



MILITARY EQUIPMENT VALUATION & ACCOUNTABILITY
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Management Assertion for Military Equipment Guidebook



Office of the Under Secretary of Defense (OUSD)
Acquisition, Technology & Logistics (AT&L)
Acquisition Resources and Analysis (ARA)
Property & Equipment (P&E) Policy Office

27 October 2008

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Introduction

The Property & Equipment (P&E) Policy Office publishes the *Management Assertion for Military Equipment Guidebook* to provide information and guidance on the required audit readiness activities at the Department level for military equipment. Each Component and applicable Defense Agency will separately communicate any organization specific guidance for accomplishing the management assertion process.

Audit readiness is the ability of an organization to state with confidence that it is ready for an independent review of its financial statements, that it can make five *assertions*, and that it has all the required documents in order to support those assertions. For the Department to assert that it is ready for an audit of military equipment values on financial statements, each Component must be able to complete two (2) overarching tasks:

- Attest to (validate) the accuracy of data used to create military equipment values reported on the Department's financial statements (these attestations support the *valuation* assertion made by the P&EPO).
- Make the remaining four (4) assertions about the data:
 - Completeness
 - Rights and Obligations
 - Existence
 - Presentation and Disclosure

Completion of these two tasks is essential to DoD's ability to achieve an unqualified financial audit opinion. Achieving an unqualified audit opinion builds Department credibility and provides tangible evidence that the Department is prudently managing its financial resources.

Management Assertion

Management assertion is a formal statement provided by the Chief Financial Officer (CFO) of a Component that its military equipment values are ready for audit. The management assertion process is supported by a system of internal controls that demonstrate the data DOD has collected supports the values reported. Because of the uniqueness of military equipment, audit readiness for these values is accomplished by completing both attestations and assertions.

- **Attestations** certify that the data *inputs* that collectively produce the numbers on financial statements are accurate.

For example, program appropriation and expenditure data are inputs that figure into the average cost calculation, which lead to one value listed on financial statements. Therefore, Program Managers are required to attest to the accuracy of the data provided for their program valuations.
- **Assertions** certify that the *output* numbers listed on the financial statements are accurate.

Why is Management Assertion necessary?

The formal statement of assertion complies with the law. The system of internal controls is good business and satisfies the unique challenges of reporting military equipment values.

It's the Law!

The Under Secretary of Defense (Comptroller) must ensure that DOD is ready for audit of its military equipment values prior to expending funds for an independent audit. This requirement is specified in Section 1008 of the 2002 National Defense Authorization Act, which states, “the Under Secretary of Defense (Comptroller) is responsible for ensuring that resources expended on financial statement preparation are minimized until the reporting entity can demonstrate that it is ready for audit.”

The management assertion process requires coordination and interaction among the acquisition, logistics, and financial management communities to achieve audit readiness.

It's Good Business!

The management assertion process makes good business sense. Management assertion gives DoD senior management officials confidence that the information presented on financial statements is materially correct. Having auditable financial statements also establishes DoD credibility with stakeholders, Congress, and the American taxpayer.

DOD must have processes and procedures in place to ensure that data is accurately collected at the source, flows through the processes, and is free from error. The Department's financial management practices continue to be under scrutiny by Congress and the Office of Management and Budget (OMB).

Management assertion is crucial to the Department overcoming management challenges, improving financial accounting and business operations, and achieving the goal of an unqualified audit opinion on Department financial statements.

Military Equipment is Unique

In a typical audit readiness environment, the Comptroller provides the management assertion relative to the data that supports the financial statements. The management assertion process for military equipment is unique. Because military equipment data must be obtained from the acquisition and logistics communities, individuals in these communities must assert to the accuracy of the data they provide.

Management Assertion Package

The Management Assertion Package is the formal statement declaring audit readiness. At the beginning of the Military Equipment Valuation (MEV) initiative, Military Departments and

Defense Agencies met repeatedly to determine the best strategy for securing an unqualified audit opinion. DoD Memorandum dated June 23, 2004, titled “Financial Improvement Initiative Business Rules,” first described the Management Assertion Package as the means by which DoD will communicate completion of the requirements for assertion.

The Deputy Chief Financial Officer (CFO) and the Director of Acquisition Resources and Analysis (ARA), in the Office of the Under Secretary of Defense (OUSD) for Acquisition, Technology & Logistics (AT&L), identified three elements in the FY2006 assertion package:

- The **cover memorandum** is the legal representation that DoD is ready for audit.
- The **assertion checklist** and accompanying documents support the Department (Comptroller’s) representation.
- The **documentation for the five assertions** deals with the uniqueness of the military equipment and requires the participation of the acquisition and logistics communities.

The five assertions in the Management Assertion Package, which are common in private-sector accounting, are as follows:

Valuation – Items have been valued in accordance with federal accounting standards or Generally Accepted Accounting Principles (GAAP). The P&E Policy Office asserts that assets have been valued in accordance with Statement of Federal Financial Accounting Standards (SFFAS) and GAAP. The P&E Policy Office makes this assertion based on attestations received from Program Management Offices (or others in the acquisition or logistics community, as appropriate) on the data provided to complete the valuations, in particular budget data, Financial Account Codes, and useful life.

The attestation process is a sub-process of management assertion created specifically to support the valuation assertion due to the uniqueness of military equipment. The attestation process began with the establishment of the military equipment baseline in FY2006. Program Management Offices attested to the data they provided, which enabled the P&E Policy Office to value their military equipment programs. For each subsequent fiscal year, attestations are required for any new military equipment program valued in that year and for any changes to the military equipment assets valued in previous fiscal years. In coordination with the Military Departments and Defense Agencies, the P&E Policy Office publishes annual guidance on the attestation process. For this year’s guidance go to [FY 2008 Attestation Process and Requirements](#).

- **Completeness** – Everything that should be reported has been recorded and reported. The acquisition community asserts for the Property, Plant & Equipment (PP&E) line item on the balance sheet that all programs that should be reported, have been recorded and reported. This means all programs have included all assets meeting the military equipment valuation criteria in the reported values.
- **Rights and Obligations** – The Component reporting the item has the rights to and “owns” the equipment. The acquisition community asserts that the Component or Agency reporting an item has the rights to and “owns” the equipment, and has documentation to support that assertion.

- **Existence** – Military equipment reported by DoD does exist. The acquisition and/or logistics communities will assert that the military equipment reported by DoD does exist and has proof to support that assertion.
- **Presentation and Disclosure** – Information is presented accurately on the financial statement. The financial management community asserts that information is presented accurately on financial statements.

In FY2006, the Components were not able to complete the five assertions due to the inability to make the existence assertion. They were not able to provide **enterprise-level** reporting and documentation to assert to existence of their military equipment existence. Consequently, the Components have commenced an accountability improvement initiative focused on the processes and systems that manage military equipment, and the corrective actions needed to enable improved visibility and reporting of this equipment at the enterprise level.

Audit Readiness Requirements

Making valuation data audit-ready (i.e., documenting the five assertions) requires a collaborative effort among the acquisition, logistics, and financial management communities.

Individuals having the most current knowledge of the accuracy of the information provided by the military equipment program offices make the assertions. Annual assertions are submitted to the Component Assistant Secretary for Financial Management and Comptroller before the end of each calendar year.

Auditors require documentary evidence, sometimes referred to as evidential matter, to support each assertion. As stated earlier, until the necessary enterprise-level capabilities are in place to validate existence, the Department will not be able to complete the assertion process. However, until the Department is ready to assert to existence, maintaining proper documentation to support all of five of the assertions remains a critical task. It will ultimately enable DoD to complete the management assertion process and obtain an unqualified audit opinion.

The following pages outline the documentation requirements necessary to support an audit of military equipment values. Auditors require specific documentary evidence for each of the five assertions. It is important to note is that if a program is selected for audit, documentary evidence must be readily accessible to an auditor within 48 hours. Also, note that each Component determines who is responsible for meeting these requirements.

Valuation Assertion

The Valuation assertion claims that assets have been valued in accordance with SFFAS and GAAP. The P&E Policy Office completes this assertion based on attestations from the Program Management Offices (or others from the acquisition or logistics community, as appropriate).

To support this assertion, auditors may examine the following documents as evidence:

- Program Management Office attestations

- Appropriation or budget documents to support total projected program costs and planned number of end items (e.g., Appropriations, P-40 exhibits, P-5 exhibits, R-2 exhibits, and/or Selected Acquisition Reports (SARs))
- Valid receipt and acceptance documents to support the actual number of end items reported (e.g., DD250s, and/or program listings provided in Valuation Data Reports)
- Extracts from accounting systems to support expenditure data (e.g., SAR, P-40 exhibits, extracts from GAFS-R, SABRS, SIGMA, SOMARDS, STANFINS, and STARS)
- Documented engineering estimates may be used to support useful life estimates, as well as OMB documents, operational requirements documents, mission needs statements, and/or commercial industry-equivalent information

Completeness Assertion

The Completeness assertion certifies that all programs that meet the military equipment criteria have been recorded and reported. To support this assertion, auditors may examine:

- The valuation assertion
- Budget documents (e.g., P-40 exhibits, P-5 exhibits, and R-2 exhibits)
- A list of programs provided in the valuation data reports from the P&E Policy Office

Rights and Obligations Assertion

The Rights and Obligations assertion certifies that the Component or Agency reporting the assets claims that the DOD has the rights to and “owns” the equipment, and has documentation to support this assertion. An example of an item *not* included in the Rights and Obligations assertion would be inventory held for sale as part of foreign military sales programs. For this assertion, auditors may examine:

- Valid receipt and acceptance documentation (e.g., DD Form 250)
- Contract documents after Fiscal Year 2002 (mandated by SFFAS No. 23)
- Written directives detailing the preponderant use of assets

Preponderant use occurs when one Component or Agency procures an asset, but the asset is used for its intended mission by another Component or Agency. The DoD Financial Management Regulation (FMR) states that the user of the asset should report that asset on its financial statements. The user that reports an asset is also required to assert to existence and provide documentation supporting preponderant use of the asset. The concept of preponderant use is currently under review by the Department.

The Completeness assertion and the Rights and Obligations assertion are usually grouped together because a common process generally completes both of these assertions.

Existence Assertion

The Existence assertion certifies that the DoD reported military equipment assets exist and that there is evidence to support existence. When the enterprise-level reporting capabilities are in place, the acquisition and logistics communities will provide the Existence assertion. To support the Existence assertion, auditors may want to see:

- Periodic inventories, which can be used to validate physical existence
- Asset listing reports from accountability systems that identify all known military equipment assets
- Valid asset receipt and acceptance documentation (e.g., DD Form 250)
- A list identifying transferred assets and documentation supporting those transferred assets (e.g., DD Form 1149)
- A list identifying disposed assets and documentation supporting those disposed assets (e.g., DD Form 1348-1A)

Presentation and Disclosure Assertion

The Presentation and Disclosure assertion certifies that military equipment values are presented accurately on the financial statement and have been properly footnoted. The financial management community provides the Presentation and Disclosure assertion. For the Presentation and Disclosure assertion, auditors may examine:

- The assertion checklist or documentation supporting internal controls
- FMR and OMB guidance
- Internal reviews
- The four other assertions:
 - Valuation
 - Completeness
 - Rights and Obligations
 - Existence

This evidence will collectively demonstrate that the footnotes related to the reported values in the financial statements comply with accounting standards.

Assistance

While going through the attestation process, if documentation is missing or incorrect, contact the appropriate program financial manager for help.

Visit the MEVA website (<http://www.acq.osd.mil/me>) for guidance concerning discrepancies or for any other questions about Management Assertion, or the MEV initiative in general. If the information on the website does not address a specific concern, complete and submit the MEVA Support Form (<http://www.acq.osd.mil/me/general/helpdesk.html>) or contact the Columbus Call Center (CAMS-ME-helpdesk@dfas.mil). The Columbus Call Center routes all inquiries to the appropriate person to respond with assistance as needed.