

Summary of Business Rule for Recording Program Management Office (PMO) Costs

Background

Paragraph 26 of The Statement of Federal Financial Accounting Standards (SFFAS) No. 6 entitled, *Accounting For Property, Plant and Equipment (PP&E)*, states that, “Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use.” The standard then provides the following listing as an example of what might be included:

- amounts paid to vendors;
- transportation charges to the point of initial use;
- handling and storage costs;
- labor and other direct or indirect production costs (for assets produced or constructed);
- engineering, architectural, and other outside services for designs, plans, specifications and surveys;
- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of the equipment and facilities used in construction work;
- fixed equipment and related installation costs required for a building or facility;
- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims;
- fair value of facilities and equipment donated to the government; and
- material amounts of interest costs paid.

A review of this listing is inconclusive as to, (i) whether Program Management Office (PMO) costs should be included in the cost of the related assets and (ii) what should be included in PMO costs.

Issue

Per applicable accounting standards, the Department may generally be required to include PMO costs when computing the total costs of the related Military Equipment (ME).

Indirect costs that are significantly removed from the “hands on” effort associated with acquiring an asset, similar to the costs normally recovered through a general and administrative rate, are not referenced in SFFAS # 6. However, direct costs of inspection, supervision and administration of construction contracts are. It is not clear whether this requirement to include inspection, supervision and contract administration is specific to construction contracts, for which these costs might be significant, or is a general requirement.

Research, Development, Test and Evaluation (RDT&E), costs incurred during the RDT&E phase of a program, including related PMO costs, are generally expensed in accordance with the existing policies.

Estimates of program management costs based on Department reports to Congress equate to approximately .75% of the total of the procurement and RDT&E appropriations. Additionally, the Department's cost accounting systems have limited ability to capture and separately identify Program Management costs.

Approach

There is a strong likelihood that the majority of the identified PMO costs related to military equipment would be expensed since they relate to Research and Development efforts.

Therefore, based on the preceding analysis, Program Management Office costs are to be expensed for baseline purposes.

The Department will reassess this position in the future as improvements to the Department's accounting system enhance the ability to cost-effectively capture and analyze the PMO cost information.