



MILITARY EQUIPMENT VALUATION & ACCOUNTABILITY
KNOWLEDGE. CONFIDENCE. TRUST.

Military Equipment Valuation

New Role for PMs & PEOs

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Outline

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Military Equipment Valuation

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Where We've Been

What is Military Equipment Valuation (MEV)?

- A process to implement the 2003 Federal accounting standards that requires military equipment (including modifications and upgrades) to be properly valued, capitalized, and depreciated
 - Statement of Federal Financial Accounting Standard No. 6 requires valuation and depreciation of PP&E
 - PP&E includes General PP&E, Heritage Assets, Stewardship Land
 - Statement of Federal Financial Accounting Standard No. 23 reclassifies military equipment from National Defense PP&E to General PP&E, thus requiring it to be valued and depreciated instead of expenses on the balance sheet

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

Actions to Date

- Established Principle-Based Business Rules
 - Policy Memo: *Military Equipment Valuation Project Business Rules*; June 8, 2005
- Completed 1,048 Initial Valuations (Baseline) of military equipment programs
 - 95% of the 1,105 identified military equipment programs
- Deployed **Capital Asset Management System – Military Equipment (CAMS-ME)**, version 0.8
 - CAMS-ME System developed to record values and depreciation of military equipment
 - V. 0.8 Sustainment programs only

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!

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What's Coming Up in the Near Term

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:

- Identify Program Financial Account Codes (FACs) and Obtain Program Expenditure Information
- Obtain Updated Asset Delivery and Disposal Information
- Determine a More Accurate Estimated Average Cost

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

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

FY06 Baseline Update Process

Identify Program FACs & Obtain Updated Expenditure Information Responsibilities in FY06

- P&E Policy Office
 - The P&E Policy Office, working with designated Component representatives, will be responsible for identifying the financial account codes (unique accounting codes from the core accounting systems for each program).
 - The financial account codes will be provided at the program/appropriation level and will mirror those codes that were used to provide and extract the expenditure information for the initial baseline valuations.
- An interface from DFAS' Business Enterprise Information System (BEIS) to CAMS-ME to be used to obtain program expenditure data

FY06 Baseline Update Process

Obtain Updated Asset Deliveries and Disposal Information Responsibilities in FY06

- 1st Update
 - PM (or Service designated) points of contact (POCs) to update the military equipment program asset delivery and disposal information from the date the initial valuation was performed to end of FY05 (9/30/05)
 - PM (or Service designated) POCs will complete updates using a **Microsoft desktop application (Excel spreadsheet)**.
 - P&E Policy Office to provide the Microsoft desktop application to the POCs or the designated service representative by 1/3/06
 - PM designated (or Service designated) POCs complete and submit the update to the P&E Policy by 3/31/06

FY06 Baseline Update Process

Obtain Updated Asset Deliveries and Disposal Information Responsibilities in FY06 (Continued)

- 2nd Update
 - PM (or Service designated) POCs to update the military equipment program asset delivery and disposal information from end of FY05 through FY06
 - PM (or Service designated) POCs will make updates using the **CAMS-ME system** (via a user-friendly, portal interface) beginning 6/1/06 and by 6/30/06 for soft close, and by 9/30/06 for FY06 hard close
 - PM (or Service designated) POCs will make updates quarterly until asset either disposed or fully depreciated

FY06 Baseline Update Process

Obtain Updated Estimated Average Cost per End Item Responsibilities in FY06

- The P&E Policy Office will:
 - Create an initial valuation for any programs with temporary waivers that will produce assets that must be capitalized by the end of fiscal year 2006
 - Update the average cost per end item of any programs that experience changes in funding (e.g. supplemental funding) or changes in quantities
- This calculation will be entered into CAMS-ME, by the P&E Policy Office, and the system will calculate the average cost per asset.

We Have an FY06 MEV Baseline – What's Next?

Management Assertion on MEV Baseline

Management Assertion equates to making a statement about 5 things:

1. Existence

That the military equipment reported by the DoD does in fact exist

2. Completeness

Regarding the PP&E line item on the balance sheet, that everything that should be reported has been recorded and reported

3. Rights and Obligations

That the Service reporting the item does in fact have the rights and “owns” the equipment

4. Valuation

That the items have been valued in accordance with Federal Accounting Standards or Generally Acceptable Accounting Standards

5. Presentation and Disclosure

That the information is presented accurately on the financial statement.

**Valuation is affected by 1 and 2 –
If 1 and 2 are incorrect, the values reported will be incorrect!**

Evidence Required for Management Assertion Process

▪ **Existence (Logistics)**

- Verification of items' existence (e.g. DD1138)
- List identifying end items disposed
 - Must be able to produce supporting documentation only if / when required by Auditor during a site check (e.g. DD1348-1A)

▪ **Completeness (Program Management)**

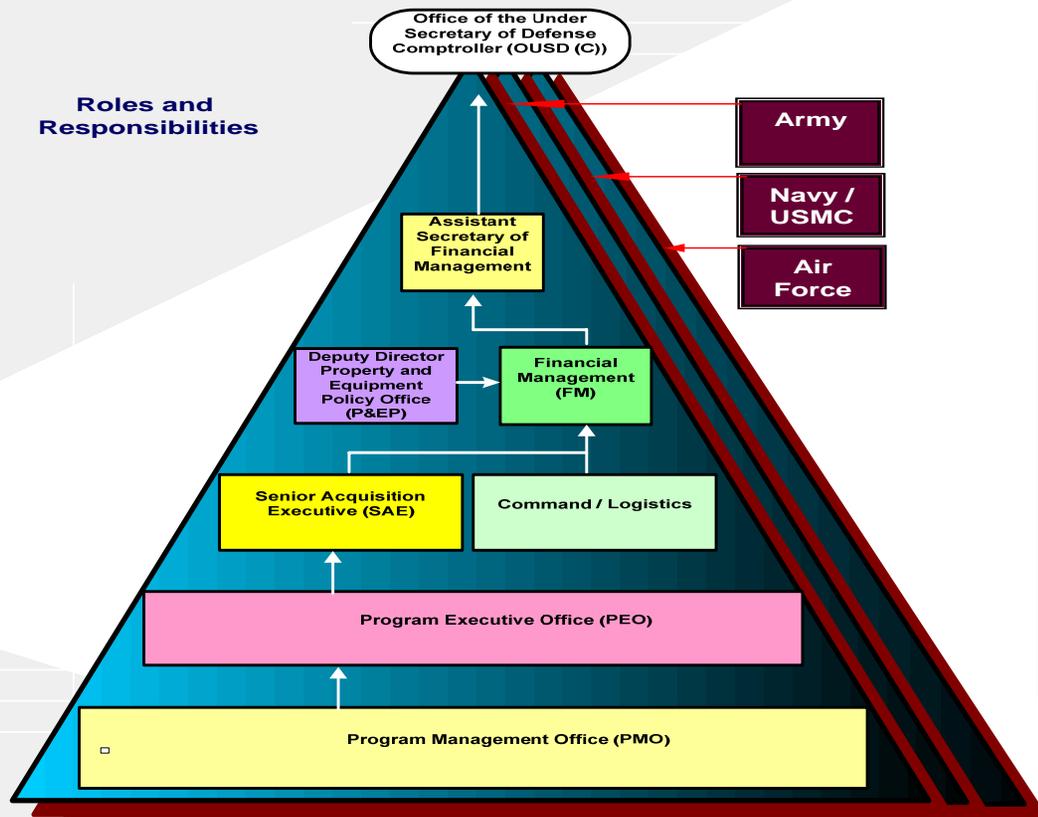
- List identifying all known programs administered by PM Office
- List identifying all end items delivered
 - Must be able to produce supporting documentation only if / when required by Auditor during a site check (e.g. DD250)

Evidence Required for Management Assertion Process

- **Valuation (P&E Policy Office)**
 - List of programs identifying expenditure data
 - List of programs showing total estimated program costs
 - List of programs showing planned number of end items
 - Systems data on number of end items in service
 - List identifying end items disposed
 - Baseline cost accumulation data tied to reports and accounting systems data from which derived
 - Accounting records in support of costs incurred after prescribed date
- **Rights and Obligations (Program Management)**
 - List identifying all known programs (see “completeness”)
 - Must be able to produce supporting documentation only if / when required by Auditor during a site check (e.g., contract documents)
- **Presentation and Disclosure (Financial Management)**
 - Model financial statement presentation and disclosure footnotes compared with FASAB requirements

Management Assertion Roles & Responsibilities

Roles and Responsibilities



- OUSD (C) must assert to financial totals on the DoD balance sheet
- OUSD (C) is unable to make required assertions, because the OUSD (C) does not control source data on the balance sheet (i.e. Military Equipment).
- OUSD (C) needs the support of other DoD stakeholders (i.e. SAE, Assistant Secretary of FM) to assert to data within their control.

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A faint, line-art style illustration in the background depicts various military elements: a soldier in the foreground on the left, a large eagle with wings spread in the upper center, a battleship in the middle ground, a fighter jet below it, and a tank in the lower foreground. The scene is set against a backdrop of rolling hills.

Beyond FY06

Baseline Maintenance & New Programs

- **Maintenance to the Baseline**

- No new programs will be added to the baseline (The list does not change)
- Quarterly updates of the asset information (i.e. additions and disposals)
- Annual updates to financial account codes (FACs)

- **New Programs**

- New FY07 (and beyond) programs meeting the capitalization and depreciation criteria set forth in Statement of Federal Financial Accounting Standard No. 6 are subject to new policy guidance and business rules
- Major Modifications to baseline programs will be treated as new programs

Working Toward Next Increment of MEV: New Policies, Procedures and Guidance

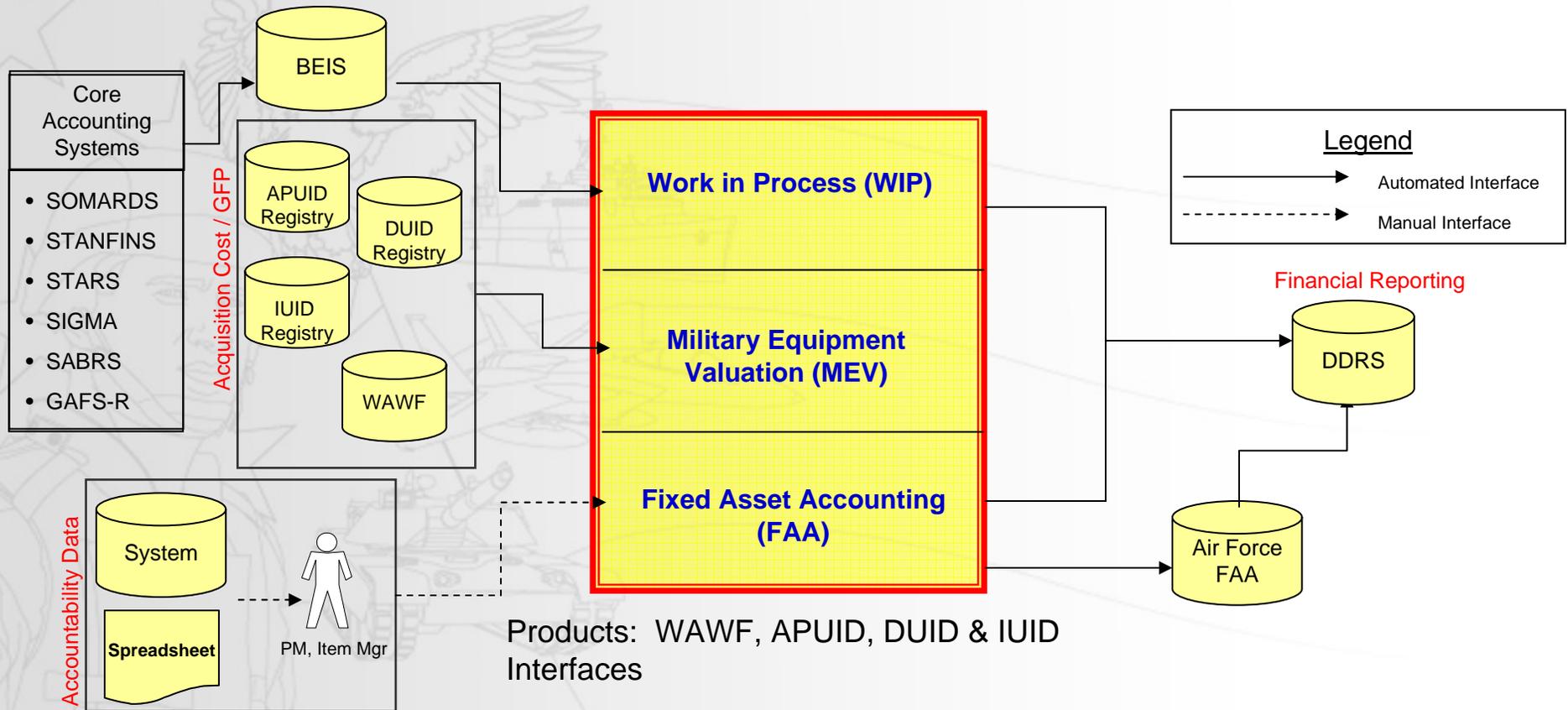
- **Currently defining needed process changes, new system interfaces and capabilities to implement the next increment of MEV**
 - Will move from program-based valuations (which were used to create the baseline) to a contract-based methodology to value new programs
 - New methodology requires changes in how contracts are structured
- **New program treatment required beginning in FY07**
 - Acquisition Program Structuring:
 - Identify the following deliverables:
 - The end item(s) meeting the unit cost thresholds;
 - The government furnished property that will be included in the end item(s);
 - Other deliverables that will accompany the end item (e.g., manuals, tech data, etc.); and
 - Other types of deliverables that will be bought with program funding (e.g., initial spares, support equipment, special tooling and test equipment, etc.), but that cannot be directly attributed to a specific end item.
 - Program description should be consistent with the Program Work Breakdown Structure

Working Toward Next Increment of MEV: New Policies, Procedures and Guidance

- **New program treatment required beginning in FY07 (Continued)**
 - When structuring a Demand Requisition (I.E. Procurement Requests, Purchase Requisitions, Military Interdepartmental Purchase requests (MIPRS), each type of asset or expense will be separated as a different line item on the requisition
 - In proposals, solicitations, contracts, and/or orders determined to be for or related to the acquisition of military equipment, each type of item or service that will receive a separate or different accounting treatment **shall** be set forth in either a separate contract line or subline item

**Increased Automation and Capabilities in Next Increment
of MEV Means Less Manual Processes!**

Working Toward Next Increment of MEV: Increment 2 Strategy



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Help Along the Way

Training & Resources

- Detailed instructions and Email Box/POCS available for updates to be made in Jan-Mar 06 using the Microsoft Desktop Tool
- Training delivered onsite in up to ten CONUS locations in April – May 2006
 - MEV Overview Session
 - Baseline Asset Disposition Updates (CAMS-ME) Training
 - Management Assertion for Military Equipment Training
 - Management Assertion for Military Equipment Training (for Executives)
- Training on “Contract Restructuring” beginning in June 2006—will also train the Services on next increment of CAMS-ME when it’s ready to deploy
- Revised MEV Website to be launched early Dec 05 to replace current website (<http://www.acq.osd.mil/me>)
 - News & Events, Reference documents and MEV Guidebook
 - CAMS-ME Help Desk
 - CAMS-ME online training refresher course
- Direct email notification to designated POCs of what’s coming—what’s due

We’re Providing You with Tools & Help Along the Way!

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A faint, light-colored line-art illustration serves as a background for the slide. It depicts a soldier in the foreground on the left, wearing a helmet and holding a clipboard. Behind the soldier, there is a large eagle with its wings spread, a military ship, a fighter jet, and a tank. The scene is set against a backdrop of rolling hills and a star in the upper left corner.

Timeline & Summary

Timeline

- PM/Service POCs update Asset Dispositions in Jan – Mar 06 using desktop tool
- PM/Service POCs attend Onsite Training during April-May 06
- PM/Service POCs update Asset Dispositions using the CAMS-ME system in Jun 06 (soft close), and Sep 06 (hard close)
- Management Assertion process begins with PM's in Sep/Oct 06 and ends Dec 06
- From FY07 until next increment of MEV, PM/Service POCs continue to update their Asset Dispositions in CAMS-ME

Summary

- You have a very important role in valuing military equipment
- All communities need to work together to make this happen!
- Training, resources and support are available to help you through the process
- We're working toward more automation to eliminate manual processes in future phases
- This has never been done before...