

CHAPTER 1: INTRODUCTION

1.1 PURPOSE

This chapter provides background information regarding the Security Cooperation Organization (SCO) budget and general aspects of financial management. This Handbook incorporates and supplements policy and procedures contained in the [DSCA 5105.38-M, Security Assistance Management Manual](#) (published and available online as the e-SAMM) and other important DoD regulations, such as the [Financial Management Regulation \(FMR\), 7000.14-R](#). Chapter 15 of the FMR specifically addresses policies and procedures for Security Assistance. This handbook provides the Geographic Combatant Command (GCCMD), Senior Defense Official/Defense Attaché (SDO/DATT), SCO Chief, and SCO Budget Officer a compilation of policies, concepts, definitions, and procedures relevant to the financial management of security cooperation related funds used to support SCO operations.

1.2 SECURITY COOPERATION

The Department of Defense (DoD) broadly defines Security Cooperation (SC) as those activities conducted with allies and friendly nations to build relationships that promote specified U.S. interests, build allied and friendly nation capabilities for self-defense and coalition operations, and provide U.S. forces with peacetime and contingency access. SC encompasses a combination of legal authorities, annual appropriations, organizations, and initiatives from within DoD, Department of State (DoS), or the Executive Office of the President (EOP) resources.

1.2.1 SECURITY ASSISTANCE

As a subset of SC, Security Assistance (SA) encompasses a group of programs, authorized by law, through which the DoD or commercial contractors provide defense articles, services, and training in support of national security policies and objectives. The Defense Security Cooperation Agency (DSCA) is responsible for supervising the implementation and execution of worldwide SA programs to include Foreign Military Sales (FMS) and Foreign Military Financing (FMF), and for DoD appropriated programs which implement the Secretary of Defense (SECDEF) Security Cooperation Plan, to include Regional Centers (RC) for Security Studies; Warsaw Partnership for Peace (PfP); Counter Terrorism Fellowship Program (CTFP); Stability Operations Fellowship Program (SOFPP); Irregular Warfare and Stability, Security, Transition and International Outreach (IWSSTIO); and International Programs Security Requirements Course (IPSR); Coalition Support Funds (CSF); Global Train and Equip (T&E); and the Overseas Humanitarian, Disaster and Civic Aid Appropriation (OHDACA).

DSCA defines SA as the twelve major programs outlined in [DSCA 5105.38-M, Security Assistance Management Manual](#). While seven of these Foreign Assistance Act (FAA) and Arms Export Control Act (AECA)-authorized programs are administered by DoD, specifically by DSCA, they remain under the general control of the DoS as components of U.S. foreign assistance programs that fall under SA. They are: Foreign Military Sales (FMS), Foreign

Military Financing (FMF) Program, Leases, Military Assistance Program (MAP)¹, International Military Education and Training (IMET), Drawdowns, Economic Support Funds (ESF), Peacekeeping Operations (PKO), Foreign Military Construction Services, Non-Proliferation Antiterrorism Demining and Related Programs, Direct Commercial Sales (DCS), and International Narcotics Control and Law Enforcement (INCLE). More specific information regarding the direct applications to Security Assistance (SA) funding will be covered in subsequent chapters.

1.3 OVERVIEW

Most SCOs are managed by a SDO/DATT; while some are managed by a SCO Chief; and others may be managed a Deputy for SC. When there is no SCO assigned to a country, any SA functions are handled by the DATT. The role of the SCO is to serve as the primary interface with the host nation on SA related issues and act as the lead on most SC in the country where the SCO is located. For simplification throughout this handbook, the SDO/DATT will be used when referring to the senior leadership role of the SCO and all inherent financial management requirements.

All SC officers have important responsibilities with regard to the budget, financial control, internal controls, and proper utilization of funds provided for the execution of the SA mission. SA funding is based on specific SA mission requirements, as defined in Section 515 of the Foreign Assistance Act (FAA), and the personnel authorized to perform those tasks. It is; therefore, critical to segregate SA workload and positions/personnel from Operations and Maintenance (O&M) workload and positions/personnel in a specific country.

The *Congressional Budget Justification (CBJ) for Foreign Operations* for SA programs is prepared annually. Included in the CBJ are SCO staffing costs from previous years, and projections and justifications for staffing and costs for the next budget year. This document accompanies the annual President's Budget.

Each GCCMD must continually review SCO staffing requirements in conjunction with the DoS, Chief of the U.S. Diplomatic Mission (COM), and DSCA to ensure that organizations are properly staffed to conduct their SA missions efficiently and effectively. The Joint Staff issues the Joint Table of Distribution (JTD) document, which is the primary document identifying current staffing authorization. The CBJ includes National Security Decision Document (NSDD)-38 approved changes not yet reflected in the JTD. DSCA and the DoS Office of Regional Security and Arms Transfer Policy (PM/RSAT) are jointly responsible for the final consolidation and coordination of the data in the CBJ.

The CBJ provides the detailed supporting documentation included by the Administration in its justification to the Congress. After receiving the CBJ and the President's Budget, the Congress will review the Budget and conduct hearings as necessary; this includes questions from Congressional and Committee Staff members. Legislative enactment of an authorization and

¹ The Military Assistance Program (MAP) is no longer an active program; however, certain countries may have old funds available for use to purchase defense articles and services. There are also special procedures when a country sells or disposes of assets purchased with MAP. Those are addressed later in the handbook.

appropriation bills completes the cycle. However, by this time, the succeeding years' development cycle has already started.

1.4 GENERAL PRINCIPLES

1.4.1 TYPES OF FUNDING

United States Code (USC) Title 22 Programs. DSCA is responsible for and manages the FMS Trust Fund. The FMS Trust Fund consists of individual country accounts and several Overhead Accounts (also referred to as Cost Clearing Accounts). The Overhead Accounts include the Administrative Surcharge Account; the Transportation Surcharge Account; the Attrition Account, and the Contract Administration Services (CAS) Account. Budgetary resources allocated to the GCCMD come from the FMS Trust Fund Administrative Surcharge Account. The Administrative Surcharge Account is funded through an assessed fee on all FMS cases in compliance with the AECA, Section 21(e)(1). In addition to the funds allocated from the FMS Trust Fund Administrative Surcharge Account, DSCA also allocates funds sourced in the annual Foreign Operations, Export Financing, and Related Programs Appropriations Act, under the Foreign Military Financing (FMF) heading.

Funds allocated to each GCCMD to manage the SA program are sometimes referred to as T-20, FMS Admin, or security assistance funds. These funds are to cover the operations of SA programs. These resources represent an amalgamation of FMS Trust Fund Administrative Surcharge Account funds and annually appropriated FMF Administrative funds, and are for the purpose of managing and executing SA programs. For this document, we will refer to these funds as security assistance administrative funds (SAAF).

USC Title 10 Programs. The Title 10 programs are programs that may require SCO involvement. The GCCMD centrally manage Title 10 program funding. Title 10 provides funding to support a variety of programs to include cooperative engagement, U.S. ship visits or aircraft over-flight coordination, humanitarian and civic assistance projects, planning for and participation in exercises, conferences, seminars or exchanges.

1.4.2 FIDUCIARY RESPONSIBILITY

The SDO/DATT must be fully aware of the status of all financial resources for the SCO. This individual is administratively accountable for any fraud, waste, or abuse of funds, including any over-obligation or over-expenditure. There are several types of funding a SCO can manage to include: SAAF, FMS Case Funds, contributed currency, and various types of O&M funds. When managing a variety of funds, it is important to remember that each source of funding is for a specific purpose and is not fungible for other purposes. If you are short of O&M funds and have a pressing mission, you cannot use SAAF for that mission – or vice versa.

Larger SCOs may be authorized a dedicated Fiscal or Budget Officer (military or civilian). In some SCOs, however, this may be assigned as an additional duty. Dedicated or not, the assigned Fiscal Officer is responsible to the SDO/DATT for the control of all operating funds issued by the GCCMD. The Fiscal Officer to the SCO must be appointed in writing, and a copy of the appointment letter must be provided to the GCCMD. Review of SCO budget functions

and other areas warranting sound management control mechanisms are included in Inspector General (IG) or other administrative assistance visits by the GCCMD.

1.4.3 REQUIREMENTS-BASED BUDGETING

A critical element of appropriate financial management is the identification of the sources of funds and the restrictions involved with each type of funding. The source of the funds will make a difference in the nature of responsibility in the overall accomplishment of the mission. The first step is to examine the mission and the assigned tasks of the SCO to determine the most economical means by which they may be accomplished. This examination should review which program (e.g., SA, counter-narcotics, Humanitarian Mine Action (HMA) Project Nomination, Overseas Humanitarian Disaster and Civic Aid (OHDACA), Warsaw Initiatives) should be responsible to provide the required resources. This determination will allow the SCO to prepare separate budget estimates setting forth an accurate representation of the funding requirements to accomplish each mission.

An obligation plan is necessary to ensure that funds are made available when they are required. The GCCMD uses this plan to allocate funds on a quarterly basis, as required. The obligation plan will also assist the SCO monitor funds in order to avoid over-commitments or over-obligations.

The preparation of an obligation plan for utilization of allocated funds is also an important aspect of the process. The obligation plan must be reviewed against actual expenditures in order to ensure effective management controls are in place and utilized, and avoid any over-expenditure.

Unlike the traditional belief that, "If funds are not used during the current fiscal year, next year's funds will be decreased," SAAF budgets are developed and supported based on realistic needs to meet the SCO annual operational requirements. SAAF not required to meet current fiscal year needs are returned to the FMS Trust Fund Administrative Surcharge Account and are, therefore, not 'lost' at the end of a fiscal year. SCOs should not feel compelled to fully obligate allocated funds in order to prevent future fiscal year budget adjustments. The dynamic nature of SCO activities is recognized at all levels. From a DSCA perspective, future funding levels should be based on actual requirements, staff size, and anticipated mission, not one or two prior year obligation rates.

1.4.5 TRAINING

It is crucial that all SCO personnel working with budgets have adequate financial management training. The Military Departments (MILDEPs) are a good resource for financial management courses, and the Defense Institute of Security Assistance Management (DISAM) provides training for **Security Assistance Automated Resource Management Suite** (SAARMS), both in residence and on site. For more information on DISAM courses, visit the [DISAM](#) website.

1.4.6 ECONOMY & EFFICIENCY MANAGEMENT CONTROLS

The SDO/DATT is responsible to ensure economical and efficient use of all resources. He/she must ensure that mechanisms are in place to assess the effectiveness of management control procedures related to accountability, record-keeping, certification, expenditure of funds, efficient use of personnel, and material resources.

1.5 SUMMARY

The SDO/DATT must be directly involved in the development of the budget, including a review of proposed and ongoing programs and their justification. Once the budget is approved, direct monitoring of the distribution and utilization of funds must be completed on a daily basis. Management control procedures must be in place to evaluate the use of resources and identify potential concerns before they become a problem. The SDO/DATT is responsible for the substance and validity of the SCO budget request, the costs that are actually incurred and charged against the available funds, and the resultant performance, to include goods and services. It is essential the GCCMD provides appropriate fiscal oversight of each SCO to ensure the appropriate utilization of resources.