mission and request additional security assistance-funded positions, as needed.

Concur. OUSD(C) will work with the DoD components to ensure a review of current processes is conducted, to include an evaluation of current staffing levels required to support compliance with their security assistance missions. Current policy (DoD 7000.14-R, Volume 15, Chapter 2), requires DoD components to submit FMS and Contract Administrative Services (CAS) budget requests annually, which is an opportunity to request the needed resources to meet this mission. Following this assessment, DSCA will use its annual Security Assistance Program and Budget Review (SAPBR) guidance to DoD components to ensure needed adjustments are made.

- c. Identify and recover all security assistance-related salary expenses for each DoD civilian employee between FYs 2014 and 2019 from the Defense Security Cooperation Agency.

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments (cont'd)

Concur. The DoD FMR (DoD 7000.14-R, Volume 15, Chapter 7) requires DoD components who provide general administrative support to the FMS program to recoup the full cost of such support. OUSD(C) will work with the DoD components to identify and recover security assistance-related salary expenses for civilian employees between fiscal years (FY) 2014 and 2019.

- d. Develop, document, and implement Component-level policies and procedures to identify, track, and recover salary expenses for DoD civilians who support security assistance programs in future years.

Concur. The DoD FMR (DoD 7000.14-R, Volume 15, Chapter 7), requires DoD components who provide general administrative support to the FMS program to recoup the full cost of such support. OUSD(C) will work with DoD components to ensure controls are in place to comply with this policy and sustain compliance in future years. This will include developing, documenting, and implementing component-level policies and procedures where required.

- e. Identify all DoD civilians who support security assistance programs full-time and ensure their positions are designated as security assistance positions within the Defense Civilian Payroll System. Employees who support security assistance programs full-time should be paid directly from the Foreign Military Sales Trust Fund.

Concur with the intent of this recommendation. OUSD(C), working with DSCA and the components, will review the feasibility of identifying all DoD civilians who support security assistance programs full-time and ensure their positions are designated as security assistance positions within the Defense Civilian Payroll System.

- f. Reprogram the Defense Civilian Payroll System to allow for DoD civilian employees to be paid from multiple appropriations.

Concur with the intent of this recommendation. OUSD(C) will evaluate automated alternatives that could support ensuring that appropriate civilian personnel costs are segregated and charged to the appropriate FMS accounts. Reprogramming the Defense Civilian Payroll System (DCPS) will be one of the alternatives reviewed. In fiscal year 2019, the Defense Finance and Accounting Service, owner of the DCPS, conducted a business case analysis of the system change request required to allow an employee to be paid from more than one line of accounting. Findings at the time indicated significant cost and risk related to this kind of change.

- g. Recover the security assistance-related costs from the Defense Security Cooperation Agency for changes to the Defense Civilian Payroll System necessary to correct position records and to pay personnel from multiple appropriations.

Concur. Costs related to changes pursuant to implementing an automated solution will be recovered from the DSCA, as appropriate.

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments (cont'd)

- h. Identify and recover any storage costs that they did not recover for storing security assistance assets at all DoD facilities between FYs 2014 and 2019 from the Defense Security Cooperation Agency.

Concur. Current DoD FMR policy (DoD 7000.14-R, Volume 15, Chapter 7) requires DoD components who provide support to the FMS program to recoup the full cost to provide such support. This requirement includes recovery of storage costs. SAMM, Chapter 9, Table 4, "Table of Charges," even identifies scenarios in which cost recovery is allowed, to include storage. OUSD(C) will work with DSCA and components to ensure appropriate compliance with both policy and guidance, to include recovery of relevant storage costs that were not recovered for storing security assistance assets at all DoD facilities between FYs 2014 and 2019 from the Defense Security Cooperation Agency.

- i. Develop, document, and implement Component-level policies and procedures to identify, track, and recover storage expenses for storing security assistance assets at DoD facilities in future years.

Concur. As stated in the response to recommendation A.1.h, clear policy and procedural guidance already exists. OUSD(C) will work with DSCA and components to ensure controls are in place to ensure compliance going forward.

- j. Recover all operating costs that the implementing agencies did not recover for providing administrative space to security assistance personnel at all DoD facilities between FYs 2014 and 2019 from the Defense Security Cooperation Agency.

Concur. Current DoD FMR policy (DoD 7000.14-R, Volume 15, Chapter 7) requires DoD components who provide support to the FMS program to recoup the full cost to provide such support. This requirement includes recovery of facilities use costs (partially or fully, depending on whether facilities solely or jointly occupied). OUSD(C) will ensure appropriate compliance with department policy and work with DoD components to recover all operating costs that the implementing agencies did not recover for providing administrative space to security assistance personnel at all DoD facilities between FYs 2014 and 2019 from the Defense Security Cooperation Agency.

- k. Develop, document, and implement Component-level policies and procedures to identify, track, and recover all operating costs for DoD facilities used to support security assistance programs in future years. This includes identifying where employees who support security assistance programs sit at all DoD facilities.

Concur. Current DoD FMR policy (DoD 7000.14-R, Volume 15, Chapter 7, 0710 and 0711) requires DoD components who provide support to the FMS program to recoup the full cost to provide such support. This requirement includes recovery of facilities use costs (partially or fully, depending on whether facilities solely or jointly occupied). OUSD(C) will work with DSCA and components to ensure guidance, processes and procedures are in place to implement the DoD policy.

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments (cont'd)

1. Perform an assessment of DoD facilities to determine whether administrative space shortages exist and can be reduced by relocating security assistance personnel to commercial lease space. The assessment should be provided to the DoD Office of Inspector General for review.

Concur. OUSD(C) will work with DoD components to perform an assessment of DoD facilities to determine whether administrative space shortages exist and can be reduced by relocating security assistance personnel to commercial lease space. The assessment will be provided to the DoD Office of Inspector General for review.

Recommendation A.2

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. Revise DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 15, "Security Cooperation Policy," Chapter 7, "Pricing," to clarify that DoD Components are required to recover all security assistance-related salary expenses.

Concur. OUSD(C) will revise the DoD FMR, Volume 15, Chapter 7, to clarify that DoD components are required to recover all security assistance-related salary expenses. Concurrently, we will work with DCSA and components to ensure related guidance and procedures are also updated.

- b. Work with the Deputy Under Secretary of the Air Force for International Affairs to relocate security assistance personnel and necessary equipment from Wright-Patterson Air Force Base to commercial lease space. The relocation expenses and commercial lease space should be paid with Foreign Military Sales administrative funds.

Concur. OUSD(C) will work with the Deputy Under Secretary of the Air Force for International Affairs to relocate security assistance personnel and necessary equipment from Wright-Patterson Air Force Base to commercial lease space.

- c. Work with the appropriate personnel at the Army, Navy, Air Force, and Defense Logistics Agency to perform a preliminary review of potential Antideficiency Act violations that may have occurred within their organizations by subsidizing security assistance-related expenses with appropriated funds. The review should be completed within 14 weeks of initial discovery as required by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 14, "Administrative Control of Funds and Antideficiency Act Violations," Chapter 3, "Antideficiency Act Violation Process," and the results of the preliminary investigation should be provided to the DoD Office of Inspector General.

Concur. OUSD(C)'s initial assessment after consultation with the Office of the General Council is that there has been no violation of the Antideficiency Act. Based on this recommendation, a preliminary investigation will be initiated and pursued consistent with current DoD FMR policy and timelines. The results of the preliminary investigation will be provided to the DoD Office of Inspector General.

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments (cont'd)

- d. Track the dollar amount of costs recovered for security assistance-related administrative expenses, including salary, storage, and facility expenses.

Concur. OUSD(C) will work with DSCA and components to track the dollar amount of costs recovered for prior year security assistance-related administrative expenses, including salary, storage, and facility expenses.

- e. Track the dollar amount of future savings for security assistance-related administrative expenses, including salary, storage, and facility expenses.

Concur. OUSD(C) will work with DSCA and components to track the dollar amount of future savings for security assistance-related administrative expenses, including salary, storage, and facility expenses.

- f. Require the service audit organizations and internal audit organizations within the DoD Components to audit their organizations' security assistance-related cost recovery processes and procedures on an annual basis.

Concur. OUSD(C) will work with military components, recommending that they direct their internal service audit organizations within the DoD components to include security assistance-related cost recovery processes and procedures in their annual audit plans and address findings in their annual Statements of Assurance.

Recommendation B.1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation to:

- a. Recover funds from the Defense Security Cooperation Agency in the amount equal to the current market price of the chemical-biological masks that Pine Bluff Arsenal personnel shipped to foreign customers.

Concur. OUS(C) will work with the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation to determine if the chemical-biological masks in question were shipped to foreign customers or disposed of after exceeding their shelf life in 2019. We will take appropriate steps to recover funds from the Defense Security Cooperation Agency after we confirm the disposition of the chemical-biological masks and put in place appropriate controls.

- b. Initiate an investigation to determine why the Special Defense Acquisition Fund masks were misplaced and take appropriate action in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 12, "Special Accounts, Funds, and Programs," Chapter 7, "Financial Liability for Government Property Lost, Damaged, Destroyed, or Stolen."

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments (cont'd)

Concur. OUSD(C) will work with the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation to initiate an investigation to determine why the Special Defense Acquisition Fund masks were misplaced.

Revised Recommendation

As a result of discussions with management, we revised Recommendation B.2. to clarify that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, needs to work with the Under Secretary of Defense (Acquisition and Sustainment) and the DoD Components to perform the actions detailed in recommendations B.2.a through B.2.c.

Recommendation B.2

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Under Secretary of Defense (Acquisition and Sustainment) and the DoD Components to:

- a. Develop, document, and implement Component-level inventory management policies and procedures to prevent DoD personnel from shipping DoD assets to foreign customers, unless a valid reason exists. The procedures should include a supervisory review of all materiel release orders to foreign customers. The review should be documented and maintained in the case files.

Concur. OUSD(C) will work with the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSDA&S)) and DoD components to develop, document, and implement component-level inventory management policies and procedures to prevent DoD personnel from shipping DoD assets to foreign customers, unless a valid reason exists.

- b. Develop, document, and implement an internal control environment at DoD facilities that prevents DoD assets from being misplaced in the future.

Concur. OUSD(C) will work with OUSD(A&S) and DoD components to develop, document, and implement an internal control environment at DoD facilities that prevents DoD assets from being misplaced in the future.

- c. Incorporate all security assistance assets into their inventory and property management systems. The DoD Components should be able to identify the quantity, location, and value of security assistance assets in their custody on demand when requested by management and stakeholders.

Concur. OUSD(C) will work with OUSD(A&S) and DoD components to incorporate all security assistance assets into their inventory and property management systems.

**Office of the Under Secretary of Defense (Comptroller)/
Chief Financial Officer Comments (cont'd)**

Potential Monetary Benefit

The OUSD(C) agrees with the audit’s identification of \$29.1 million in potential monetary benefit. Recovery of costs will put dollars back into the U.S. Treasury, while future compliance with controls to ensure FMS partners are fully paying for services will return buying power to the Department of Defense.

Acronyms and Abbreviations

AECA	Arms Export Control Act
AFLCMC	Air Force Life Cycle Management Center
CAAA	Crane Army Ammunition Activity
CAX	Naval Weapons Station Yorktown–Cheatham Annex
DCPS	Defense Civilian Payroll System
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DSCA	Defense Security Cooperation Agency
FMR	Financial Management Regulation
FMS	Foreign Military Sales
JMC	Joint Munitions Command
LEMC	Letterkenny Munitions Center
NAVSEA	Naval Sea Systems Command
ODASA (DE&C)	Office of the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation
OUSD(C)/ CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
SAF/IA	Deputy Under Secretary of the Air Force for International Affairs
SAMD	Security Assistance Management Directorate
SAMM	Security Assistance Management Manual
SDAF	Special Defense Acquisition Fund
TACOM	Tank-Automotive and Armaments Command
USD(C)/ CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
WPAFB	Wright-Patterson Air Force Base



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