Security Assistance Accounts (SAA) Audit Overview

Defense Security Cooperation Agency

May 2019
DSCA’s Mission and Values

Mission
To advance U.S. national security and foreign policy interests by building the capacity of foreign security forces to respond to shared challenges.

Vision
DSCA delivers effective, enduring, and timely partner capabilities that advance U.S. national security and foreign policy interests.

Why
Security Cooperation supports the National Defense Strategy’s Priority Lines of Effort:

• Rebuilding military readiness
• Strengthening alliances and attracting new partners
• Reforming the Department’s business practices

SECURITY THROUGH GLOBAL PARTNERSHIPS
DSCA Executed SC Activities

Title 22 Authority

- Defense Trade & Arms Transfers
- Training and Equipping
- Education
- Institutional Capacity Building
- Mil-to-Mil Engagements
- Humanitarian Assistance and Disaster Relief
- Combined Exercises
- Support to Operations

Title 10 Authority

- State oversight
  - DoD executed
  - State/Partner Nation funds
  - FY18 Totals:
    FMS: $47.71B  FMF: $3.52B

- DoD oversight
  - DoD executed
  - DoD funds (Base and OCO)
  - FY18 Total: $4.43B*

*Executed through the FMS system
What is FMS?

The FMS program utilizes the DoD procurement system to support government-to-government sales of defense articles or services.

**Overseen by the Department of State**
- Supervises and determines which sales, leases and transfers will be made
- Reviews and approves export license requests for direct commercial sales

**Executed by the Department of Defense**
- Establishes military requirements and determines what is available for sale or lease
- Implements the FMS Program
FY 2015: The Department of Treasury identified the SAA as material to the overall U.S. government’s financial statements

FY 2017: DSCA completed an initial discovery to assess the audit health of the SAA; Findings indicated issues with all OUSD(C) critical capabilities and a lack of audit infrastructure

FY 2018: GAO Reports issued “Controls Should Be Strengthened to Address Substantial Growth in Overhead Account Balances” and “Financial Oversight of the Use of Overhead Funds Needs Strengthening”

FY 2018: Asked by the SECDEF to Accelerate the SAA Audit

FY 2018: SAA Three Tier Audit Governance Established

FY 2018: SAA was determined a Stand Alone Reporting Entity by OMB and Treasury


FY 2019: DoDIG Announced follow-on audit focused on SAA Assets

FY 2020 through FY 2021 Financial Statements: Limited Scope Examinations increasing in scope

FY 2022: SAA Financial Statement Audit
SAA Audit Success Factors

**Governance:** DSCA established a tiered governance structure to drive momentum towards auditability.

**Title 10 Integration:** DSCA engaged Title 10 audit readiness offices across DoD to leverage and build upon the positive audit advancements.

**Corrective Actions:** DSCA and DFAS develop CAPs to remediate identified findings.

**Remediation Timeline**

<table>
<thead>
<tr>
<th>Accelerated Timeline</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
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<td>Q1</td>
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<td>Governance</td>
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<td>Discovery</td>
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<td>Corrective Action</td>
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<td>Limited Scope Audits</td>
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<td>Audit</td>
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<td>Sustainment</td>
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**Limited Scope Exams / Audits Through FY2022**

**FY20**
- **Limited Account Loan Accounts:** Accounts 1085, 4121, 4122, and 4174 will undergo a SBR audit
- **Limited Scope Business Process:** Focus on Appropriations Received & Case Acceptances

**FY21**
- **Limited Account IMET & FMF Account:** Accounts 1081 & 1082 will undergo a SBA and loan accounts will undergo a SBR audit
- **Limited Scope Business Process:** Focus on DDRS & UoT for Current Year and several AUs
- **Limited Year Financial Audit:** All Statements and Accounts for Current Year Activity

**FY22**
- **Full Financial Statement Audit**
### Objectives

- **Establish and maintain a strategic and holistic approach to audit readiness across the SC Community**

  - **SAA Audit Governance** – Provide direction and leadership; Monitor, assess, and report performance.

- **Generate SAA Financial Statements based on Trial Balances from each of the required SAA stakeholders; reconcile Trial Balances to transactional level**

  - **Financial Reporting: Defense Departmental Reporting System (DDRS) Trial Balance Completion** – Leverage the DoD-wide DDRS solution for Financial Reporting based on reconciled Trial Balances from the MILDEPs and Defense Agencies

  - **Universe of Transaction (UoT)** – Deploy OUSD(C)’s automated tool to create the SAA UoT by consolidating SAA transactional data from the IA’s accounting systems

- **Reconcile cash balances at Treasury (and interest bearing accounts) to balances managed in the SAA systems**

  - **Funds Balance with Treasury (FBwT)** – Reconcile cash balances at Treasury with balances reported in the SAA systems to establish beginning balances; Leverage DoD-wide FBwT solutions to maintain balances

- **Implement sufficient Information Technology (IT) Controls, or manual controls, for all systems used to execute SAA Funds**

  - **Information Technology (IT) Controls** – Conduct IT control assessments for SAA specific systems used to execute SAA funds and leverage existing assessments for Title 10 systems used to execute SAA funds

- **Maintain sufficient end-to-end process documentation to support all execution of SAA funds from each SAA stakeholder**

  - **Assessable Unit (AU)** – Work with the IAs and additional stakeholders to document the following AUs:
    - Appropriations Received / Case Acceptance (DIFS OA)
    - Contract / Vendor Pay
    - Civilian Pay
    - Reimbursable Work Orders (MIPRs)
    - Property and Inventory

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### Lines of Effort

- **OPR**
  - **DSCA**
  - **DFAS**
  - **OUSD(C)**
Some SAA trial balances are excluded from the DDRS-B financial reporting process; material financial statement balances are calculated and reported at a summary level.

Most SAA programs are excluded from DFAS FBwT reconciliation tools.

DIFS is the primary tool used to manage / account for FMS Trust Fund Cash but has not been subject to rigorous FISCAM testing.

DFAS SAA audit support capabilities (assertion prep, audit/PBC support, audit remediation) must be developed / established.

* FSCR = Financial Statement Compilation and Reporting
### FSCR – DDRS Mega Migration

#### Main Accounts

<table>
<thead>
<tr>
<th>Main Accounts</th>
<th>FY18 FBwT</th>
<th>Account Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Military Sales (FMS) Trust Fund* 11 x 8242</td>
<td>79.8%</td>
<td>Used directly on contracts for the procurement of defense articles and/or services and to reimburse DoD Component appropriations for deliveries from DoD stocks/services performed by DoD employees.</td>
</tr>
<tr>
<td>Special Defense Acquisition Fund (SDAF) 11 x 4116</td>
<td>2.0%</td>
<td>Used to facilitate delivery of material in advance of normal procurement lead times and establish a readily available source of selected items.</td>
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*Note: The FY18 FMS Trust Fund FBwT figure does not include an additional $25B in the Federal Reserve Bank (FRB) and Commercial Bank Accounts (CBA).*

- Ingest FMS and SDAF trial balances into DDRS-B in FY19 and operationalize new Financial Reporting processes in FY20
- Impacts ~11 Implementing Agencies (IAs) and ~16 Systems:

Army / CoE       DLA
Air Force        DTRA
DSCA             MDA
DCMA             NGA
DISA             NSA
Navy / USMC / USCG

GFEBS  DEAMS
STANFINS   GAFS
SOMARDDS  DAI
CEFMS      EBS
NERP       FACTS
SABRS      CMR
STARS      MOCAS
MISIL      PBAS

*DDR-S B*
Enhance existing DFAS FBwT reconciliation tools to include the SAA programs

Partner with DSCA and OSD to develop Executive Office of the President (TI-11) reconciliation capabilities

Establish recon roles / responsibilities and provide integrated oversight of recon results

<table>
<thead>
<tr>
<th>DFAS Site</th>
<th>System</th>
<th>System Name</th>
<th>FMS Trust Fund</th>
<th>Grants</th>
<th>SDAF</th>
<th>IMET</th>
<th>Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>IN</td>
<td>AFT</td>
<td>Army Fund Balance with Treasury Reconciliation Tool</td>
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<tr>
<td>CL</td>
<td>NFT</td>
<td>Navy Fund Balance with Treasury Tool</td>
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<tr>
<td>CO</td>
<td>CCAS</td>
<td>Columbus Cash Accountability System</td>
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</tr>
<tr>
<td>CO / IN</td>
<td>DRRT</td>
<td>Department 97 Reconciliation and Reporting Tool</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>IN</td>
<td>CMR</td>
<td>Cash Management Report</td>
<td></td>
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<tr>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
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<tr>
<td>IN</td>
<td>N/A</td>
<td>N/A (Manual Process Developed)</td>
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</tbody>
</table>

Legend:
- Treasury Index 21 (Army)
- Treasury Index 17 (Navy)
- Treasury Index 57 (Air Force)
- Treasury Index 97 (Defense Agency)
- Treasury Index 11 (Executive Office of the President)
• Improve DIFS FISCAM testing and controls
• Reconcile DIFS data
• Streamline DIFS interfaces
Established a dedicated SAA team in Indianapolis Audit Support to:
- Develop DFAS audit infrastructure
- Partner with Audit Support organizations across DFAS Operations to achieve audit objectives
- Apply DoD best practices to SAA, whenever possible
- Build DFAS assertion packages
- Support DSCA UoT and reconciliation efforts

Contact information:
- DFAS SAA F/S and Mock Audit support: dfas.indianapolis-in.jbk.mbx.saa-funds-audit-support@mail.mil
- DoDIG/GAO and other compliance audit efforts: DFAS Indianapolis Network Audit Support - Susan Kelly (susan.a.kelley8.civ@mail.mil), Chris Hettinger (david.c.hettinger.civ@mail.mil)
Stakeholders Call to Action

- MILDEPS and Defense Agencies must participate in SAA governance
- All Implementing Agencies, DFAS, and DSCA must document and remediate business processes and applicable controls
- All stakeholders must support SAA Data and System initiatives
- Support future SAA audits

SAA Audit Readiness Board POCs

Army
SAA: Dusty Rhodes
AL: Natasha Anderson

Navy
SAA: Denice Petrusic
AL: Joaella Lane

Air Force
SAA: Jim Whitcraft
AL: Harry Pelto

DCMA
SAA: Mitch Kuptz
AL: Eulica Kimber

DISA
SAA: Stephanie McMillan
AL: Carrol Corrigan

DLA
SAA: Stephen Dubernas
AL: Gordon Weiss

NSA
SAA: Michelle Stanbrough
AL: Jasmine Brown

JSF
SAA: Lesley Price

DTRA
SAA: Younah Choi
AL: Monica Rivera

DSCA
SAA: Chris Smith
AL: LaMont Carter

MDA
SAA: Patricia Whitley
AL: Shawn Sparks

NGA
SAA: Michael Kieswetter
AL: Gary Veal
Knowledge Check 1

In which Fiscal Year will the SAA undergo its first Full Financial Statement Audit?
What role will you play in this upcoming DSCA Title 22 (SAA) Financial Statement Audit?
DoD executes Foreign Military Sales. Which government entity overseas Foreign Military Sales?
Which FIAR Critical Capabilities relate to the top 3 DFAS focus areas: DDRS Mega Migration, TI97 & 11 FBWT, and DIFS?
Knowledge Check 5

Name three general ledger systems in scope for the DFAS DDRS Mega Migration efforts on the FMS Trust Fund and Special Defense Acquisition Fund.
True or False: All Implementing Agencies, DFAS, and DSCA must document and remediate business processes and applicable controls.
What is the DFAS protocol for submitting an audit request?
QUESTIONS?
While DSCA maintains oversight of the SAA and DFAS provides some accounting and finance functions, including Financial Statement development, 99.5% of the SAA business is executed by the Military Departments and Defense Agencies other than DSCA.

- For the FMS Trust Fund Account, here is a break down of FY 18 FMS Admin Distribution, FMS Case Sales, and FMS Delivered Value:

<table>
<thead>
<tr>
<th>Service</th>
<th>FMS Admin</th>
<th>FMS Sales</th>
<th>FMS Delivered Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of the Army</td>
<td>$240M</td>
<td>$21.8B</td>
<td>$11.0B</td>
</tr>
<tr>
<td>Department of the Navy</td>
<td>$181M</td>
<td>$21.8B</td>
<td>$5.7B</td>
</tr>
<tr>
<td>Department of the Air Force</td>
<td>$226M</td>
<td>$10.8B</td>
<td>$10.8B</td>
</tr>
<tr>
<td>Department of Defense</td>
<td>$60M</td>
<td>$1.3B</td>
<td>$17.4B</td>
</tr>
</tbody>
</table>
DSCA is responsible for two separate financial statements: DSCA reported Title 10 funds (Treasury Index 97) are consolidated in the DoD-Wide Financial Statements, and the DSCA SAA (Title 22, Treasury Index 11), which was deemed a significant reporting entity, is reported directly to the Department of Treasury.

DSCA continues to engage with Treasury and OUSD (C) with progress updates for FY22.
Security Assistance Accounts

The SAA is comprised of eight Executive Office of the President (EOP) Treasury Index (TI) 11 accounts.

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<thead>
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<th>FY18 FBwT</th>
<th>FBwT %</th>
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<tr>
<td>FMS Trust Fund</td>
<td>$33.6B</td>
<td>79.8%</td>
<td>This account is used directly on contracts for the procurement of defense articles and/or services and to reimburse DoD Component appropriations for deliveries from DoD stocks/services performed by DoD employees.</td>
</tr>
<tr>
<td>11 x 8242</td>
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<tr>
<td>Foreign Military Financing (FMF)</td>
<td>$6.4B</td>
<td>15.3%</td>
<td>Used to record the receipt and use of appropriated grant funds to finance U.S. defense sales to selected foreign friends and allies, primarily through the FMS program.</td>
</tr>
<tr>
<td>11 1082</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAA Loan Accounts</td>
<td>$0.9B</td>
<td>2.2%</td>
<td>Used to manage loans to partner nations for the purchase of weapons and defense equipment produced in the United States, as well as for acquiring U.S. defense services and military training.</td>
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<tr>
<td>11 4121, 11 4122, 11 4174, 11 1085</td>
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</tr>
<tr>
<td>Special Defense Acquisition Fund (SDAF)</td>
<td>$0.8B</td>
<td>2.0%</td>
<td>The objective of SDAF is to facilitate delivery of material in advance of normal procurement lead times and establish a readily available source of selected items.</td>
</tr>
<tr>
<td>11 4116</td>
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</tr>
<tr>
<td>International Military Education &amp; Training (IMET)</td>
<td>$0.2B</td>
<td>0.4%</td>
<td>Used to record the receipt and use of appropriated grant funds for the training of selected foreign military and related civilian personnel in CONUS and OCONUS.</td>
</tr>
<tr>
<td>11 x 1081</td>
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</table>