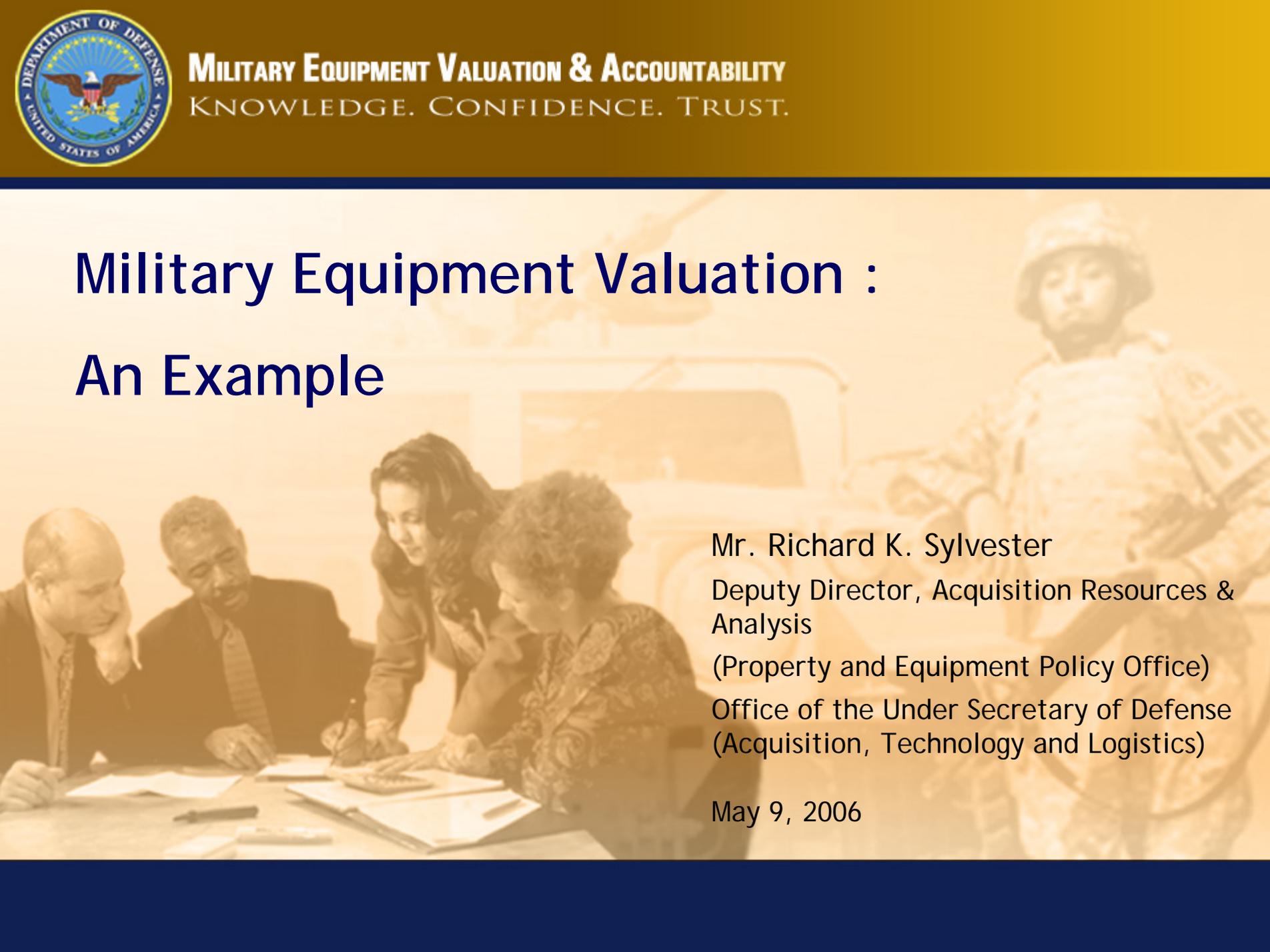




MILITARY EQUIPMENT VALUATION & ACCOUNTABILITY
KNOWLEDGE. CONFIDENCE. TRUST.

Military Equipment Valuation : An Example

The background of the slide is a composite image. On the left, four people (three men and one woman) are gathered around a table, looking at documents and a calculator. On the right, a soldier in full combat gear, including a helmet and a vest with "MMA" on it, is standing. The entire background is tinted with a warm, yellowish-orange color.

Mr. Richard K. Sylvester
Deputy Director, Acquisition Resources &
Analysis
(Property and Equipment Policy Office)
Office of the Under Secretary of Defense
(Acquisition, Technology and Logistics)

May 9, 2006

What is Military Equipment Valuation?

- A process to implement the 2003 Federal accounting standard that requires military equipment (including modifications) to be properly valued, capitalized, and depreciated
- Why is MEV important?
 - To provide reliable and accurate information to decision makers
 - Total acquisition cost of assets will be consistently determined
 - Decision makers will get comparable information over time and between programs
 - It will allow better investment planning for replacements
 - To increase public trust and confidence

“We owe the taxpayers no less than a private company would to its investors in being able to account for their money.”

-Linda M. Springer, OMB

Military Equipment Defined

- Military Equipment is defined as Tangible assets that:
 - 1) Have an estimated useful life of 2 or more years;
 - 2) Are not intended for sale;
 - 3) Are intended to be used or available for use in the performance of military missions, to include equipment used in training; and
 - 4) Are valued at \$100,000 or more (\$50,000 for vehicles)

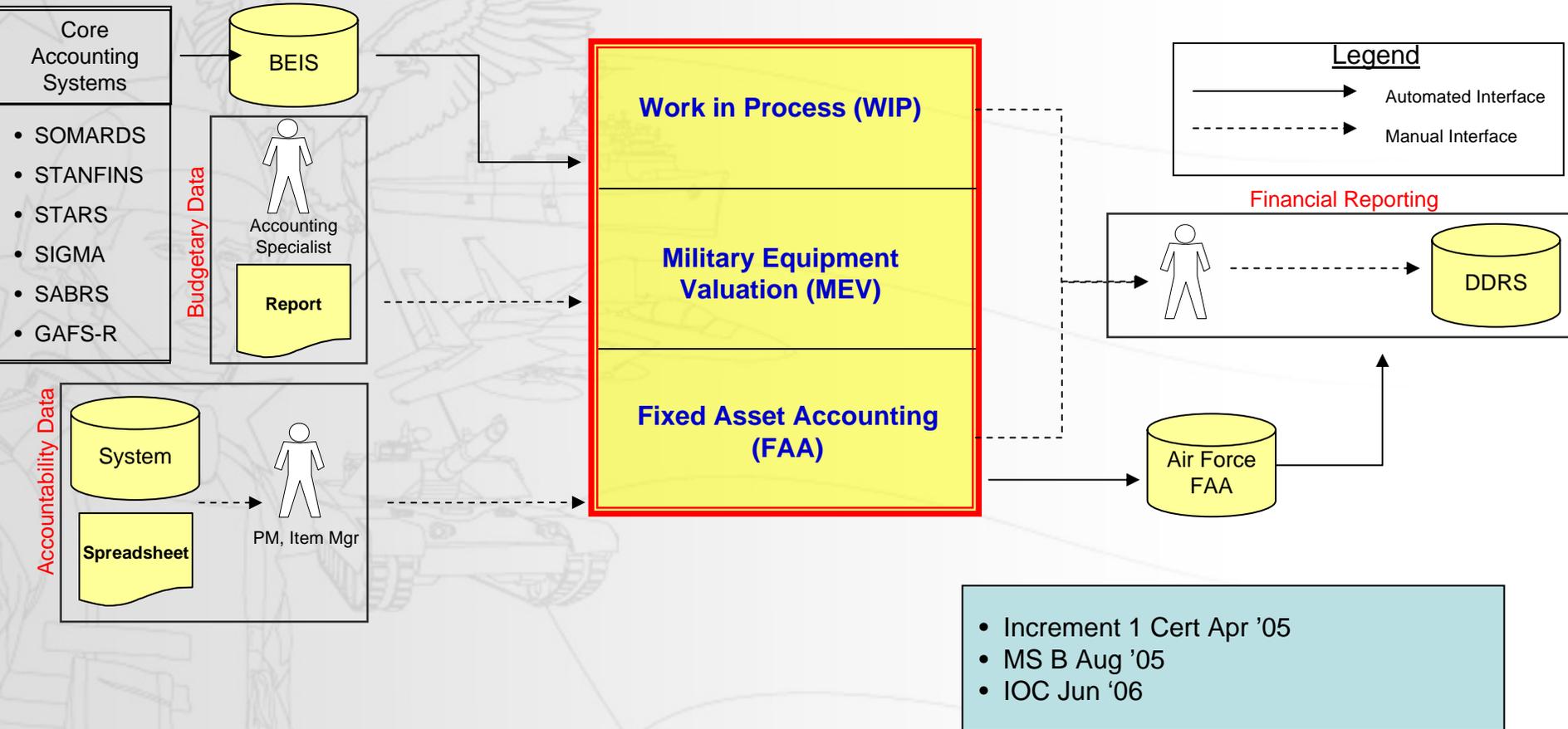
- Examples of Military Equipment: aircraft, ballistic missiles, communications and electronic devices and systems, satellites, combat ships, support ships, and combat vehicles

Establishing the FY06 Historical Baseline

- Over the past three years, OSD P&E Policy Valuations Team has been visiting PM Offices to gather military equipment program information to:
 - Complete the *initial baseline valuation*; or
 - Issue a *permanent waiver* (does not meet criteria for military equipment); or
 - Issue a *temporary waiver* (not yet in production)
- Since all programs were not valued at the same time...we needed a process to bring them up to the same point in time

Hence...The FY06 Baseline Update Process!

Increment 1 Strategy



FY06 Baseline Update Process

Purpose: Establish program balances that are current as of the end of FY2006

The Three Main Areas of the FY06 Update to the Baseline Programs:

- Obtain program Expenditure Information (automated)
- Obtain updated Asset Delivery and Disposal Information (web-based tool)
- Obtain a more accurate Estimated Average Cost based on supplementals and budget changes

The Expenditure Information, Asset Delivery and Disposal Information, and the Estimated Average Cost must be completed to achieve a:

- “Soft” Close (6/30/06) - Test procedures, processes, and system requirements
- “Hard”Close (9/30/06) - Year-end

Transition to Full Compliance

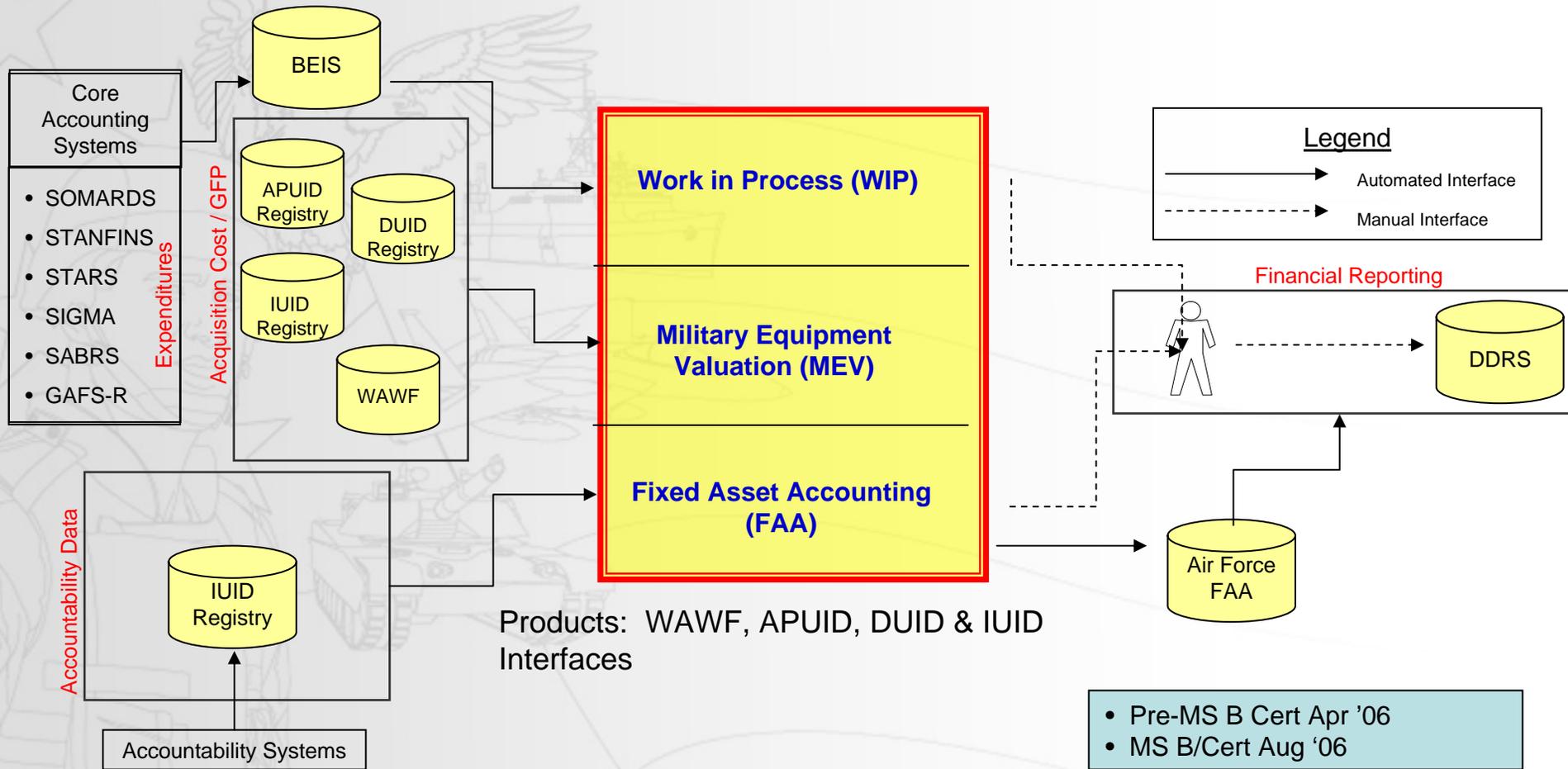
- **The Department plans to use the Baseline methodology to value assets in FY 2007 with a single, significant change**
 - FY 2007 values will be based on FY 2007 specific program information rather than information from program inception
 - This approach will provide improved unit cost information
- **DoD will continue this process until infrastructure is in place for fully compliant system – planned for FY 2008**

Fully Compliant Methodology

- **A SFFAS 6 Compliant Methodology**
 - This methodology is dependent upon the creation and maintenance of automated interfaces among DoD enterprise systems
 - Requires that contracts be written to support capturing the information by item (e.g. end item, spares, etc)
 - Expenditures must be related to
 - program
 - asset type
 - uniquely identified item

Institutional changes needed to support full compliance will be in place in 2 years – It will take 5 to 7 years to be fully mature

Increment 2 Strategy



The Way Forward

- **DoD has an progressive plan to achieve full compliance with FASAB standards**
 - Significant progress has been made
 - MEV baseline based on SFFAS 23 will be established September 30, 2006
 - MEV baseline will be updated in FY 2007 and provide improved cost information
 - MEV will transition to provide full cost information necessary to comply with SFFAS 6
 - Full compliance is difficult and will require:
 - Cultural changes
 - Business transformational changes
 - Training
 - Continued FASAB support