

DSCA Policy Memo I-77059/98
Logistics Support Charge (LSC) Assessment for Nonstandard
Requisitioning System Transactions
12 November 1998

In reply refer to:
I-77059/98

Memorandum For: Deputy Under Secretary of the Army (International Affairs)
Attn: SAUS-IA-DSZ Department of the Army
Director, Navy International Programs Office
Department of the Navy
Deputy Under Secretary of the Air Force (International Affairs)
Department of the Air Force
Deputy Director for Security Assistance, Defense Finance and
Accounting Service -- Denver Center

Subject: Logistics Support Charge (LSC) Assessment for Nonstandard Requisitioning
System Transactions

Reference:

(a) SAF/IAX Memorandum, 17 Mar 98, "*Request for Waiver of the Logistics Support Charge (LSC) for Parts and Repair Ordering System (PROS) Transactions*"

(b) AMSAC-OL-MP Memorandum, 7 Apr 97, "*Request for Waiver of Logistics Support Charges Applied to Simplified Nonstandard Acquisition Procedure (SNAP) Requisitions*"

(c) NAVICP Memorandum 4920 Ser P761/093, 5 Oct 98, "*Logistics Support Charge Waiver for Commercial Buying Service Requisitions: Request For*"

(d) Defense Security Assistance Management System (DSAMS), Case Execution Standardization Issue Papers IV-10, "*Non Standard Requisitioning Processing*" and IV-11, "*Request for LSC and CAS Waiver on Commercial Buying Service (CBS) Requirements*"

References (a) through (c) request waivers to the LSC currently being assessed against requisitions processed through each Military Department's nonstandard requisitioning system. The issue papers cited in reference (d) also request elimination of the LSC assessment for the new Commercial Buying Service (CBS) concept being proposed under the DSAMS project.

The LSC is applicable to non-major defense equipment other than Defense Working Capital Fund (formerly DBOF) items. DoD 7000.14-R, Volume 15, paragraph 072204 provides a list of specific generic codes which are eligible for the charge. LSC is an integral part of the price of these items. Since we are required by law to recover full costs, we have no authority to waive this charge. In reviewing the referenced memoranda, however, it would appear that what is

actually being requested is a determination that the LSC does not apply to items processed through the Service nonstandard requisitioning systems. Therefore, we have reviewed your requests as applicability questions rather than waivers and provide the following information.

The Air Force system (Parts and Repair Ordering System (PROS)) is a follow-on to the Non-Standard Item Parts Acquisition and Repair System (NIPARS). We provided guidance in 1994 that the LSC should not be applied to NIPARS orders based on justification provided by the Air Force. In reviewing the documentation provided for PROS, we find the same rationale supports not applying LSC to PROS orders as well. All logistics support functions for items processed through PROS are performed by the contractor and all operating costs are included within the price and the fill fee. Based on the information provided, we concur that items filled using PROS should not be assessed the LSC.

The Navy system (FMS Acquisition Service Team Line (FASTLINE)) also relies on a contractor to provide logistics support services and incorporates all fees for these services within the price charged. While requisitions do pass through the Navy Management Information System for International Logistics (MISIL), it appears this is for routing only and that the commercial vendor is responsible for all logistics actions. This is very similar to the way the Air Force systems, both NIPARS and PROS, operate and indicates that applying the LSC for these functions would not be appropriate. Based on the information provided, we concur that items filled using FASTLINE should not be assessed the LSC.

According to reference (b), the Army system (*Simplified Nonstandard Acquisition Procedures (SNAP)*) is used to process requisitions for nonstandard items and these requisitions do not go through the TACOM supply system. More detailed discussions during requirements meetings of the Defense Security Assistance Management System (DSAMS) teams (documented in reference (d)), however, indicate that “The Army provides hands-on acquisition and administrative support at the requisition level by a team of acquisition center professionals to acquire FMS standard/nonstandard items.” This would indicate a fairly high involvement of US Government logistics systems and personnel in processing these orders, unlike the Air Force and Navy processes. Based on this important difference, orders filled using SNAP should be assessed the LSC to ensure all costs associated with the US logistics system are recovered. We understand that the Army is reevaluating its nonstandard item support and may be implementing a new system in the near future which more closely resembles PROS and FASTLINE. When that system is implemented, we recommend the Army submit a new request for LSC applicability determination and we will reevaluate our position.

Reference (d) indicates that DSAMS will include a CBS capability for all three Services and requests a waiver of Contract Administration Services (CAS) and LSC for orders filled from this system.

- a. The statutory authority (Arms Export Control Act, Sec 21(h)) dealing with CAS limits exemptions to NATO member countries who have reciprocal arrangements to provide these services, without charge, to the US Government. These agreements may be for all or part of the services normally provided in contract administration and contract audit and are normally on a country-wide (vice case-by-case) basis. The information provided does not indicate

specific countries or cite reciprocal agreements and, therefore, does not fall within the waiver authority of the DoD.

b. Again, it appears that what is actually being requested is a determination that the CAS charge does not apply. However, the information provided does not provide sufficient justification for an exception. For the CBS, DoD contract(s) will be awarded. These contracts should involve all the usual services required to execute a contract, such as administration and auditing. The level of effort is not relevant when the reimbursement is based on a percentage calculation, such as CAS.

c. The CBS, as outlined in the referenced DSAMS issue papers, will use a commercial vendor to accomplish logistics support functions. The CBS contractor(s) will include charges for functions traditionally covered by the LSC assessment within its prices. As with PROS and FASTLINE, we agree that charging the customer an LSC fee on top of this fee, when there is no US Government involvement in the processing of these orders, would not be appropriate. However, since the CBS concept has not been finalized, and there is not yet a “system” to evaluate, we do not believe it would be appropriate for us to make a final determination on the applicability of LSC on CBS-filled orders at this time. We recommend you resubmit your request when the CBS is closer to implementation. If the system requirements remain similar to the information provided in the issue papers, we are confident that a positive response will be given at that time.

Please note that the determinations above regarding PROS and FASTLINE are effective for processing of future orders only and are not retroactive. LSC that has already been applied to these orders should not be reversed. If you have further questions or need additional information, please contact Beth Baker, DSCA/COMPT-FM, (703) 601-3737 or e-mail: beth.baker@osd.pentagon.mil.

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