May 2018

FOREIGN MILITARY SALES

Controls Should Be Strengthened to Address Substantial Growth in Overhead Account Balances

GAO Highlights

Highlights of GAO-18-401, a report to congressional committees

Why GAO Did This Study

The FMS program is one of the primary ways the U.S. government supports its foreign partners, by providing them with defense equipment and services. The program charges FMS customers overhead fees to cover the U.S. government's operating costs. They include the administrative fee for costs such as civilian employee salaries and facilities, and the CAS fee for the cost of contract quality assurance, management, and audits. In 1989, Congress excluded from administrative expenses certain costs associated with military personnel who work on the FMS program as well as unfunded civilian retirement and other benefits. As of May 2018, the administrative fee rate is 3.5 percent, and the CAS fee rate is 1.2 percent.

House Report 114-537 and Senate Report 114-255 included provisions that GAO review DSCA's collection and management of these fees. This report examines, for fiscal years 2007 to 2017, the balance of and controls over (1) the administrative account and (2) the CAS account. GAO analyzed Department of Defense (DOD) data and documents, modeled projections for the administrative account, and interviewed DOD officials.

What GAO Recommends

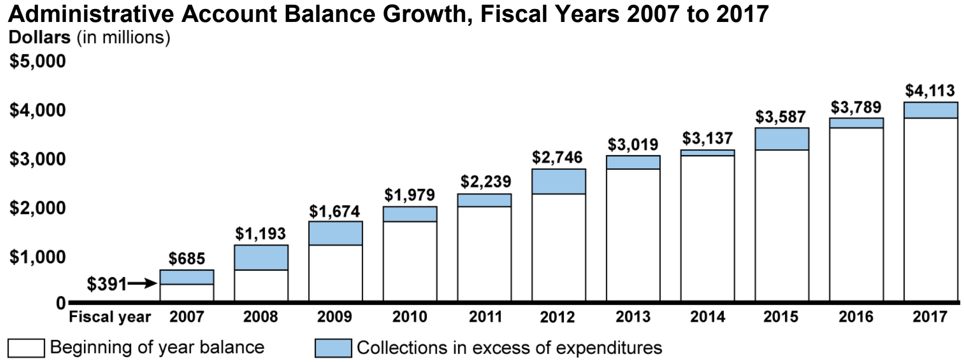
Congress should consider redefining what it considers an allowable expense to be charged from the administrative account. GAO is making six recommendations to help DSCA improve its controls over both accounts, including completing more timely reviews and establishing a desired range for balance levels. DOD generally concurred.

View GAO-18-401. For more information, contact Thomas Melito at (202) 512-9601 or MelitoT@gao.gov.

What GAO Found

The Foreign Military Sales (FMS) administrative account balance grew by over 950 percent from fiscal years 2007 to 2017—from $391 million to $4.1 billion—due in part to insufficient management controls, including the lack of timely rate reviews. The Defense Security Cooperation Agency (DSCA) has some controls to manage the account balance. For example, DSCA has established a method for calculating a minimum desired balance to ensure it has sufficient funds to complete FMS cases despite uncertain future sales. At the end of fiscal year 2017, the account balance was $2.7 billion above this minimum. DSCA, however, has completed rate reviews less frequently than directed by its policy. Moreover, DSCA has not adopted the best practice of setting an upper bound for the account that would, along with the minimum level, provide a target range for the account balance. By not performing timely rate reviews or setting an upper bound, DSCA has limited its ability to prevent excessive balance growth. GAO modeling indicates that, even with a planned fee rate reduction to 3.2 percent, the account balance would likely remain above its minimum level through fiscal year 2024, including if annual expenditures increased by 15 percent more than expected. As such, the account has the potential to pay for additional expenses. These could include expenses first excluded by statute in 1989 at a time when the account balance was negative and which have since been paid from other appropriated funds. DOD told GAO it is willing to revisit these exclusions.

Administrative Account Balance Growth, Fiscal Years 2007 to 2017



Source: GAO analysis of Defense Finance and Accounting Service data on the Foreign Military Sales program. | GAO-18-401

The FMS contract administration services (CAS) account grew from fiscal years 2007 to 2015 from $69 million to $981 million, due in part to insufficient management controls, including not setting an upper bound. The balances for fiscal years 2016 and 2017 overstated the amount of funds available due to a systems issue and limited related oversight. Since 2014, DSCA has implemented some controls for the CAS account, such as regular reviews of the account balance, but weaknesses remain. In particular, DSCA does not plan to follow its internal guidance to conduct the next CAS fee rate review within 5 years. DSCA also has inconsistently calculated the desired minimum level for the account. Finally, DSCA has not set an upper bound for the account to help officials follow internal guidance that directs them to determine when the balance is excessive and a fee rate reduction should be considered. As a result, DSCA is limited in its ability to make timely, appropriate decisions on the fee rate.