

## Meeting Minutes Notes

### G-PP&E Cost Accounting Project – AAPC G-PP&E Task Force

Subgroup Issue Leader: Sandy Van Booven

July 19, 2011

#### Summary

The group discussed the “PP&E lifecycle” straw man, entitled the Acquisition Program Process, and agreed (with minor changes) to the Acquisition Phase activities as shown and defined in TAB 1. The team discussed and agreed that its work product, including recommendations, will be a business case possibly modeled after AAPC Technical Release (TR) 2, entitled, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

**ACTION 1**—a task will go out to all Cost Accounting subgroup members. Based on the acquisition phases, each member will be asked to identify the triggers for their management’s capital and expense decisions, how these decisions are justified by their individual business model, and whether these decisions are deemed by both management and the independent auditor to be compliant with applicable laws and regulations.

**ACTION 2**—The task force will review the format of TR 2 for further discussion.

**NEXT MEETING**—will be held in early September to discuss the Action 1 results.

#### DISCUSSION

- National Reconnaissance Office (NRO) representative/Subgroup leader briefed the updated draft acquisition straw-man which incorporated the requested changes from the last meeting
  - The discussion focused primarily on the first two blocks (Acquisition Phase and Capital vs. Expense Treatment) of the draft straw-man.
    - Subgroup members recommended that an additional block be added in between the first two blocks of the draft straw-man to capture the triggers that would formally represent the transition

between the different acquisition phases (ex. signed Acquisition Decision Memorandum)

- Air Force (AF) Subgroup representative explained that the transition from low rate initial production (levels 1-9) to full rate production (level 10) may serve as a trigger for capitalization of asset costs for DoD/AF
- U.S. General Services Administration (GSA) Subgroup member stated that the primary trigger for capitalization of asset costs occurs in the design phase

Note: Subgroup members said that the subgroup should consider whether or not the triggers would be the same for different business models (i.e. appropriated, working capital fund, fee reimbursable etc.)

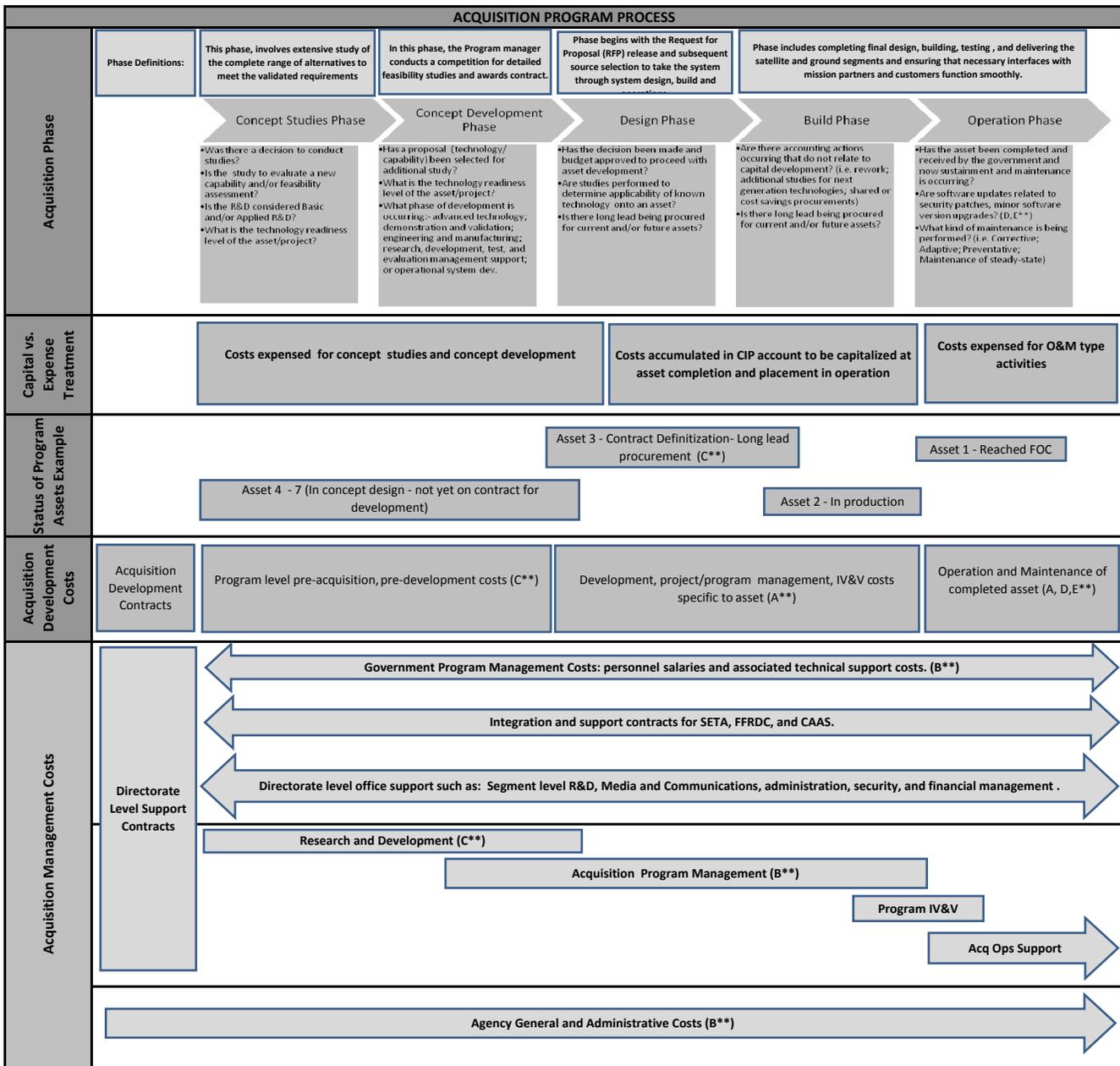
- Subgroup agreed that the acquisition phases within the draft straw-man generally aligned with their organization's framework/model **NOTE: Subgroup members were tasked to review the draft straw-man in detail against their own organization framework/model and provide proposed changes/updates.**
- Subgroup members had significant discussion related to research and development (R&D) and at what point in the R&D maturity cycle do asset costs become capital. Specifically, different indicators used by the organizations were discussed, examples included:
  - Technology Readiness Levels (TRL) - (Subgroup asked that the TRLs be moved above the concept studies phase on the reference sheet since they relate to all phases of the acquisition cycle)
  - Budget Activity (BA) Codes - (Subgroup believed that this R&D indicator should also be considered and therefore be included in the reference sheet)
    - BA 1 – Basic Research
    - BA 2 – Applied Research
    - BA 3 – Advanced Technology Development
    - BA 4 – Advanced Component Development Prototypes
    - BA 5 – System Development and Demonstration
    - BA 6 – RDT&E Management Support

Note: GSA Subgroup member stated that GSA uses BA codes for R&D

- OMB Circular A-11, *Preparation, Submission, and Execution of the Budget Phases* – (DoD Subgroup member believed that this guidance should also be considered and therefore be included in the reference sheet)
  - Section 300 – Planning, Budgeting, Acquisition, and Management of Capital Assets pages 300, 1-12 would seem relevant
- A Subgroup member also proposed that we add language to the framework that would address how to treat programs that are eliminated during production
- A Subgroup member also mentioned that the straw-man must consider whether or not non-recurring and recurring costs should be treated different in the costing of assets
- A Subgroup member also expressed the need to update the straw-man to clarify that all software being considered at this point is integrated as an element of a PP&E asset
- A Subgroup member also offered the need to consider environmental liabilities in determining accounting treatment for assets

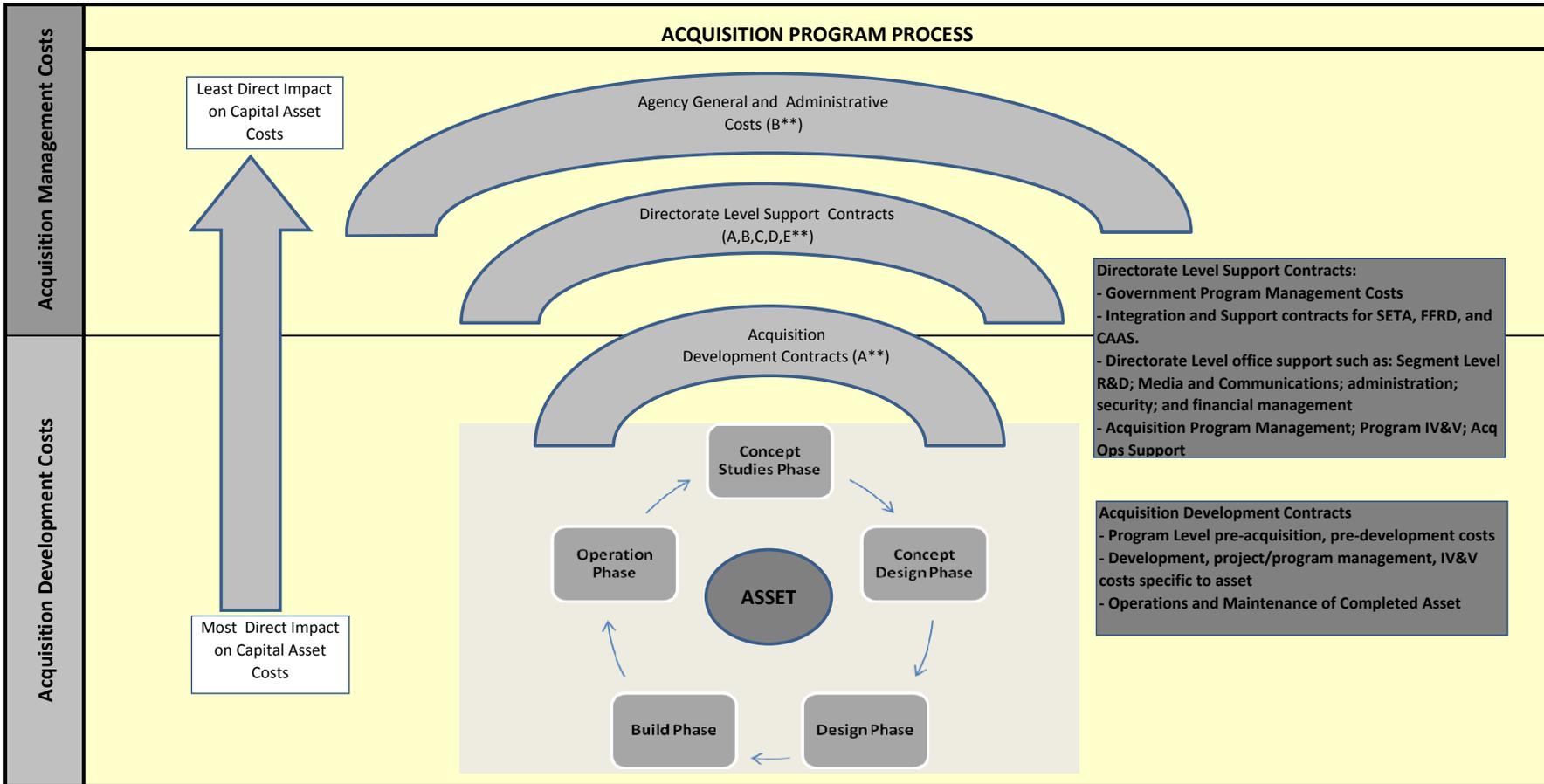
**General Notes:**

- Subgroup discussed whether or not the Department of Defense (DoD) planned to make a formal request to FASAB to expense all costs associated with military equipment – DoD representatives confirmed that a request/initiative was in the works but caveated that the effort is very much in its infancy
- AF Subgroup representative mentioned that he assisted in the development of the AF Concept of Operations (CONOPS) for the cost accounting position for property, plant, and equipment (PP&E) and assisted in the development of cost accounting requirements for the Defense Enterprise Accounting and Management System (DEAMS) – he mentioned that he could discuss the CONOPS at a future Subgroup meeting



\*See Definitions Tab for identification and clarification of key terms above

\*\*See Reference Tab for GAAP reference to Statement of Federal Financial Accounting Standards (SFFAS) guidance



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**Acquisition Phases:**

**Concept Studies Phase:** This phase, involves extensive study of the complete range of alternatives to meet the validated requirements

- Was there a decision to conduct studies?
- Is the study to evaluate a new capability and/or feasibility assessment?
- Is the R&D considered Basic and/or Applied R&D?

**Basic research:** systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind

**Applied research:** systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and

- What is the technology readiness level of the asset/project?

Technology Readiness Levels (TRLs) are a systematic metric/measurement system that supports assessments of the maturity of a particular technology and the consistent comparison of maturity between different types of technology. The TRL approach is used by NASA.

**Technology Readiness Levels Summary**

TRL Basic principles observed and reported  
 TRL Technology concept and/or application formulated  
 TRL Analytical and experimental critical function and/or characteristic proof-of-concept  
 TRL Component and/or breadboard validation in laboratory environment  
 TRL Component and/or breadboard validation in relevant environment  
 TRL System/subsystem model or prototype demonstration in a relevant environment (ground or space)  
 TRL System prototype demonstration in space environment  
 TRL Actual system completed and "flight qualified" through test and demonstration (ground or space);  
 TRL Actual system "flight proven" through successful mission operations

**Concept Development Phase:** In this phase, the Program manager conducts a competition for detailed feasibility studies and awards contract.

- Has a proposal (technology/ capability) been selected for additional study?
- What is the technology readiness level of the asset/project?
- What phase of development is occurring:- advanced technology; demonstration and validation; engineering and manufacturing; research, development, test, and evaluation management support; or operational system dev.

**Development:** systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes

- **Advanced Technology Development** – Includes all efforts that have moved into the development and integration of hardware for field experiments and tests
- **Demonstration and Validation** – Includes all efforts necessary to evaluate integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology.
- **Engineering and Manufacturing Development** – Includes those projects in engineering and manufacturing development for Service use but which have not received approval for full-production.
- **Research, Development, Test, and Evaluation Management Support** – Includes R&D effort directed toward support of installations or operations required for general research and development use.
- **Operational System Development** – Includes those development projects in support of development acquisition programs or upgrades still in engineering and manufacturing development, but which have received Defense Acquisition Board or other approval for production, or production funds have been included in the DoD budget submission for the budget or subsequent fiscal year.

**Design Phase:** Phase begins with the Request for Proposal (RFP) release and subsequent source selection to take the system through system design, build and operations

- Has the decision been made and budget approved to proceed with asset development?
- Are studies performed to determine applicability of known technology onto an asset?
- Is there long lead being procured for current and/or future assets?

**Build Phase:** Phase includes completing final design, building, testing, and delivering the satellite and ground segments

- Are there accounting actions occurring that do not relate to capital development? (i.e. rework; additional studies for next generation technologies; shared or cost savings procurements)
- Is there long lead being procured for current and/or future assets?

**Operations Phase:** Ensuring that necessary interfaces with mission partners and customers function smoothly

- Has the asset been completed and received by the government and now sustainment and maintenance is occurring?
- Are software updates related to security patches, minor software version upgrades?
- What kind of maintenance is being performed? (i.e. Corrective; Adaptive; Preventative; Maintenance of steady-state)  
 E1 Maintenance: Maintenance of steady state  
 E2 Maintenance: corrective, adaptive, preventative

**Table terms defined**

**Long Lead:** Procurement and storage of material in advance of production of the asset as the material require a long processing period

**Project Management Costs:** The salaries and associated technical support costs with directly administrating the production

**Integration and Support:** The activities necessary for the asset to properly function with other related assets and systems

**Program IV & V:** Program independent verification and validation

**Acquisition Operations Support:** Activities related to the obligation and monitoring during the acquisition

**Agency General and Administrative Costs:** Costs that are associated with general activities, such as administration, financial reporting, security, etc.

**FFRDC:** Federally Funded Research and Development Center

**SETA:** Systems Engineering and Technical Assistance

**CAAS:** Contract Assistance and Advisory Services

Table Reference	Guidance Reference	Guidance Language
A	SFFAS 6, <u>Accounting for Property, Plan, and Equipment</u> ¶26	All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include: <ul style="list-style-type: none"> <li>•amounts paid to vendors;</li> <li>•transportation charges to the point of initial use;</li> <li>•handling and storage costs;</li> <li>•labor and other direct or indirect production costs (for assets produced or constructed);</li> <li>•engineering, architectural, and other outside services for designs, plans, specifications, and surveys;</li> <li>•acquisition and preparation costs of buildings and other facilities;</li> <li>•an appropriate share of the cost of the equipment and facilities used in construction work;</li> <li>•fixed equipment and related installation costs required for activities in a building or facility;</li> <li>•direct costs of inspection, supervision, and administration of construction contracts and construction work;</li> <li>•legal and recording fees and damage claims;</li> <li>•fair value of facilities and equipment donated to the government; and</li> </ul>
B	SFFAS 4, <u>Managerial Cost Accounting Standards and Concepts</u> ¶89	This standard states that reporting entities should measure and report the full costs of their outputs in general purpose financial reports. "Outputs" means products and services generated from the consumption of resources. The full cost of a responsibility segment's output is the total amount of resources used to produce the output. This includes direct and indirect costs that contribute to the output, regardless of funding sources. It also includes costs of supporting services provided by other responsibility segments or entities. The standard does not require full cost reporting in federal entities' internal reports or special purpose cost studies. Entity management can decide on a case-by-case basis whether full cost is appropriate and should be used for internal reporting and special purpose cost studies.
C	SFFAS 8, <u>Supplementary Stewardship Reporting</u> ¶96	"Investment in research and development" refers to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. Research and development is composed of <ul style="list-style-type: none"> <li>•Basic research: systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind;</li> <li>•Applied research: systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and</li> <li>•Development: systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.</li> </ul>
D	SFFAS 10, <u>Accounting for Internal Use Software</u> ¶25	The acquisition cost of enhancements to existing internal use software (and modules thereof) should be capitalized when it is more likely than not that they will result in significant additional capabilities. For example, in an instance where the federal entity adds a capability or function to existing software for making ad hoc queries, the cost would be capitalized.
E	SFFAS 10, <u>Accounting for Internal Use Software</u> ¶27	Cost incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life of the software without adding capabilities should be expensed.