

The Changin' Program and Business Financial Manager Roles

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To borrow a line from singer-songwriter Bob Dylan, “The times, they are a-changin’,” and so are the roles of some key people in the acquisition community—specifically the program manager and the business financial manager.

A major change is the military equipment valuation and accountability (MEVA) initiative, which is an ongoing Department of Defense-wide effort to establish and maintain accurate and relevant financial accountability for the department’s military equipment. It is critically important to understand the cost basis for military equipment so DoD knows how much the taxpayer has already invested and where new investments are needed to respond to current and emerging requirements. Capturing this information requires a significant transformation from how DoD has done business in the past. The success of the department’s efforts begins with and depends heavily upon its program and business financial managers.

The MEVA initiative established an initial baseline for military equipment values at the end of fiscal year 2006. Actual values were determined whenever possible, and an average cost methodology using budgetary appropria-

tions was used to ascribe value to items of equipment. But this was only the beginning of the effort required to comply with changing laws and regulations for the financial accounting for military equipment. Since establishment of the baseline, new rules have been developed for the proper financial accounting treatment for military equipment and for determining the full cost of each item. DoD is moving toward obligation-based valuations and is beginning to use actual line item contract values for asset valuations. An item-unique identification registry has been established to provide enterprise-level documentation of life cycle events for each asset. Continued spiral development of the Capital Asset Management System—Military Equipment has provided additional capabilities for recording and managing military equipment assets. To learn more about these and other changes to the military equipment valuation initiative, go to the MEVA Web site, < www.acq.osd.mil/me/ > .

New Way of Doing Business

These changes place new responsibilities on the program manager and the business financial manager in the program management office to enable proper visibility, oversight, and execution of all financial management and accountability requirements for the property managed by the program. These responsibilities include structuring purchase orders that allow accurate cost accounting; maintaining documentation to support audits; identifying useful lives for equipment and keeping that useful life current as mission profiles change; and managing asset

existence over equipment life cycles. These new responsibilities are neither temporary nor a one-time requirement; they are permanent and require changes to the ways the program manager does business. The objective of the new requirements is to improve the accuracy and fidelity of the valuation of each item of military equipment. This, in turn, will better enable the



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department to achieve its goal of audit readiness at the enterprise level and will provide better information to DoD senior decision makers, particularly regarding asset visibility and useful life.

The Program Manager's Role

The program manager for any program, project, product, or system that has planned deliverables of military equipment meeting the capitalization threshold (currently \$100,000) is already required to prepare a detailed program description as part of the acquisition strategy at Milestone C or any other decision point that leads to production or procurement of end items to be used for operations. This program description should identify:

- All items within the level 2 work-breakdown structure groups (the major subordinate elements of work necessary to execute the program) that meet or exceed the current capitalization thresholds
- Government-furnished materials that are included as a component part of the end item
- Other separate deliverables that accompany an end item when it is procured (such as manuals and technical documents)
- All other deliverables that are bought with program money (such as initial spares, item-peculiar support equipment, special tools and test equipment) that cannot be directly attributed to a specific end item.

New language that will be added to DoD Instruction 5000.2, *Operation of the Defense Acquisition System*, directly and succinctly codifies new responsibilities for the program manager. Changes to DoDI 5000.2 state, in part, that throughout production and deployment, the life cycle manager, who in most cases is also the program manager, shall ensure that all deliverable equipment requiring capitalization is serially identified and valued at full cost and that the full cost of each item of equipment is entered into the item-unique identification registry. It specifies all proposals, solicitations, contracts, and/or orders for deliverable equipment be structured to segregate each type of equipment based on its respective financial treatment and that procedures be established to track all equipment items throughout their life cycle. Finally, and this is a biggie, it requires that the status of items added, retired from operational use, or transferred from one component to another be updated quarterly throughout its useful life.

Modifications to items of equipment are also treated differently. When equipment undergoes modifications that substantially increase capability, extend useful life, or result in a change to type/series identification, the process described above starts over again. Modifications are capitalized, identified, and valued at full cost. Proposals, solicitations, contracts, and delivery orders are structured to ensure proper financial accounting. And the status of the modified equipment is updated quarterly over its useful life.

New Laws and Regulations

These changes reflect the requirements of the provisions of law and financial management regulations with which the department must comply. The Chief Financial Officers Act of 1990 established the annual requirement for each executive agency to submit a financial statement for the preceding fiscal year to the director of the Office of Management and Budget. The Federal Financial Management Act of 1996 then required each agency to implement and maintain financial management systems that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Statement of Federal Financial Accounting Standard No. 23, published in 2003, eliminated *National Defense Property, Plant, and Equipment* as a category, with the effect that military equipment was put into the same category as general plant, property, and equipment. This also made military equipment subject to the provisions of Statement of Federal Financial Accounting Standard No. 6, which outlines the federal accounting rules for accounting for all property, plant, and equipment. Specifically, each item of military equipment now has to be valued, capitalized, and depreciated over its useful life based on expenditures, at full cost, with assets identified and managed across their life cycle with adequate internal controls.

The quarterly update on the status of all end items for which the program is responsible is essential to meeting these requirements and reporting accurate financial information. These updates continue throughout the useful life of the items, even if/when the responsibility for the items is transferred from the program office to a life cycle or end item manager in the logistics community.

Program managers can find out more on the MEVA Web site. Program managers can also learn more from the Defense Acquisition University's recently developed comprehensive course on the fiscal and physical accountability and management of DoD equipment. The course will give program managers a better understanding of and appreciation for the complementary aspects of fiscal and physical accountability and their importance to the institutionalization of better business practices within the department.

The Business Financial Manager's Role

To enable a more accurate determination of the value of military equipment, every military equipment end item included in the program description must be uniquely identified. Military equipment line items are now required to be itemized on every purchase requisition so the contracting officer may identify them as a separate contract line item or sub-contract line item on the solicitations and contracts.



This means that the business financial manager now has more work to do upon receipt of a request for new procurement of military equipment. The business financial manager must collaborate closely with the program manager to ensure that the military equipment program description facilitates the proper determination of the applicable type of asset or expense and the proper financial treatment of each item in the program description.

The business financial manager is responsible for assigning the asset or expense type for each item. These types include military equipment; real property; operating material and supplies; internal-use software; and other general plant, property, and equipment. The business financial manager also identifies the appropriate category of financial treatment for each line item. Line items may be identified as assets to be capitalized, assets to be held for inventory, or assets to be expensed.

Having assigned the asset and expense type to each item, the business financial manager is then responsible for developing the appropriate purchase requisitions. The line items on these requisitions must be separated based upon the type of requested deliverable.

The business financial manager next collaborates, as needed, with contracting officers to ensure the integrity of the line-item structure of the purchase requisition is carried forward when solicitations are written, proposals are received, and contracts are awarded.

These new requirements place a heavier burden on DoD's business financial managers. To assist them in learning more about their responsibilities and how to meet these requirements, the Defense Acquisition University has developed online training support for the business financial

manager. The comprehensive training course provides an overview of the proper financial accounting treatment for military equipment, detailed information on the overarching procurement business process changes, and examples and discussions of the different roles of the acquisition community in facilitating proper financial accounting treatment for military equipment. The course also defines military equipment, allowing the business financial manager to distinguish between capitalizable vs. non-capitalizable equipment and explains asset categories for financial reporting and their applicable accounting treatment.

There is also a business financial manager quick reference tool available on the MEVA Web site, located at < www.acq.osd.mil/me/bfma_instructions.html > . This tool provides guidance for proper the treatment of new procurements, modifications, service life extension plans, and upgrades to military equipment. It also provides guidance to assist with determination of asset categories and how to categorize assets by line item on purchase requisitions.

The line-item structure is absolutely critical to the successful differentiation of program costs. Without that prescribed level of detail, it is impossible to achieve the proper financial accounting treatment for military equipment.

A Stronger Financial Overview

It is important to understand the cost basis for military equipment so DoD knows how much the taxpayer has already invested, and more importantly, to support requests for new investments needed to ensure the department can respond to current and emerging requirements. Better information enables decision makers to know what investments must be made in the future to support servicemembers and to defend those investment decisions to Congress and the taxpayer. It increases credibility and fosters greater public trust and confidence in the ability of the department to spend taxpayer money wisely.

The successful determination of accurate financial information for military equipment begins with and remains a part of the acquisition process throughout the life of any item of equipment.

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