



OFFICE OF THE SECRETARY OF DEFENSE

1 000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1 000

March 24, 2020

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE FOR ACQUISITION  
AND SUSTAINMENT  
DEPUTY ASSISTANT SECRETARIES OF THE MILITARY  
DEPARTMENTS (FINANCIAL OPERATIONS)  
DEPUTY ASSISTANT SECRETARIES OF THE MILITARY  
DEPARTMENTS (ACQUISITION AND PROCUREMENT)  
DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(PROCUREMENT)  
DEPUTY ASSISTANT SECRETARY OF THE NAVY  
(ACQUISITION AND PROCUREMENT)  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING)  
COMPTROLLER OF THE JOINT STAFF  
CHIEF FINANCIAL EXECUTIVES OF THE COMBATANT  
COMMANDS  
CHIEF FINANCIAL EXECUTIVES OF DEFENSE AGENCIES  
CHIEF FINANCIAL EXECUTIVES OF DOD FIELD ACTIVITIES

SUBJECT: Ensuring Proper Line Item Structure to Support Asset Valuation

- References: (a) Office of the Secretary of Defense memorandum, "DoD Requirements Overview for Procure-to-Pay Data Exchanges One through Four," February 9, 2016  
(b) Office of the Secretary of Defense memorandum, "Department of Defense Standard Operating Procedures for Automated Pre-Award Funds Validation," March 20, 2019

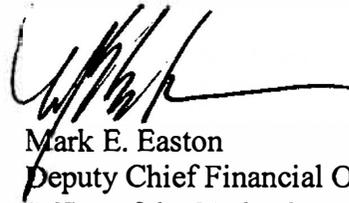
Asset acquisition internal controls ensure compliant property valuation across DoD. Presently, purchase request (PR) line items are often not properly segregated to the level of detail required by Federal Acquisition Regulation, Subpart 4.10. This may result in misclassifying capitalized and/or expense items at the contract line and subline level, misstating the true cost/valuation of assets, misstating operating expenses, and creating problems in administration, payment and tracking costs of assets.

Reference (a) provides Procure-to-Pay business processes and defines standard data exchanges ("handshakes") that are intended to ensure consistency and traceability of funds throughout the acquisition lifecycle. Reference (b) provides standard operating procedures for electronic pre-award funds validation, commonly referred to as Handshake 2. Proper line item structure must be captured from the requirements definition in the purchase request. Under Handshake 2, accounting activities must verify all proposed contract line items are properly accounted for and segregated into separate line items between capitalized assets and expenses.

See the attachment for the information to use when performing the PR review. Establishing this internal control at the beginning of the acquisition process will reduce potential reclassifications of assets and expenses, and enable better alignment between the purchase request, contract, and subsequent accounting and entitlement data. DoD components must implement this policy by October 1, 2021, to align with implementation of reference (b ).

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Mark E. Easton  
Deputy Chief Financial Officer  
Office of the Under Secretary of Defense  
(Comptroller)

Attachment:  
As stated

# **Implement Controls in the Requirements Development Phase to Delineate Asset Class and Capital from Expense Line Items**

March 2020

## **Background**

In March 2019, the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)), Defense Pricing and Contracting (DPC), and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Office of the Deputy Chief Financial Officer (ODCFO) issued a joint memo that established standardized operating procedures for electronic pre-award funds validation (Handshake 2).

Prior to purchase request (PR) preparation, the Program Manager, Acquisition Lead, Technical Representative, Contracting Officer, and Financial Manager/Integrator must identify, segregate, and document all contract capital assets and expenses during the acquisition planning process prior to requesting funds authorization and certification.

During Handshake 1 (Define and Fund the Requirement), the Certifying Officer is responsible for reviewing the contract requirements and conducting an electronic funds validation (“funds check”) to certify the availability of funds for each accounting citation on the contract and ensuring the PR’s line item structure is sufficiently detailed for the proper accounting of funds commitment and ensuring capital and expense line items are properly segregated.

During Handshake 2, the Certifying Officer is responsible for reviewing and approving the pre-award structure and funding sources using line items, including ensuring that “capital and expensed line items are listed on different line items.” Further, the Accounting Activity is responsible for ensuring that different types of capitalized items (e.g., equipment versus internal use software) are listed on different line items.

## **Separation of Capital Assets and Expenses**

The Certifying Officer and Accounting Activity should reference the following table of capitalized asset and expense descriptions when verifying PRs have properly segregated these items.

- The PR should include separate line items for each class of capitalized asset or expense to be procured.
- The Certifying Officer must consult the Requiring Activity (buyer or program office) when the PR does not include sufficient information to ensure proper segregation between capital and expense items.

## Capital Asset Classes and Expense Definitions

<b>Assets</b>	
<b>Item</b>	<b>Item Description</b>
Operating Materials and Supplies (OM&S) Held for Use	OM&S consist of tangible personal property to be consumed in normal operations. Items excluded are: (a) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, (b) stockpile materials, and (c) inventory. For more information, see DoD Financial Management Regulation 7000.14-R (FMR) Volume 4, Chapter 4.
Inventory Purchased for Resale	This account is used to record the value of inventory purchased for resale that is in a usable condition and is available for immediate resale. For further information, see DoD FMR Volume 4, Chapter 4.
Stockpile Materials Held in Reserve	The value of strategic and critical materials held because of statutory requirements or for use in national defense, conservation, or national emergencies. For further information, see DoD FMR Volume 4, Chapter 4.
Improvements To Land	The cost of nonpermanent, depreciable improvements to land used in general operations. Also includes similar costs to land subject to stewardship reporting, as well as land rights of limited duration that are associated with general operations. For further information, see DoD FMR Volume 4, Chapter 24.
Buildings, Improvements, and Renovations	The cost or appraised value of U.S. Federal Government-owned buildings acquired for and used in providing general U.S. Federal Government services or goods. Includes the cost of renovation, improvement, restoration, or reconstruction of multiuse heritage assets when those costs are directly tied to the conduct of U.S. Federal Government operations. For further information, see DoD FMR Volume 4, Chapter 24.

<b>Assets (Continued)</b>	
<b>Item</b>	<b>Item Description</b>
Other Structures and Facilities	Other Structures and Facilities account is used to record the cost or appraised value of structures and linear structures and improvements to them, under the legal jurisdiction of the Installation Hosts, which are used in providing DoD services or goods. This account also includes the cost of renovation, improvement, or restoration of multi-use heritage assets classified as structures or linear structures after transfer from the CIP account. For further information, see DoD FMR Volume 4, Chapter 24.
Equipment	Equipment account is used to record the capitalized cost of tangible equipment items of a durable nature that are used by DoD in providing goods and services. This account excludes internal use software but includes the cost of computer software that is integrated into (embedded) and necessary to operate the equipment of which it is an integral part. For further information, see DoD FMR Volume 4, Chapter 25.
Leasehold Improvements	A leasehold improvement is an improvement to leased land, to include easements and right-of-ways, buildings, structures, and linear structures utilized by the United States Federal Government. For further information, see DoD FMR Volume 4, Chapter 26.
Internal-Use-Software	The amount of capitalized cost of internal-use software including (1) purchased off-the-shelf software, (2) contractor-developed software subject to amortization, and (3) internally developed software subject to amortization. For further information, see DoD 7000.14-R FMR Volume 4, Chapter 27.
Other General Property, Plant, and Equipment	The value of general property, plant, and equipment not otherwise classified above. For further information, see DoD FMR Volume 4, Chapter 4.

<b>Expenses</b>	
Operating Expenses/Program Costs	Operating expenses and program costs not otherwise classified.