



February 13, 2015

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director
Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: DoD Implementation Guidance Request - **Tab F**¹

MEETING OBJECTIVES

The objective of this session is to discuss progress on the Department of Defense (DoD) Implementation Guidance Request project. Mr. Norwood Jackson, AOC Solutions will provide a project status briefing on SFFAS 3 guidance and results of efforts to date.

BRIEFING MATERIAL

The staff analysis is attached along with a question for the Board on page 4. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

Attachment A- Staff Analysis

Attachment B- Contractor Prepared, *Valuation of Inventory and Related Property and Deployed Property, Plant, and Equipment Status Briefing Paper*

Appendix A- History of Project and Board Decisions

BACKGROUND

As you may recall, the DoD Implementation Guidance Request Project Plan was on the agenda for the first time in December. The Board was provided the project plan and updated on efforts to date on the project including the work of FASAB's contractor. The

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Board did not make any decisions at the December 2014 meeting on this agenda item, but several important and technical areas were discussed.

NEXT STEPS

FASAB staff with the assistance of the contactor will continue to research and confirm certain understandings with the intent of developing proposals and/or recommendations for the Board's consideration for each of the areas in the project at the April 2015 meeting.

QUESTIONS FOR THE BOARD

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov with a cc to paynew@fasab.gov

Attachment A- Staff Analysis

1. Research and Development

The Board may recall the DoD requested FASAB's assistance in several areas, with research and development being one of them. The February 21, 2014 letter from Mark Easton requested [with clarifying text in brackets]

"FASAB is currently [considering the results of a working group review of] SFFAS 10, "Accounting for Internal Use Software," primarily due to changes in how these assets are developed. They are no longer following a "waterfall" methodology. The same analysis needs to be reviewed for other types of research and development. Determining the proper timing of capitalization in a changing research and development world requires a new review."

Since early October 2014, staff has been attempting to gather more information regarding this request, including points of contact. There was a need to know more about the questions and issues to enable us to determine next steps in providing guidance in this area. FASAB has not developed comprehensive R&D standards. Without knowing the exact issues, staff was uncertain what direction this may lead and it was too soon to say what type, or if any, FASAB (or perhaps AAPC) guidance would be appropriate.

Staff held a kick off meeting on January 28, 2015. Staff notes that it took approximately 3.5 months to obtain points of contact and establish the kick off meeting to learn more about the issues. The delay is alarming considering FASAB also has scarce resources and the request was initiated by DoD. There was participation from each service at the meeting.

Several participants asked about the origin of this particular issue. Further, an office had compiled several business case analyses 7 or 8 years ago that related to this area—defining when costs are to be expensed and capitalized. It was explained that it was conveyed as an issue at a DoD Financial Operations Meeting as an area that component branches need help. However, the participants agreed to their knowledge no other area in the research and development outside of IUS has been brought up as an issue. They also pointed out that FIAR initiatives are the key focus areas for them considering resource constraints. FASAB staff explained that FASAB's AAPC is revitalizing the IUS Taskforce that has been led by volunteers and DoD FIAR IUS team has been invited to join the AAPC Task force.

Based on the feedback at the kickoff meeting, FASAB suggested DoD take some time to assess whether FASAB assistance on available literature within the GAAP hierarchy is needed at this time. Considering best use of resources, it may be wise for FASAB to wait for DoD to canvas the components to ensure there is a clear understanding of the

issues. DoD has identified certain steps they plan, including reviewing the business case and contacting the components again for feedback.

Based on subsequent follow-up with our DoD points of contact, the Research and Development portion of the DoD Implementation Guidance Request Project will be paused. FASAB will await DoD's assessment of whether this is an issue that requires FASAB's assistance.

Question for the Board:

Does the Board have any questions relating to the Research and Development portion of the DoD Implementation Guidance Request Project?

2. Valuation of Inventory and Related Property and Accounting Treatment of Deployed Property, Plant, and Equipment

While the Board did not make any decisions at the December 2014 meeting on this agenda item, the Board was briefed on the progress in this area. Research continued in various areas as it relates to inventory—including reparables, principal items, and confirming our understanding of inventory accounting and valuation processes at each branch. There are still some outstanding items, but most information requests are complete.

Please see **Attachment B-** Contractor Prepared *Valuation of Inventory and Related Property and Deployed Property, Plant, and Equipment Status Briefing Paper*

AOC Solutions, Inc.

Chantilly, Virginia

Federal Accounting Standards Advisory Board Project

Valuation of Inventory and Related Property and Deployed Property, Plant, and Equipment

February 26, 2015 Project Status Briefing

Norwood (Woody) Jackson, CPA
AOC Solutions Project Manager

Introduction

Project Tasks

Provide professional support to assist the FASAB with identifying and analyzing options for: (1) guidance on the valuation of legacy inventory and operating materials & supplies (OM&S) covered by SFFAS 3, *Accounting for Inventory and Related Property*, which will attain the objectives of SFFAS 3 while reducing the implementation cost and (2) the proper treatment¹ of deployed assets or classes of deployed assets such as those unlikely to return to a U. S. base.

Results to Date

Inventory and Related Property

Population of Inventory and Related Property

At the FASAB's December 17, 2014 meeting we presented information on the value of DoD's inventory and related property reported in the Supply Chain Integration Office (SCI) Supply Systems Inventory Report. Since that meeting we determined that it would be best to use the inventory and related property information reported in the Military Departments' 2014 financial statements. The principal reason for the change is that the value of the inventory and related materials reported in the Military Departments' financial statements significantly exceeded that reported in SCI Supply Systems Inventory Report. Further, the Military Departments are familiar with the sources of the financial information presented in the financial statements and the categorization of that information. This change may address some of the completeness issues discussed at the December meeting.

Meeting with the DoD Financial Improvement and Audit Readiness Inventory Working Group

On January 29 the FASAB Executive Director and the Project Director met with the DoD Financial Improvement and Audit Readiness Directorate

¹ *Treatment of deployed assets or classes of deployed assets -- it should be understood that deployed assets must first be accounted for as PP&E. This task deals with whether expensing historical cost at time of deployment - when the only thing that changes is the location - is appropriate.

Inventory Working Group to brief them on this project and get feedback. In attendance were representatives from the FIAR Program, Supply Chain Integration Army, Navy, Air Force, Marine Corps, Missile Defense Agency, and the Defense Logistics Agency.

With respect to the results of the FASAB briefing on December 17, one Military Department had expressed concern about the completeness of its Operating Materials and Supplies information. Mr. Jackson noted that the FASAB had expressed concern over this since completeness affects the scope of the valuation challenge upon implementation or transition to new systems. This led to a discussion about “end user”, which is a term used in SFFAS 3. SFFAS 3 provides entities would expense material at the time acquired by “end users” for consumption using the consumption method.

Given the FASAB’s concern, Mr. Jackson sought the Military Department’s definitions of “end user” in a followup questionnaire submitted to the Military Departments. He shared a copy of the Army’s 2007 instructions that inventory and related property should be considered in the hands of end users when purchased by General Fund activities and therefore expensed when purchased. The exception to this policy is Supply Class V materiel, Ammunition, and Supply Class VII, Major End Items.

The workgroup discussed the status of the Inventory and Related Property data request. Mr. Jackson explained the following items were outstanding:

- answers to clarification questions from the Air Force
- there had been no response from the Navy with respect to the follow-up questionnaire pertaining to systems and valuation methods for OM&S held by General Fund activities nor had he received a complete response to the questions pertaining to Principal Items.

Completed responses were requested by February 9-some have been received but others have not.

One other data request needed a response. In an attempt to answer FASAB questions about turnover rates,² Mr. Jackson submitted a question to the Defense Logistics Agency about the ability of its ERP to provide turnover rates since DLA is acquisition point for much of DoD’s Inventory and Related Property. DLA has not offered an answer to our question. The Supply Chain

² As you’ll recall, turnover rate information would help us in assessing whether the valuation issue could be resolved quickly through adoption of MAC systems for high turnover items. If so, a transition provision would be less important.

Integration will follow up on this request. We noted that we had not asked for turnover rates, just about the capability to provide that information for select inventory items.

The discussion also included points about the DoD's ability to retroactively address valuation issues (non-compliance with SFFAS 3). The Services advise that they do not have the information available to addresses past valuation issues.

Current Valuation of Inventory and Related Property

Working Capital Funds

Military Departments and the Defense Logistics Agency (DLA) have adopted Moving Average Cost (MAC) for valuing inventory held in Working Capital Funds.

General Funds

With respect to Inventory and Related Property (specifically OM&S) held by General Fund activities, the financial statements of the Army, Navy, and Air Force reflect the following information.

The Army's 2014 financial statements report that OM&S pertains to ammunition, tactical missiles, and related spare parts. The Army does not include other classes of OM&S in its General Fund financial statements; the reason for this is discussed above in the section pertaining to our briefing at the FIAR Directorate. The Army reports that it values OM&S at Standard Price, which is also referred to as Selling Price. Selling Price is established annually and included in the Army Master Data File (AMDF) for Inventory and Related Property valuation.

The Navy reports that it uses MAC for the majority of OM&S held by General Fund activities. It also uses latest acquisition cost (LAC) and actual cost (interpreted by the Project Manager as specific identification based on a discussion during the Inventory Working Group meeting) for other OM&S. The Navy's 2014 financial statements report that OM&S includes spare and repair parts, ammunition, conventional missiles, torpedoes, aircraft configuration pods, and centrally managed aircraft engines. The valuation method is a function of the capability of the legacy systems used to account for OM&S. For example, the Navy reports that it accounts for ammunition and munitions in the DON Ordnance Information System and values these items at LAC. The Navy reports that OM&S also includes Principal end and secondary items, which include shipboard hull, mechanical and electronic

equipment, and uninstalled aircraft engines. The Navy reports that it values these items at MAC. Since the Navy gathers data on OM&S held by General Fund activities from various systems, we have asked for the names of these systems and the respective valuation methods. **We are waiting for systems and valuation information.**

The Air Force reports OM&S held by General Fund activities. The Air Force noted in responses to our questionnaires that OM&S held by General Fund activities is valued at MAC with the exception of inventory accounted for in the Automated Logistics Management Support System (ALMSS), which is valued at LAC. These inventory items are associated with the U2 and unmanned aerial vehicles. The value of these items is less than \$900 million.

Valuation of Inventory and Related Property at Transition to MAC

- DLA completed a comprehensive review of historical data to arrive at the MAC value;
- The Army used LAC or selling price data from the AMDF for inventory held by its working capital fund and ammunition held by general fund activities;
- The Navy used LAC values at transition for inventory held by its working capital fund; and
- The Air Force used (and continues to use) a combination of historical and current procurement values to arrive at MAC for all material inventories.
- We have not met with the Marine Corps yet, however, we understand that the Marine Corps uses LAC and revalues (through a valuation adjustment) its Inventory and Related Property to estimated historical cost for financial reporting.

Questions for the Board

Our data gathering questions and meetings have surfaced several questions for the Board's consideration. In discussing the questions, members are advised that there are in excess of one million National Stock Numbers in DoD systems.

1. What is an acceptable valuation methodology(ies) for Inventory and Related Property at transition to systems capable of accounting in accordance with SFFAS 3 when historical cost information is unavailable? Options include:
 - a. LAC,
 - b. Selling Price (Standard Price),

- c. Deemed Cost³ (which in our case may be a hierarchy of acceptable methods including both a and b above as well as fair value and replacement cost), or
 - d. some yet to be defined methodology?
2. Over what period should the application of a methodology other than historical cost be acceptable for use at transition? For example, if the FASAB provided for the use of a methodology other than historical cost at transition to historical cost, what would be the end date of the transition period?

Deployed Property, Plant, and Equipment (PP&E)

In our initial meeting to begin the project the attendees from all Military Departments stated their belief that deployed PP&E should not be expensed. They stressed that this would create significant accounting problems, for example, each Military Department would have to obtain a record of deployed PP&E at the time of deployment, expense the PP&E, and record it upon return from deployment. Some representatives also pointed out that there are current policies for reporting and accounting for destroyed PP&E. The representatives indicated that the DoD has policies and procedures to account for PP&E destroyed or transferred to other governments. This appeared to be a consistent theme in subsequent meetings with Military Departments and the Acquisitions, Technology, and Logistics (AT&L) Property and Equipment (P&E) Program Office. Attendees at meetings indicated DoD is required to account (and ensure proper accountability) for PP&E notwithstanding its location. The attendees also felt that expensing deployed PP&E may be conceptually unsound.

We have no plans to hold further discussions on this subject.

Questions for the Board

3. We propose responding to the DoD request with a letter indicating that the request was considered and no need for guidance identified. Does the Board have any other concerns or suggestions regarding the subject?

³ International Public Sector Accounting Standards (IPSAS) Number 33 provides that first time adopters may elect to measure inventory at fair value (a selling or exit value) or current replacement cost (a buying or entry value) when reliable cost information about assets and liabilities is not available, and use that fair value as the “deemed cost.” Deemed cost is defined by the IASB as “An amount used as a surrogate for cost or depreciated cost at a given date.”

[Note- With the exception of the chart on page 12, the majority of the information contained from this point forward was included in the December 2014 briefing materials. However it has been updated accordingly.]

Inventory and Related Property

Project Approach

- Identify applicable accounting standards
- Identify DoD policies, processes, and systems used in the valuation of inventory and operating materials and supplies
- Identify systems valuation information, including valuation approaches to establish baseline estimates at transition to historical cost
- Identify current inventory valuation methods
- Identify systems analytical capabilities where necessary

Applicable Accounting Standards

Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*.

SFFAS No. 3 provides for accounting for inventory and related property at historical cost. It allows the use of latest acquisition cost (LAC), which prices inventory at the last invoice price, but requires a revaluation to historical cost at least annually. The revaluation results in an unrealized holding gain or loss.

SFFAS No. 3 defines inventory as “Tangible personal property that is (1) held for sale, (2) in process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee.”

SFFAS No. 3 defines operating materials and supplies (OM&S) as “tangible personal property to be consumed in normal operations.”

SFFAS No. 3 also addresses inventory held for repair, which is significant to DoD. In the DoD vernacular, inventory held for repair is identified as “reparables.” SFFAS No. 3 provides for the valuation of inventory held for repair in one of two ways: (1) the allowance method or (2) the direct method.

- “Under the allowance method, inventory held for repair shall be valued at the same value as a serviceable item. However, an allowance for repairs contra-asset account (i.e., repair allowance) shall be established. The allowance is a contra-asset account. The annual (or other period) credits required to bring the repair allowance to the current estimated cost of repairs shall be recognized as a current period operating expense. As the repairs are made the cost of repairs shall be charged (debited) to the allowance for repairs account.”
- “Under the direct method, inventory held for repair shall be valued at the same value as serviceable item less the estimated repair costs. When the repair is made, the cost of the repair shall be capitalized in the inventory account up to the value of a serviceable item. Any difference between the initial estimated repair cost and the actual repair cost shall be either debited or credited to the repair expense account.”

Exception to Valuation: SFFAS No. 3 provides an exception to the historical cost valuation requirement. “Valuing inventories at expected net realizable value is acceptable if there is (1) an inability to determine approximate costs, and (2) immediate marketability at quoted prices, and unit interchangeability (e.g., petroleum reserves). Application of this exception may result in inventories being valued at greater than historical cost.”

The exception to valuation provision of SFFAS No. 3 is relevant to DoD. As the project has developed to date, we understand that Military Department legacy inventory systems did not retain a historical cost record. Rather its systems revalued the inventory value to the last unit purchase price (i.e., LAC) at the time it acquired new inventory items or to the selling price at the beginning of each fiscal year (Army). The verifiability of revaluations to historical cost has been questioned. Consequently, in 2003 DoD adopted Moving Average Cost (MAC) as its formal inventory valuation policy. The issue then became valuation at transition to MAC.

Applicable DoD Policies

DoD 7000.14-R Department of Defense Financial Management Regulations (FMRS), Volume 4, Accounting Policy

Section 0105, paragraph B requires the use of historical cost using MAC

DoD Principal Inventory Systems

- **Defense Logistics Agency (DLA)**
 - Legacy system:
 - Standard Automated Materiel Management System (SAMMS)
 - Current system:
 - Enterprise Business System (EBS), an enterprise resource planning (ERP) solution
- **Department of the Navy**
 - **Working Capital Fund**
 - Legacy system
 - Material Financial Control System (MFCS)
 - Current system:
 - ERP
 - **General Fund**
 - **Information has been requested but not yet received**
- **Department of the Army**
 - **Working Capital Fund**
 - Legacy systems:
 - Commodity Command Standard System (CCSS)
 - Army Material Command Installation Supply System (AMCISS)
 - DLA storage records
 - Standard Depot System (SDS)
 - Army COMSEC Commodity Logistics Accounting Information Management System (ACCLAIMS)
 - Current System
 - Logistics Modernization Program (LMP)
 - **General Fund**
 - Legacy System:
 - Standard Army Ammunition System – Modernization (SAAS-MOD)
 - Current system:
 - SAAS-MOD

- **Department of the Air Force (Working Capital Fund and General Fund):**
 - Legacy systems:
 - Stock Control System (SCS), which has multiple modules that share data tables, is used at the Depot level (DLA sites) to track spare parts and consumables
 - Standard Base Supply System (SBSS) is used to track spare parts and consumables at the base level
 - Defense Medical Supply System (DMLSS)
 - Cadet Administration Management Information System (CAMIS)
 - Current system:
 - Legacy systems
- **Marine Corps:** Not yet scheduled
 - Legacy system:
 - Current system:

Inventory Valuation Methodology Currently and at Transition to MAC

- **Defense Logistics Agency (A Working Capital Fund)**
 - DLA's EBS system values inventory at moving average cost (MAC).
 - DLA transitioned to MAC in the 2002-2004 timeframe.
 - DLA engaged in an extensive review of its historical records maintained in its data warehouse and other sources to develop a baseline historical cost record for each inventory item (identified by National Stock Number (NSN)).
 - DLA recorded the developed MAC value in EBS.
- **Department of the Navy**
 - Working Capital Fund
 - The Navy's ERP values inventory at MAC.
 - The Navy fully transitioned to MAC in 2014.
 - The Navy used latest acquisition cost (LAC) as the baseline inventory values at the time of transition to its ERP.
 - The Navy's legacy system did not have a record of historical cost.
 - General Fund

- The Navy uses various legacy systems to account for General Fund Inventory and Related Property (specifically OM&S)
- Navy systems that account for Inventory and Related Property owned by General Fund activities use various valuation methods (e.g. MAC, LAC, Selling Price)
- **Department of the Army**
 - Working Capital Fund
 - LMP values Working Capital Fund inventory at MAC
 - The Army transitioned to LMP from legacy systems in deployment phases over the period July 2003 through August 2014
 - Transition Valuation Process – Legacy to the LMP System transition valuation process is presented in Table 1.
 - General Fund
 - The Inventory and Related Property (OM&S) accounted for in the Army General Fund, which includes ammunition, tactical missiles, and related spare parts, is valued at Selling Price (Standard Price)
 - In a Memorandum dated August 3, 2007, the Deputy Assistant Secretary of the Army (Financial Operations) advised the various Army organizations that operating materials and supplies (other than Class V, Ammunition, and Class VII, Major End Items, are considered to be in the hands of the end user when purchased by or issued to General Fund activities.

Command/Activity/Installation	New System	Deployment Date	System Source for Inventory Quantity	Initial Unit Value loaded into LMP	Current Valuation Method in LMP	Notes
CECOM Life Cycle Management Command (LCMC)	LMP	July 2003	Commodity Command System (CCSS)	Latest Acquisition Cost (LAC)	Moving Average Cost (MAC)	
Thayer Army Depot (TAD)	LMP	July 2003	Army Mater Command Data Base (AMCDB), the Service Supply System and Storage Data System (SSDS)	AMCDB Data File (AMCDB Data File)	MAC	Current MAC values are calculated using the Thayer Logistics Inventory System (TLIS) and the Service Supply System (SSDS) and the Army Mater Command Data Base (AMCDB).
TACOM Soldier Support Team (SST) War Reserve Non Army Managed Material (NMM)	LMP	July 2003	DIA storage records	AMDF	MAC	See above AMDF note
Thayer Army Depot (TAD)	LMP	July 2003	Army Mater Command Data Base (AMCDB), the Service Supply System and Storage Data System (SSDS)	LAC	MAC	Current MAC values are calculated using the Thayer Logistics Inventory System (TLIS) and the Service Supply System (SSDS) and the Army Mater Command Data Base (AMCDB).
AMCOM Life Cycle Management Command (LCMC) Supply Management Activity (SMA)	LMP	May 2009	CCSS	AMDF	MAC	See above AMDF note
Thayer Army Depot (TAD)	LMP	May 2009	CCSS	AMDF	MAC	See above AMDF note
Corpus Christi Army Depot (CCAD) and Letterkenny Army Depot (LEAD)	LMP	May 2009	AMCSS and SDS	AMDF	MAC	See above AMDF note
Thayer Army Depot (TAD)	LMP	May 2009	AMCSS and SDS	AMDF	MAC	See above AMDF note
TACOM LCMC subordinate installations: Rock Island Arsenal (RIA), Watervliet Arsenal (WVA), Anniston Army Depot (AAD), Red River Army Depot (RRAD) and Sierra Army Depot (SIAD)	LMP	October 2010	AMCSS and SDS	AMDF	MAC	See above AMDF note
Joint Munitions & Lethality Command (JMLC) Class Y Inventory	LMP	October 2010	SDS	No value (NOVAL)	NOVAL	See above AMDF note
Thayer Army Depot (TAD)	LMP	October 2010	SDS	AMDF	MAC	See above AMDF note
TACOM NMM Group Non War Reserve NMM	LMP	August 2014	CCSS	AMDF or MAC	MAC	See above AMDF note

- **Department of the Air Force: (Both Working Capital Fund and General Fund)**
 - The Air Force values inventory and related items at MAC except for munitions, medical inventory, Air Force Academy inventory, and the Consolidated Sustainment Activity Group (CSAG) Maintenance OM&S inventory.
 - The Air Force calculates its MAC value using data from multiple systems. For example, quantity data may come from one or more systems while cost data may come from other systems.
 - Inventory quantities are obtained from the Standard Base Supply System (SBSS) and the Financial Inventory Accounting and Billing System (FIABS, a module within the Stock Control System)
 - The Stock Control System (SCS) maintains both LAC and MAC information; however, the reported MAC values are calculated periodically using cost and item count data from the Standard Base Supply System (SBSS) and Financial Inventory Accounting and Billing System (FIABS) along with new procurement values. The values obtained from systems (older values) are weighted with new procurement units and values to arrive at MAC for each inventory item (identified by National Stock Number (NSN) or National Identification Number (NIN).
 - Munitions are valued at Army Selling Price (referenced by the Air Force as Current Catalogue Price) The Air Force's valuation is subject to the Army's valuation method for munitions.
 - Medical inventory is valued at LAC. Medical inventory has a very high turnover rate (approximately 200 times annually) with the exception of items held in war reserves. Consequently, LAC approximates MAC.
 - Air Force Academy inventory is valued at LAC. Academy inventory turns over approximately 100 times annually. Consequently, LAC approximates MAC.
 - Consolidated Sustainment Activity Group (CSAG) Maintenance Division inventory is valued using a weighted average costing methodology and expensed as used in the repair and refurbishment of end items (e.g. planes).
- **Marine Corps:** To be scheduled

Deployed Property, Plant, and Equipment

Project Approach

- Identify accounting standards applicable to PP&E
- Identify DoD PP&E accounting policies
- Obtain a definition of deployed PP&E
- Obtain an understanding of conditions under which PP&E is deployed
- Develop criteria for use in defining PP&E subject to a deployment standard
- Determine the PP&E subject to a deployment standard
- Develop guidance on accounting for PP&E at the time of deployment and the return from deployment

Applicable Accounting Standards

- SFFAS 6, *Accounting for Property, Plant, and Equipment*
- SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*
- Technical Release 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment*

Applicable DoD Policies

- DoD 7000.14-R Department of Defense Financial Management Regulations (FMRS), Volume 4, Accounting Policy, Section 0107, Subsection 010701

Project Status

We provided a questionnaire to each Military Department to obtain an understanding of how they define deployed PP&E and whether they have policies that address accounting for deployed PP&E. We received a completed questionnaire from the Army and general comments from the Navy

representatives during our meeting with representatives from the Navy Financial Management office. We have not received a completed questionnaire from the Air Force and have yet to meet with the Marine Corps.

In our materials for guiding our meetings with the DoD Comptroller and Military Department representatives we provided the following questions to assist with this project task.

1. Is there a common definition of deployed PP&E?
2. Are there policies that address accounting and management of deployed PP&E?
3. If there are policies that address accounting and management of deployed PP&E, could you provide a list of the principal policies?
4. Do PP&E accounting and management systems distinguish or identify deployed PP&E?
5. Are there issues associated with accounting for and the management of deployed PP&E?
6. Who are the contact persons we should work with as this project proceeds?

In individual meetings with Military Department representatives the representative from one Department indicated that his Department returned all capitalized PP&E from deployment. PP&E destroyed during deployment was reported using standard reporting mechanisms and accounted for accordingly. The Army responses to our questionnaire follow. In summary, the Army has a mechanism for accounting for PP&E regardless of whether it is deployed, however defined. In addition, the Army reports that it has a mechanism for reporting destroyed PP&E and PP&E transferred to other sovereign governments. The Air Force responses to our deployment questions are forthcoming. We have not met with the Marine Corps.

Is there a common definition of deployed PP&E?

The Army does not distinguish between deployed or home station equipment management. Accountability and reporting requirements remain the same.

- **Are there specific policies that address accounting and management of deployed assets?**

No. Accountability and accountability management policies remain the same. The SECARMY can approve War Time specific procedures which simplify procedures in a combat zone, but accountability requirements remain.

- **What are the systems used to account for PP&E and deployed PP&E?**

In both deployed and non-deployed environments Property Book Unit Supply Enhanced (PBUSE) (soon GCSS-Army), Army War Reserves Deployment System (AWRDS) and LMP are used to account for retail and wholesale Tangible Asset property, respectively. These systems are only used to account for and manage Tangible Assets.

- **Do PP&E accounting and management systems distinguish between deployed and non-deployed PP&E?**

Not the equipment, but the equipment location. In PBUSE an Installation code is associated with all units (UICs) and Department of Defense Activity Address Code (DODAACs) along with their associated TAC1, 2, and 3 addresses. The TAC reflects the deployed or home station locations.

- **Are there issues associated with accounting for and the management of deployed PP&E?**

No. Not as long as deployed organizations adhere to published standards and guidance issued by the theater chain of command.

- **What is the mechanism for reporting PP&E destroyed or transferred to other entities?**

Destroyed Tangible Assets are determined to be a loss to the unit through the DD 200 Financial Liability Investigation of Property Loss (FLIPL) process, and when the FLIPL is approved, the equipment is coded (title transferred)- out in PBUSE.

Property transfers:

Intra Army transfers between tactical units through lateral transfer procedures laid out in AR 710-2-1, section III through PBUSE.

Transfer of Army equipment to other departments/agencies (Air Force, Marines, Navy, DOS) requires SECDEF endorsement. The losing organization will use the

SECDEF approval as supporting documentation to drop the equipment from Army Accountability in PBUSE or LMP. These processes are laid out in AR710-2.

Army Equipment identified for transfer to foreign nations is known as Foreign Excess Personal Property (FEPP) – FEPP nominations are approved through DOS to SECDEF and once approved, the losing entity conducts a financial liability investigation for property loss to document the FEPP, recognize its loss to the United States, and removes those items from the property book.

Equipment divested or disposed through DLA-DS. The DLA provides screening, demilitarization, and disposal or sale of equipment transferred from the unit to DLA under DD 1348-1A (issue or turn in document). Proceeds from property or scrap sales go to offset the DLA DS bill. US Munitions List or Commerce Control List Equipment or property, marked for disposal, will not be transferred to a non-DOD entity.

Inventory and Related Property Definitions

Secondary Items

Secondary Items include Consumables and Reparables.

Consumables: An item of supply or an individual item (except explosive ordnance and major end items of equipment) that is normally expended or used up beyond recovery in the use for which it is designed or intended.

Reparables: An item of supply subject to economical repair and for which the repair (at either the depot or field level) is considered in satisfying computed requirements at any inventory level.

Principal Items

An end item or a replacement assembly of such important to operational readiness that management techniques require centralized individual item management throughout the supply system to include items stocked a depot level, base level, and using unit level.

Principal items do not include complete aircraft, ships, tanks, helicopters, other combat and tactical vehicles, ICBMs, intermediate range ballistic missiles, or space vehicles

Principle Items Include:

- Weapons
- Major aircraft subsystems and related equipment
- Major ship subsystems, small craft and related equipment
- Munitions and related equipment
- Tank, combat, and tactical vehicle subsystems
- Support vehicles and railway equipment
- Electronics, communications, control and information systems, and related equipment
- Propulsion systems, aircraft engines, and related equipment
- Uncategorized major equipment

DoD Implementation Guidance Request Project History of Project and Board Decisions

December 2014 Board meeting

The Board reviewed the DoD Implementation Guidance Request Project Plan and was provided an update on efforts to date from FASAB's contractor.

The Board did not make any decisions at the December 2014 meeting on this agenda item as this was an update. Important items discussed that are detailed in the minutes include the following:

- Staff anticipates making progress in the Research and Development area in the coming months contingent upon DoD providing contact information and more information about the request.
- The issue of "end user" will be researched further to determine how best to address it.
- Follow-up with the branches (as well with the Marines) will be held to confirm all results to date on the deployed assets issue. A final recommendation will be presented to the board for approval, vote and record in the minutes.
- FASAB staff (with contractor assistance) plans to continue research and gain more information in various areas as it relates to inventory—including reparable, principal items, and confirming our understanding of inventory accounting and valuation processes at each branch.
- FASAB staff (with contractor assistance) plans to research various areas discussed by board members at the meeting such as IFRS 1, GASB 34, further analysis and consideration of turnover rates, etc. The members also suggested meeting with the DoD IG at a time deemed appropriate.