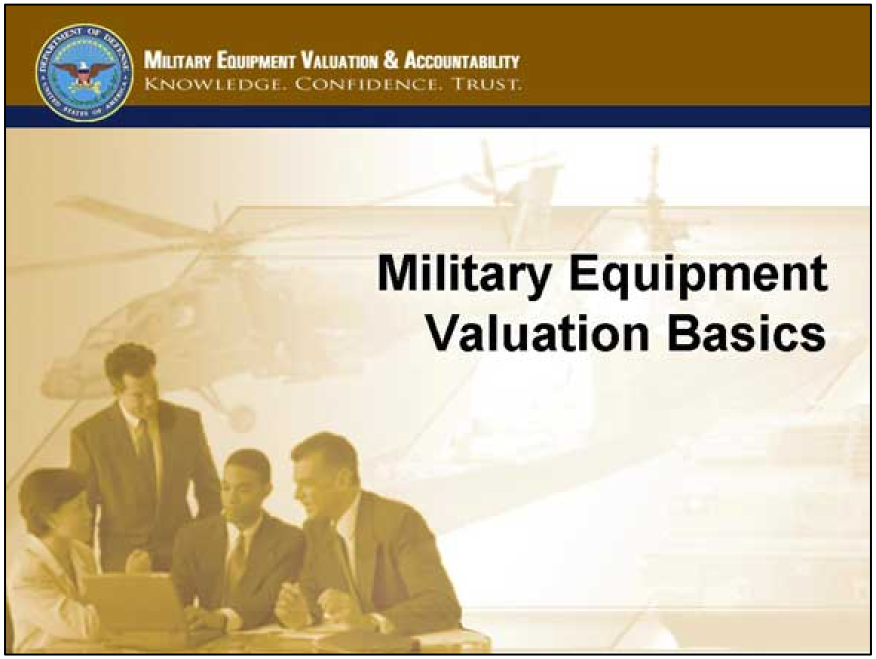
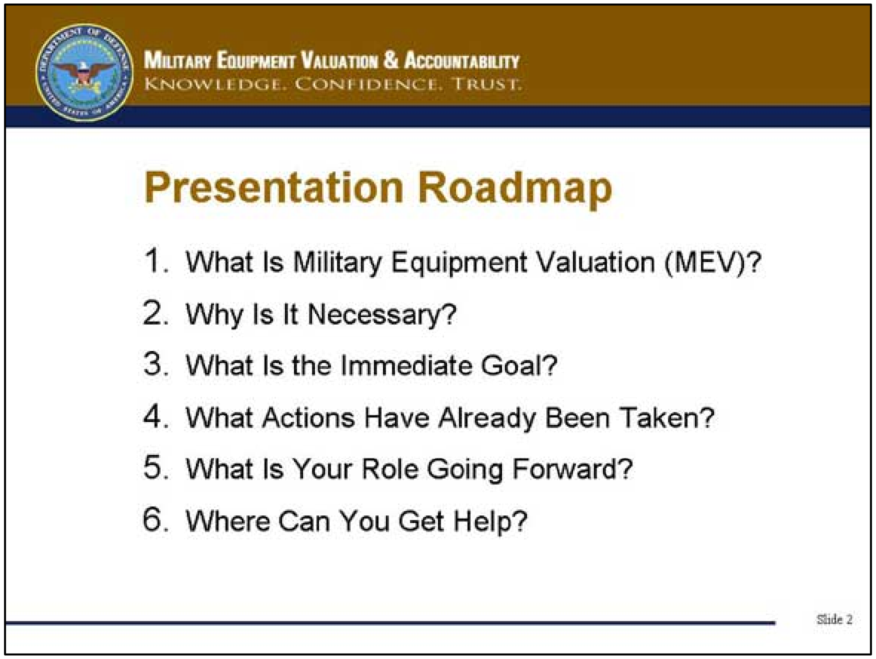


Welcome to the first of two Military Equipment Valuation (or, MEV) training courses. This one is called "MEV Basics."

If you work with or for the Department of Defense in the fields of acquisition, logistics, or financial management, you play an important role in the MEV Initiative.

And we at the Property & Equipment Policy Office appreciate your taking the time to learn about the initiative and how it ensures accountability to the American taxpayer and better support for the Warfighter.

To give you some background, the P&E Policy Office was established in 2000 to develop near-term, mid-term, and long-term solutions for military equipment valuation and accountability. It was created by the Under Secretary of Defense for Acquisition, Technology & Logistics (or, AT&L), and the Under Secretary of Defense (Comptroller).



In this training, you'll learn the answers to the six questions that are outlined in the presentation roadmap:

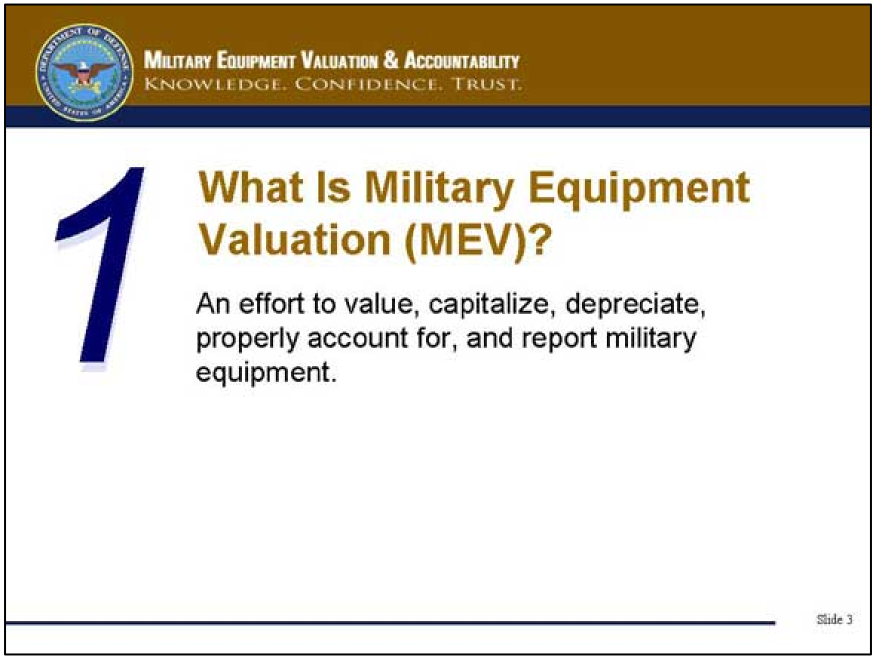
1. What is Military Equipment Valuation (MEV)?
2. Why is it necessary?
3. What is the immediate goal?
4. What actional have already been taken?
5. What is your role going forward?
6. Where can you get help?

Specifically, you'll know exactly how to comply with the requirements of MEV and you'll understand why your cooperation is necessary.

You'll learn how DoD is establishing a baseline of military equipment programs to be valued and depreciated. And, you'll see that it's now time to update the initial program valuations through the end of Fiscal Year 2006.

We'll focus on the acquisition and logistics communities' role in completing these updates and maintaining the values.

And, you'll get a broad overview of the Management Assertion Process, which will be instrumental in getting the Department ready for audits.

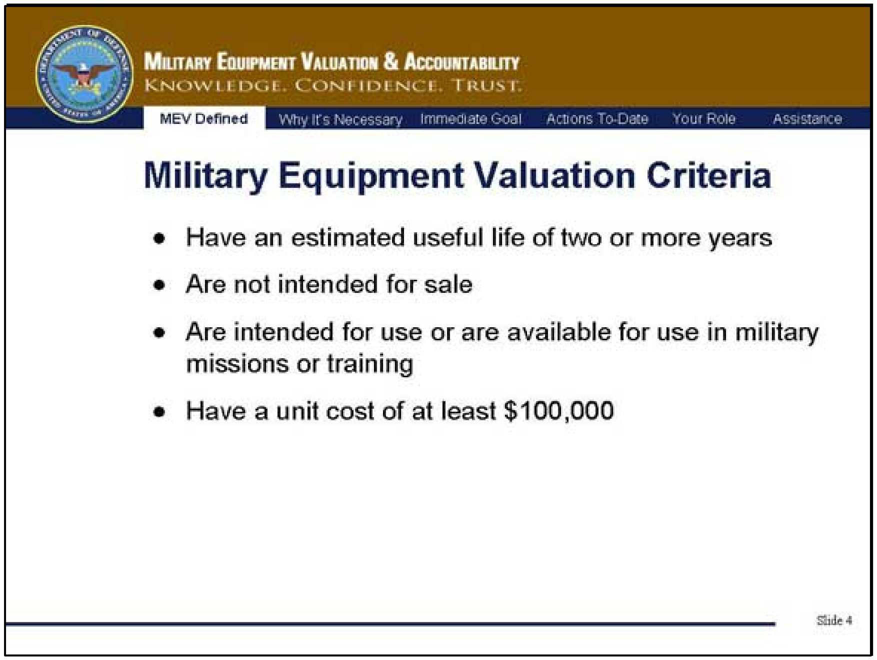


MEV is an effort to value, capitalize, depreciate, properly account for, and report military equipment.

Let's break that down into smaller parts. For MEV purposes:

- ***To value*** means to determine the full cost of the asset;
- ***To capitalize*** is to reflect expenditures for military equipment as assets instead of expenses;
- ***To depreciate*** is to prorate the asset's capitalized value over its useful life;
- ***To account for*** is to ensure that all military equipment assets are properly recorded in a system of record; and
- ***To report*** is to reflect the correct values for military equipment on financial statements.

Prior to 2003, military equipment was classified as National Defense Property, Plant & Equipment, and was expensed on the balance sheets. However, in 2003, military equipment was re-classified as General Property, Plant & Equipment, and thus was required to be treated as a capital asset on the Department's financial statements.



You may be wondering what we mean by military equipment. Military equipment in the most basic sense refers to planes, ships, and tanks.

The military equipment programs that are subject to valuation, capitalization, and depreciation:

- Have an estimated useful life of two or more years;
- Are not intended for sale;
- Are intended or are available for use in military missions or training; and
- Have a unit cost of at least $100,000.

We value the entire military equipment program, not just the hardware costs. The valuation includes military equipment hardware and all supporting program costs (such as salaries and travel) that bring the hardware to a placed-in-service status.

Examples of military equipment programs that fit the criteria include the F-22 Raptor, the Bradley Fighting Vehicle, the DDG-51, the Amphibious Assault Vehicle, and the F/A-18 Hornet.

Here's something else to remember: If expenditure data are only available at the procurement line level, and some of the items under this procurement line have a value in excess of $100,000, the value of the entire line must be treated as a single line item. An example of this is medical equipment.

Examples of equipment that are **NOT** considered for capitalization and depreciation under the military equipment criteria are Real Property; Internal Use Software; and Operations, Maintenance, and Supply (or OM&S). Although these items are not subject to special accounting treatment under military equipment, they may be subject to other Federal Accounting Standards.

Why is MEV necessary?

First, it gives senior management officials more accurate and reliable information. The more we know about the military equipment we have now, the better investment decisions we'll be able to make to support the Warfighter.

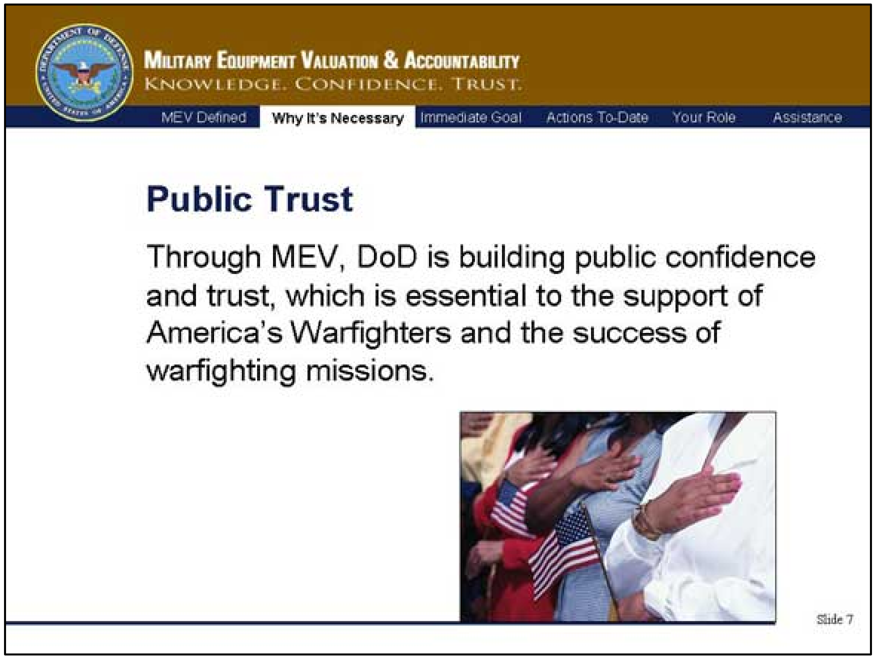
Second, it builds our credibility. DoD's ability to achieve a clean financial audit assures both Congress and the American taxpayer that it is prudently managing its financial resources.

Third, it's the law. MEV allows us to comply with the Chief Financial Officer's Act of 1990 and other legislation requiring Government Agencies to prepare auditable financial statements.

We'll now address each of these points in more detail.

With MEV, senior management officials will ultimately be able to go to Congress and the American people and say with confidence that we have a specific number of vehicles, ships, and planes. We know what they cost and how long they'll operate.

And, because of this information—which has been verified by an independent auditor—we can make investment decisions that provide the best support for our Warfighters.



MEV also reinforces public trust in our ability to allocate mission funding.

Public perception matters a great deal, because taxpayers fund our physical infrastructure, our IT infrastructure, the food our troops eat, and so on. MEV provides a comprehensive KNOWLEDGE of the military equipment we have and need.

This leads to public CONFIDENCE in our ability to protect this nation. And that confidence goes hand-in-hand with TRUST—trust that we're using taxpayer money prudently.

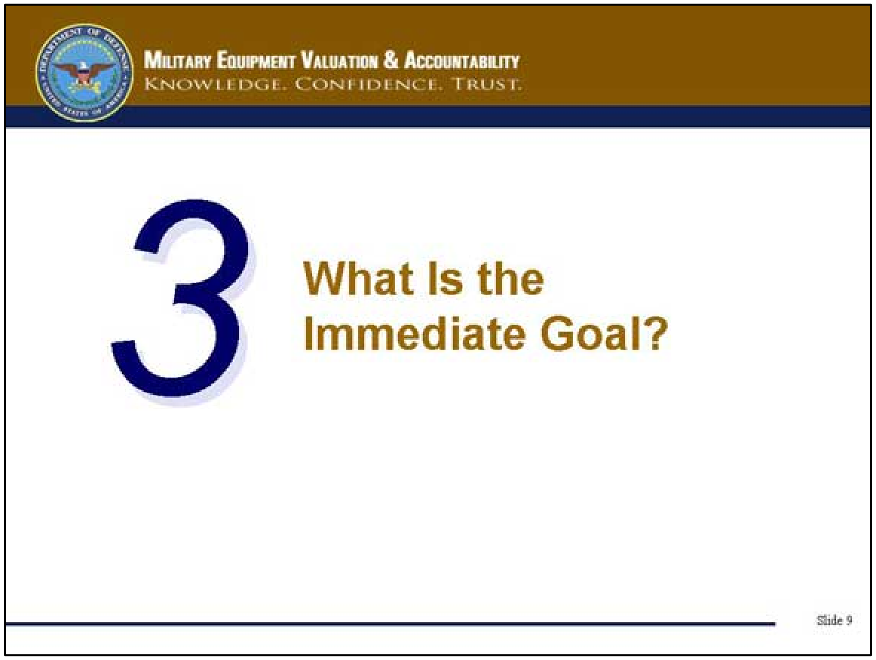
Finally, it's the law. MEV allows us to comply with the CFO Act of 1990 and other legislation requiring Government Agencies to prepare auditable financial statements.

It also complies with the President's Management Agenda for Fiscal Year 2002, which directs the Government to improve financial performance.

And it complies with the Statement of Federal Financial Accounting Standards (or, SFFAS) Number 23, which requires that military equipment be capitalized and depreciated.

The bottom line is that we are required to prepare auditable financial statements, improve financial performance, and capitalize and depreciate military equipment under this guidance.

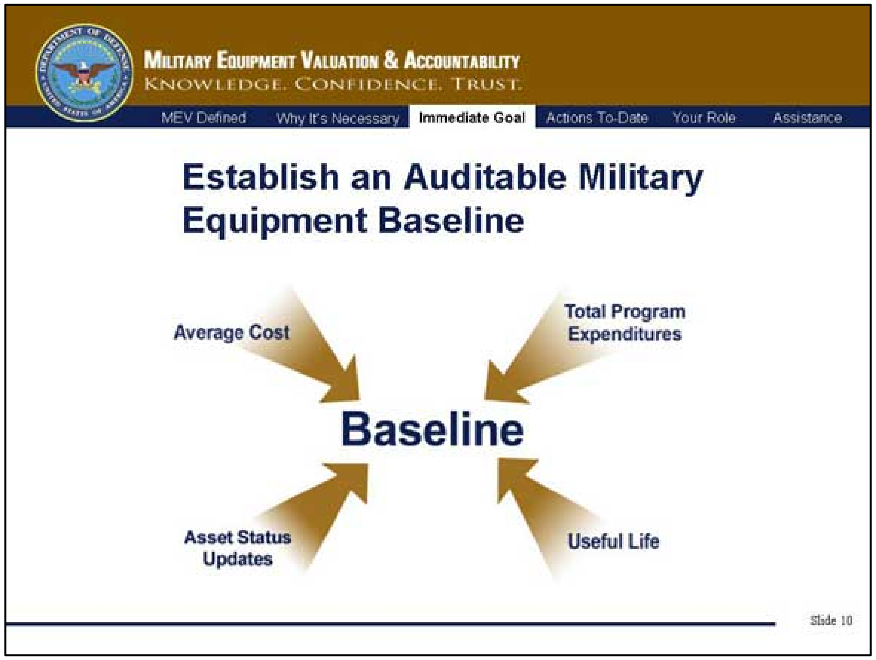
The reference library on our website houses the statutory requirements leading up to MEV, including the CFO Act of 1990, the President's Management Agenda, and SFFAS Number 23.



The acquisition, logistics, and financial management communities are working together to establish a military equipment baseline for Fiscal Year 2006 financial statements and to make that baseline audit-ready. That is the immediate goal.

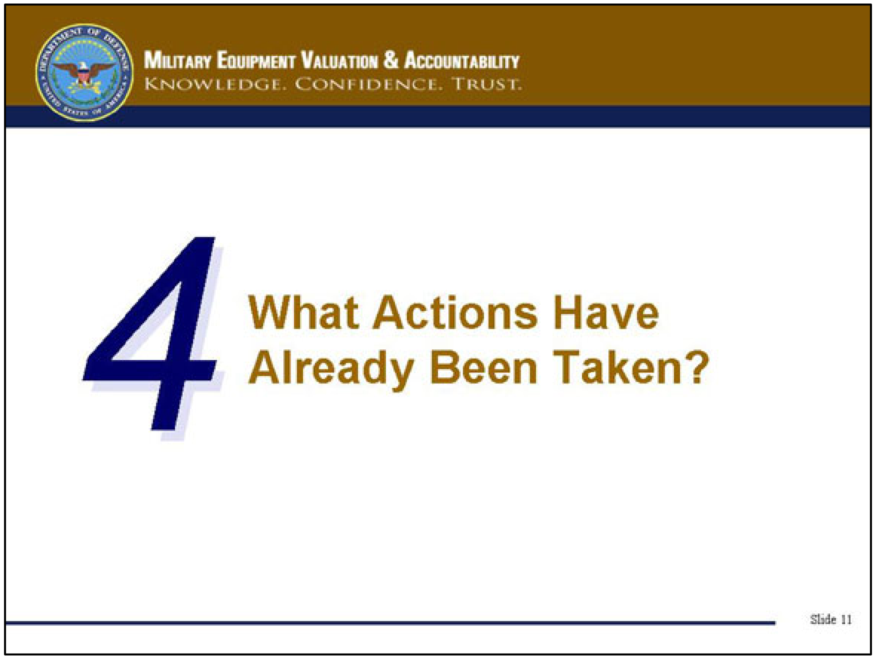
When we use the word "baseline," we are referring to the historical cost and updates to the initial military equipment program valuations. The baseline represents our drawing a line in the sand on the value of our military equipment. The bulk of the work to achieve this baseline figure has been completed, as we'll discuss under point 4.

And, by the end of Fiscal Year 2006, the Department of Defense will have enough information to confidently report the value of all known military equipment for the first time, using the baseline data.



Establishing the military equipment baseline requires the Department to take a unified approach to updating the average cost, total program expenditures, asset status, and useful life of all eligible military equipment programs.

By September 30th, 2006, the Department will have an auditable military equipment baseline.

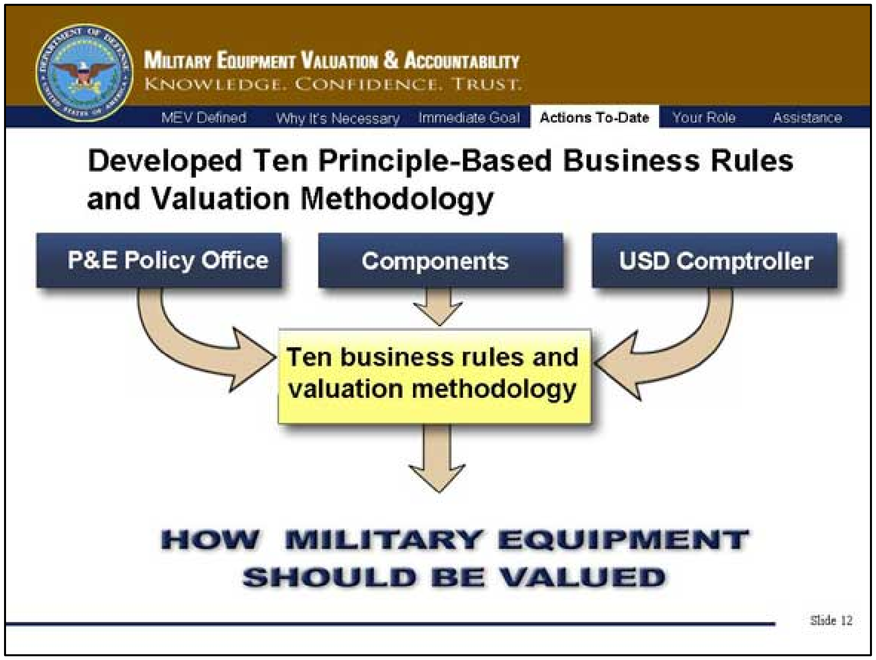


The P&E Policy Office has been working on the MEV Initiative since 2002, in order to develop a streamlined valuation process.

We created ten business rules and a valuation methodology, because systems and processes were not in place to satisfy the requirements of SFFAS Number 23.

Fortunately, SFFAS Number 23 allowed us to use a program-based methodology to establish the Fiscal Year 2006 military equipment baseline. But in the future, information based on actual transactions will be required. And we're preparing for that, too, as you will soon see.

Now, let's look at what's been completed to date.



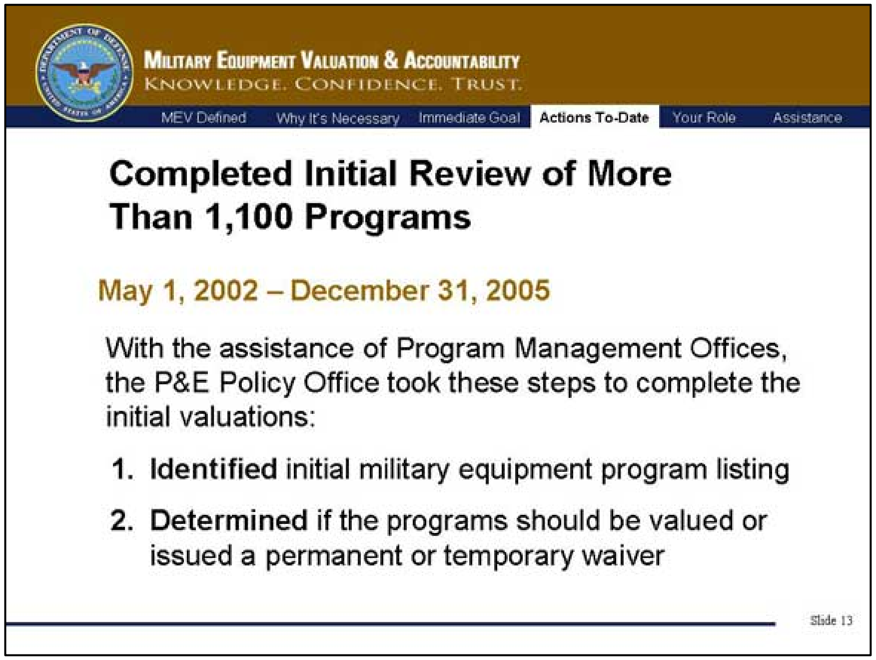
We developed the business rules and valuation methodology, which was a collaborative effort among the Army, Navy, Air Force, applicable Defense agencies, and the Office of the Under Secretary of Defense (Comptroller), along with the P&E Policy Office. This partnership determined the guidelines on how military equipment should be valued.

To give you an example of a business rule we created, here's one that deals with the treatment of research and development costs:

> Research, Development, Test, and Evaluation (or, RDT&E) costs should be expensed when incurred, unless the costs are associated with the development of end items that will be issued for military operations, or fielded. If RDT&E costs relate to fielded assets, they should be capitalized as military equipment.

For a description of each business rule, visit our website.

At this point, Program Managers and Financial Managers are NOT RESPONSIBLE for applying the business rules and the valuation methodology. Currently it's the P&E Policy Office's job. This will change in the future.



Another milestone we've achieved is the initial review of military equipment programs.

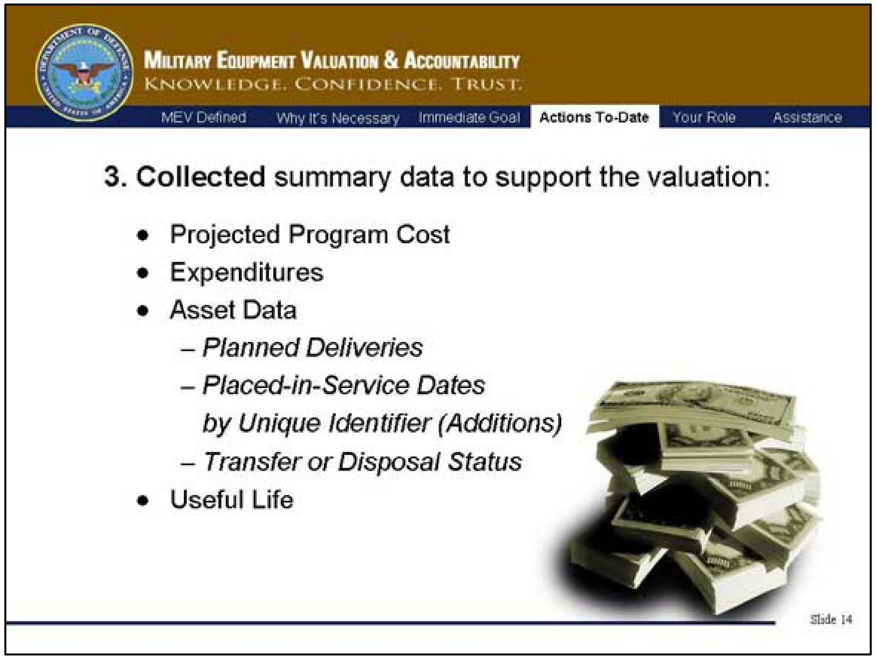
To complete the initial review, the P&E Policy Office worked with the Program Management Offices across the country to establish a list of more than 1,100 programs, and to review available documentation to determine which of these programs should be valued.

Programs fell into three categories: they were determined eligible for valuation; they were issued a permanent waiver; or they were issued a temporary waiver.

Permanent waivers were applied to programs that were either fully depreciated (and had no remaining useful life) or that did not fully meet the military equipment criteria.

Temporary waivers were applied to programs that had budgets appropriated, but the procurement had not begun when the initial valuation was completed.

If a program received a temporary waiver in the past, it WILL be re-evaluated once procurement begins, to determine if it meets the military equipment valuation criteria.



What else have we already done?

For those programs that we determined must be valued, we worked with the Program Management Offices in the Army, Navy, Air Force, and applicable Defense agencies to collect summary data to support the valuation, including program costs, expenditures, asset quantities, placed-in-service dates, and useful life.

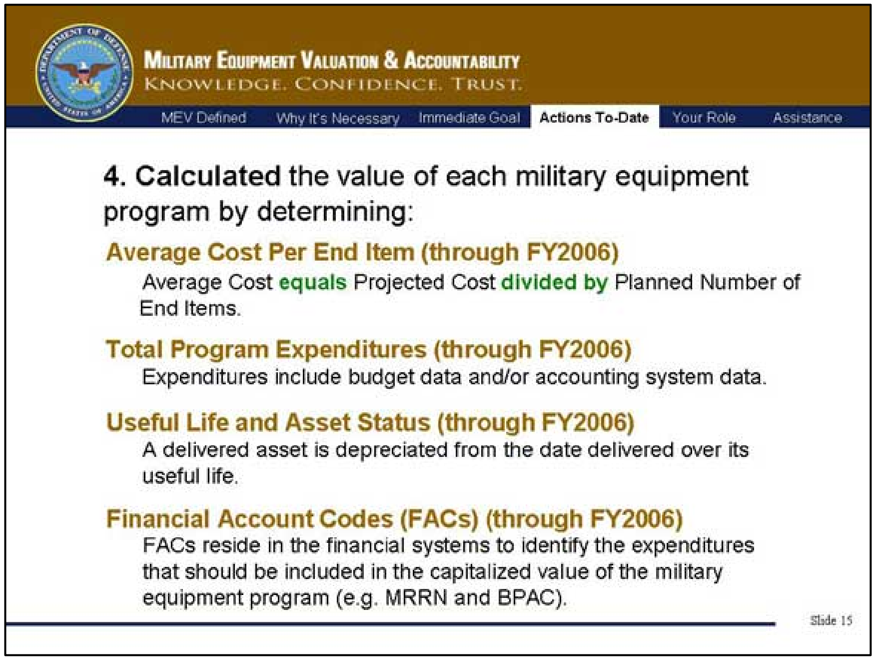
To understand what data were collected, here are some definitions:

The projected program cost is the cost based on what has been budgeted.

Expenditures are all invoices received for program assets.

Planned deliveries are the number (or quantity) of end items budgeted.

And useful life is the life expectancy of the end item.



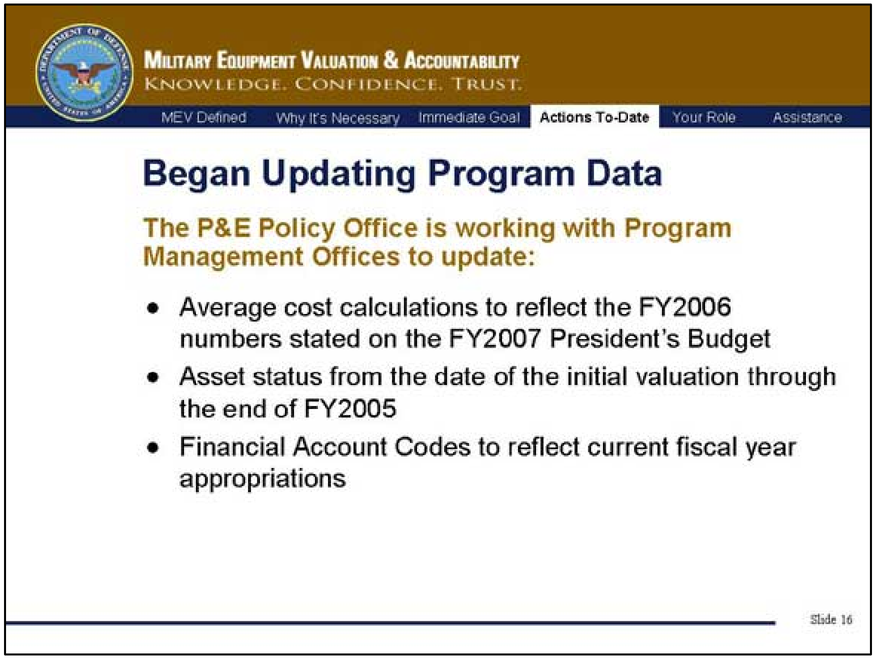
After we collected the data, we calculated the value of each military equipment program, by determining four data elements:

First is the average cost per end item. The average cost calculations include all the associated program costs, such as training, support equipment, and tech manuals.

The second data element is the total program expenditures. Expenditures include program data or accounting system data.

Third is useful life and asset status. Useful life and asset status information is provided to the P&E Policy Office by the Program Management Offices of each applicable Service. Asset status records the additions, transfers, and disposals of assets.

Financial Account Codes are the fourth data element, and they are equivalent to a line of accounting.



After calculating the value of each military equipment program, we began updating the program data.

From January 1st through March 31st, 2006, updates of the average cost calculations, asset status, and Financial Account Codes were required to bring all programs to a common point in time—through the end of Fiscal Year 2005.

We used a Microsoft Excel Asset Update tool to list each program end item identified during the initial valuation; and we provided serial numbers or tail numbers for assets placed-in-service or disposed with the corresponding dates. We used DD250s and DD1348-1As to do this.

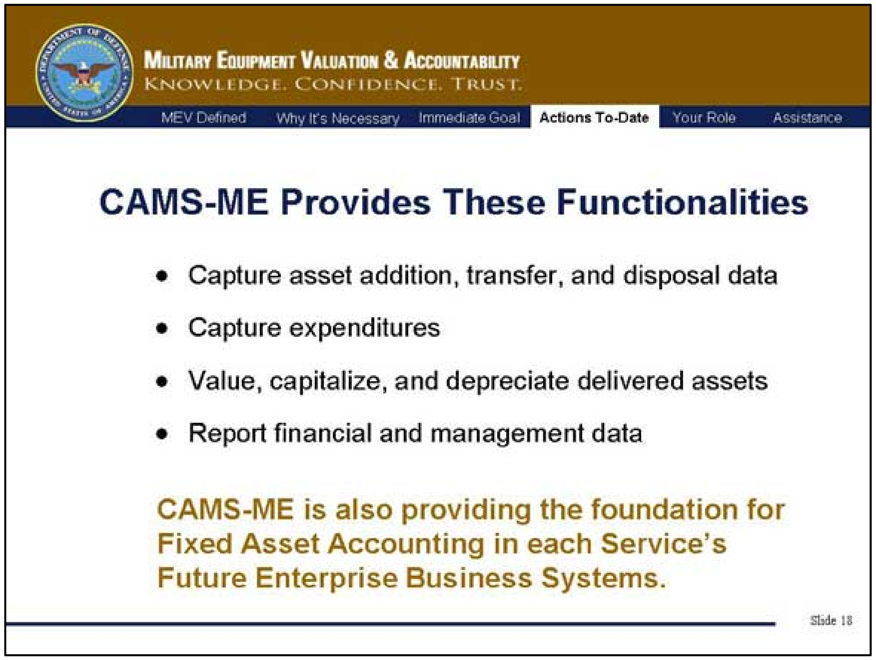
At the same time, we entered the updated Financial Account Codes into the Capital Asset Management System–Military Equipment (or, CAMS-ME).

CAMS-ME is explained in more detail on subsequent slides; but for Financial Account Codes, CAMS-ME will transfer them to the Business Enterprise Information Services (or, BEIS), which is operated by the DFAS. BEIS will extract expenditures from the Component accounting systems, by program, and these expenditures will be passed to CAMS-ME.

We created CAMS-ME because no system existed to maintain and update military equipment valuation data. CAMS-ME is a DoD enterprise system that uses the SAP enterprise resource planning software product. We're rolling it out in phases or increments.

In this first increment, CAMS-ME is being used to maintain the military equipment valuation baseline. It allows authorized users to update the asset status data for military equipment through a Web portal. Users will have access to CAMS-ME September 1st, 2006.

In future increments, CAMS-ME will calculate military equipment values in an automated way based on transactional data from DoD receipt, acceptance, and payment systems. It will also provide more granular data and interface better with other accountability systems.



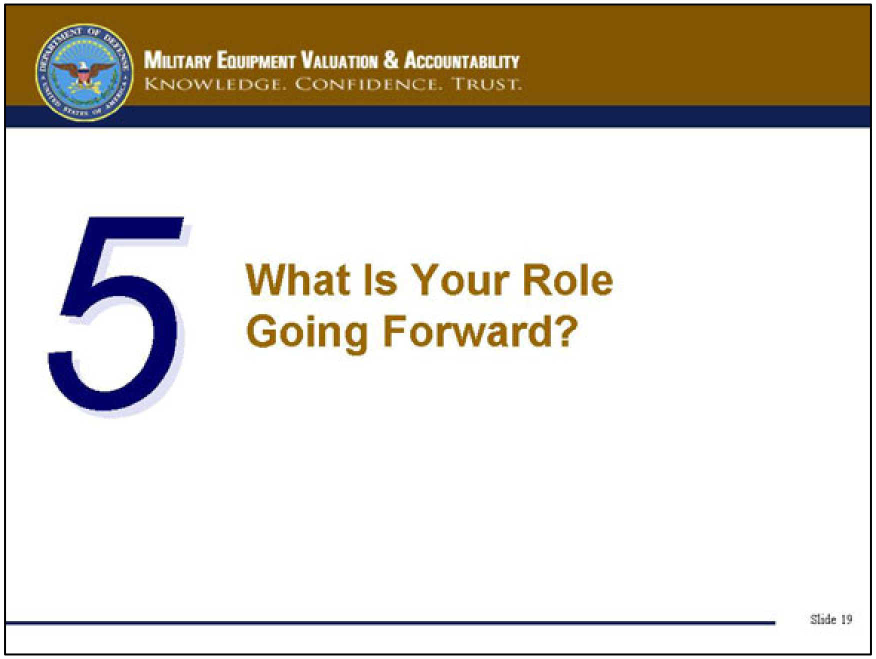
CAMS-ME captures asset status data and expenditures. It values, capitalizes, and depreciates delivered assets, and it reports financial and management data.

The CAMS-ME Portal is a simple, user-friendly web-based version of CAMS-ME and replaces the manual quarterly spreadsheets that we used in the past.

If you are one of the people who provided the quarterly spreadsheet updates, you will most likely become a CAMS-ME Portal user. Within the Portal, you will be able to update end item additions, transfers, or disposals in CAMS-ME; and pull reports.

To access the CAMS-ME Portal, you must take the hands-on CAMS-ME Portal training. It's an online course called, "Asset Status Updates in CAMS-ME Portal," and you can access it through our website.

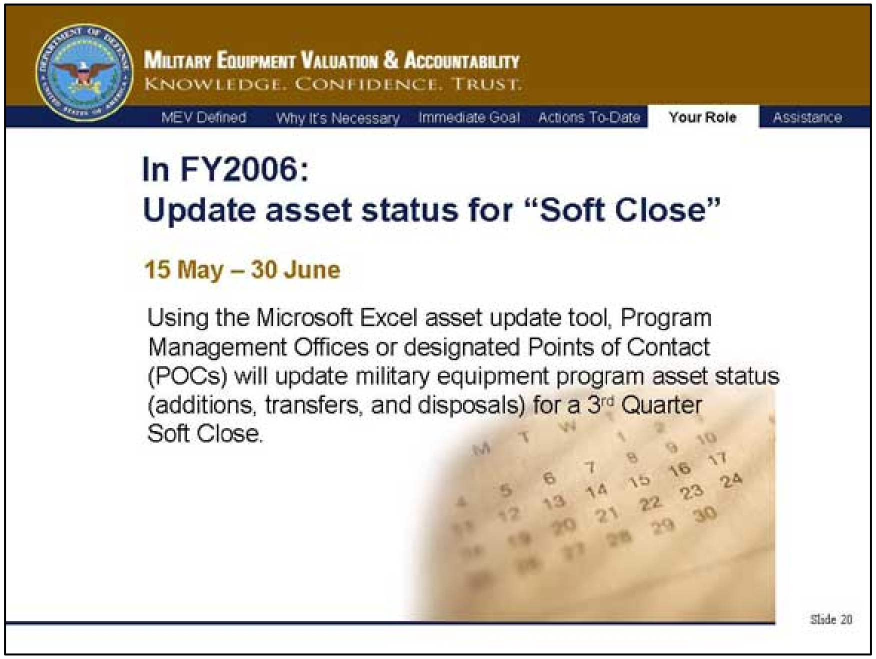
In the future, CAMS-ME will contribute to the effectiveness of your Service's enterprise resource planning solutions and the management of military equipment assets.



We've covered what has been done. Now, let's talk about the future.

Beginning in September 2006, asset status information for the baseline must be updated quarterly in the CAMS-ME Portal, until a fully compliant, transaction-based valuation system is deployed.

In this section, we'll cover specific actions required prior to the end of Fiscal Year 2006, and other actions beyond Fiscal Year 2006.

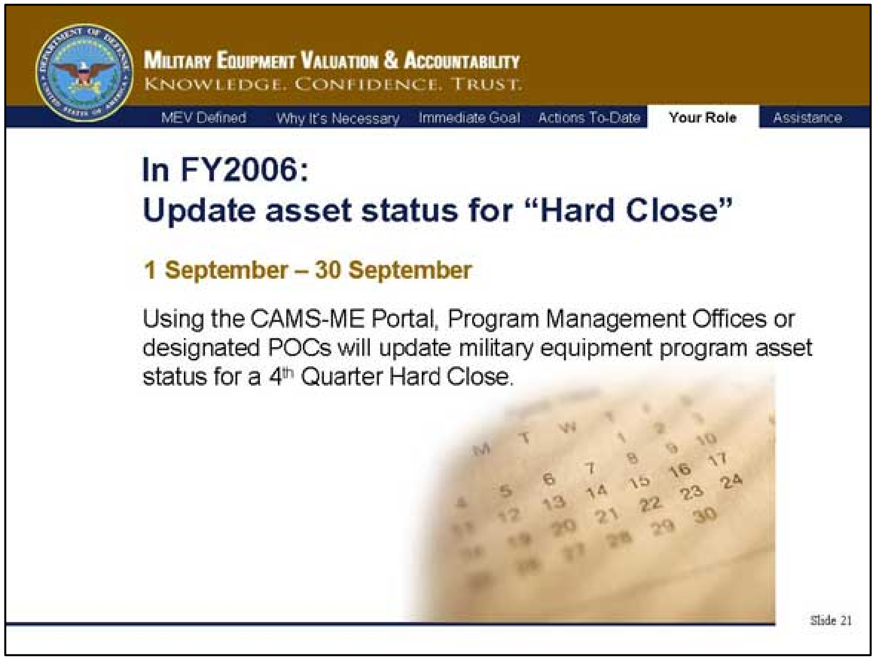


The asset status of military equipment programs should be updated in time for a 3^{rd} Quarter Soft Close. A Soft Close is a test of business processes in preparation for year-end financial reporting.

The P&E Policy Office provided an updated Microsoft Excel Asset Update tool (spreadsheet) to Program Managers or designated points of contact on May 15^{th}, 2006. By June 30^{th}, 2006, PMs or designated POCs will have completed updates of their asset status, by recording additions, transfers, and disposals with Fiscal Year 2006 data.

During the Soft Close, the P&E Policy Office produces reports that mirror the year-end financial reports. Using these preliminary reports, we can determine:

- The accuracy of the Financial Account Codes;
- The proper establishment of Work-in-Process balances;
- The accuracy of average cost calculations by program; and
- The accuracy of program asset depreciation schedules.



After the 3rd Quarter Soft Close comes the 4th Quarter Hard Close, which provides the baseline value that will be used for the year-end financial reports.

Between September 1st and September 30th, the 4th Quarter updates must be completed to firm up the baseline values. There are two differences between the 3rd Quarter Soft Close and this Hard Close. The first difference is that the process will no longer be completed via manual spreadsheets. You will be able to make updates directly into CAMS-ME using the CAMS-ME Portal. The second difference is that the Hard Close is final. It will contain information that will be used for final baseline values on the Department's year-end financial statements.

For the Hard Close, information will be manually provided through journal vouchers to DFAS for inclusion in each Components' respective end-of-year financial statements.

MILITARY EQUIPMENT VALUATION & ACCOUNTABILITY
KNOWLEDGE. CONFIDENCE. TRUST.

MEV Defined | Why It's Necessary | Immediate Goal | Actions To-Date | Your Role | Assistance

In FY2006 (and beyond): Validate and assert to values

Assistant Secretary of Financial Management and Comptroller will assert that the military equipment values on financial statements are ready for audit, based on input from:

- P&E Policy Office
- Acquisition Community
- Logistics Community
- Financial Management Community

Slide 22

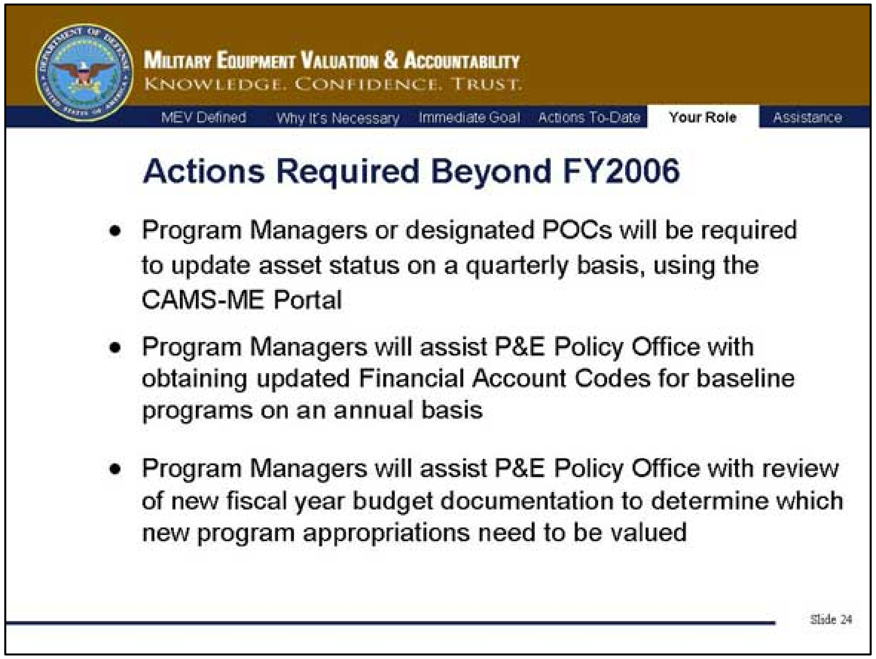
For auditors, calculating the value is not enough. We must also validate and assert to the value.

The next course, called Management Assertion for Military Equipment, will explain a validation process for making data audit-ready.

Basically, information about military equipment must be obtained from the acquisition and logistics communities, and individuals in these communities are required to assert to the accuracy of the information they give to the financial management community.

Understandably, assertions alone won't appease auditors. You must also make your source documents accessible! They'll want to see:

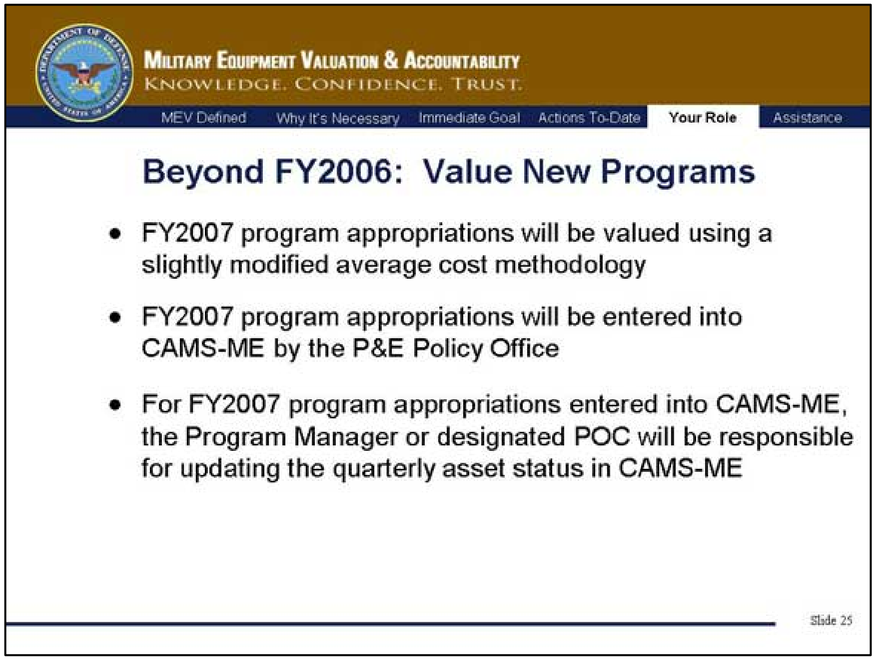
- Documents that support asset placed-in-service dates (for example, DD250s);
- Documents that support the program assets' existence at the time the numbers were recorded in the financial and
- Documents that support asset disposals (for example, DD1348-1As).



Moving ahead to Fiscal Year 2007, here's a sampling of what Program Managers will be responsible for.

Program Managers or designated POCs will update asset status on a quarterly basis using CAMS-ME. And they will assist the P&E Policy Office in updating Financial Account Codes and determining which new program appropriations need to be valued.

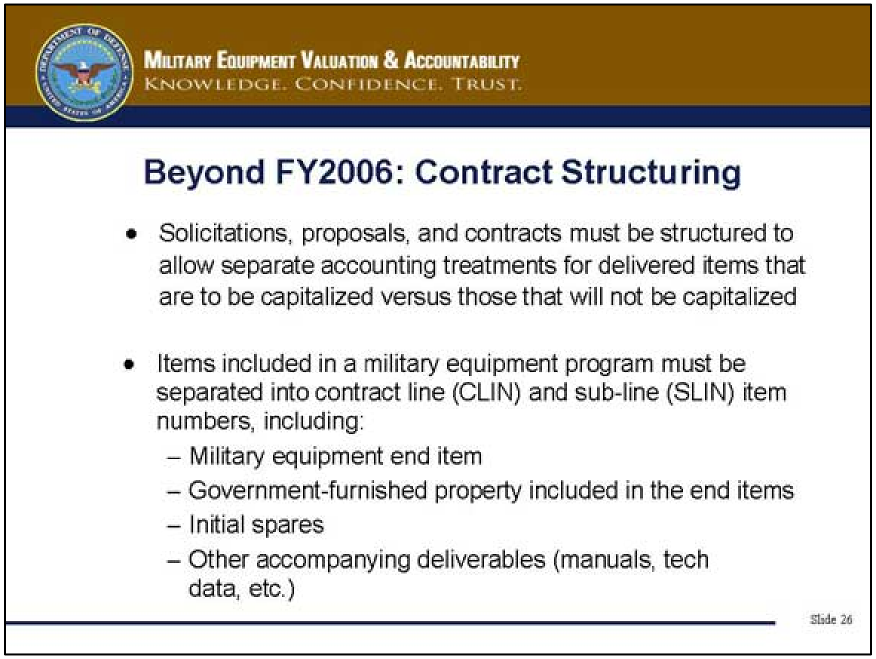
These contributions will be invaluable in helping DoD refine its ability to manage military equipment assets.



For programs with new military equipment contracts awarded after October 1st, 2006, delivered assets will be valued and depreciated using a slightly modified average cost methodology.

New program appropriations for Fiscal Year 2007 will be entered into CAMS-ME by the P&E Policy Office. Once our office has established a new program in CAMS-ME, the users will be able to make quarterly updates on their own using the CAMS-ME Portal.

Even though using a program-based valuations method works for establishing the baseline, in the future, the process for valuing military equipment will move to a more granular, transaction level to allow for more accurate calculations of the full costs of military equipment.



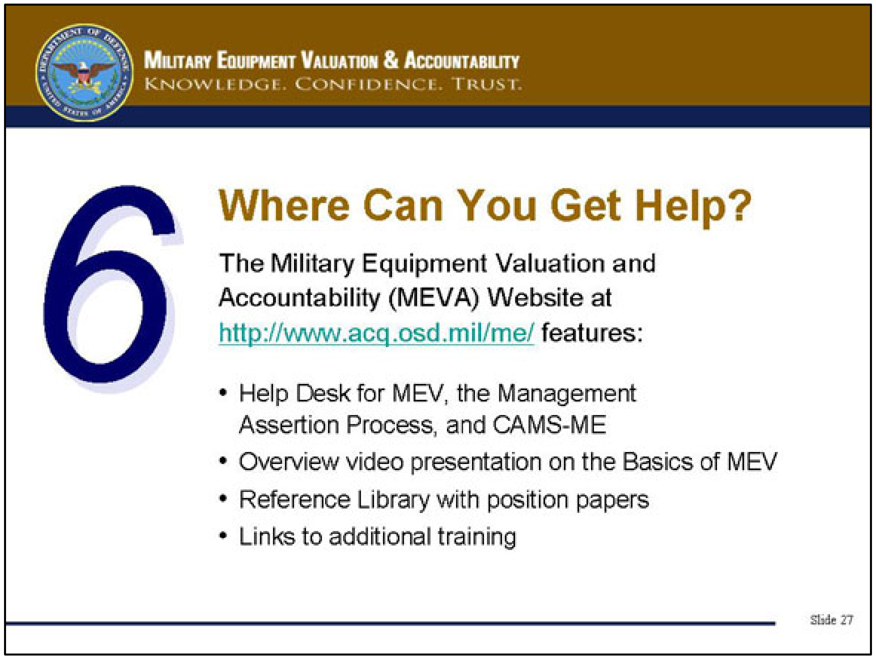
Currently, contract billings are generally submitted at the contract level, rather than at the level of the contract line item number (CLIN) or sub-contract line item number (SLIN).

As a result, the accounting system captures *expenditures or payment* information at a summary or contract level. Plus, contracts for military equipment items frequently include items that should be classified as other Property, Plant, and Equipment, OM&S, or Internal Use Software—not as military equipment.

Therefore, contracts need to be structured so that delivered items that are meant to be capitalized as military equipment can be separately identified.

To help meet these objectives, the Defense Acquisition University (or, DAU) will be offering a continuous learning module entitled *Contract Structuring for the Emerging DoD Environment*, which will train the contracting community in particular on how to properly use line items and sub-line items to clearly identify deliverables.

A second continuous learning module specific to MEV is under development. It will emphasize contract structuring requirements for the Program Management Offices and Business Financial Managers.

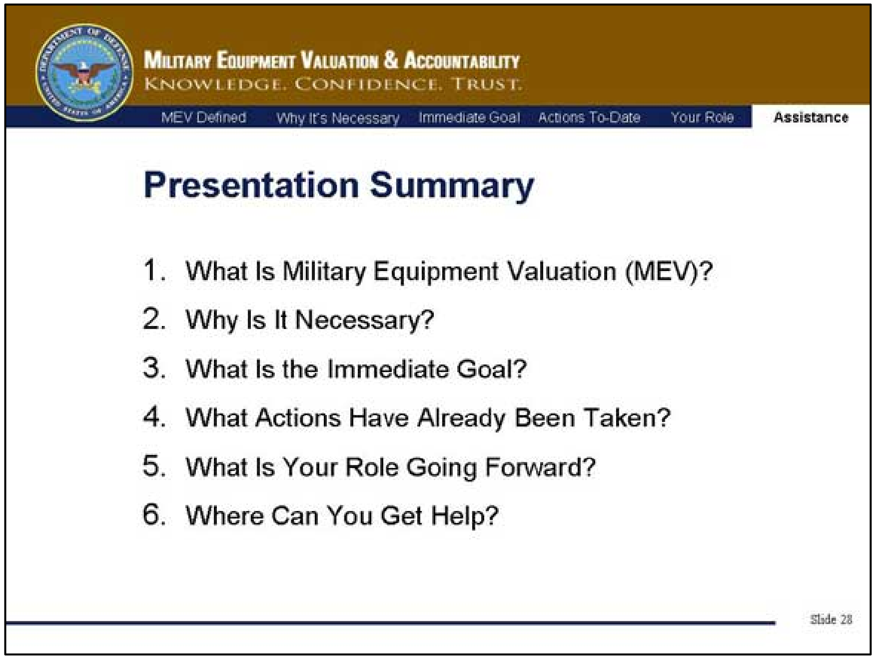


What you've learned in this course might seem overwhelming. So, please turn to our website if you have any questions or want additional information.

The website provides comprehensive help-desk assistance. Not only can you get help with resetting your CAMS-ME password, but you can also get answers to general program or policy questions. Just fill out the "MEVA Support Form" and we'll track and respond to the issue.

You'll also find a 14-minute video presentation from our senior leaders, a reference library, and additional training information and links on the website.

The address is **www.acq.osd.mil/me**.



To summarize the training, we'll answer the six questions we posed at the beginning.

First, MEV is an effort across DoD to value, capitalize, depreciate, properly account for, and report military equipment.

It's necessary because it provides better information to support the Warfighter; it reinforces public trust; and it's the law.

The immediate goal of the MEV initiative is to establish an auditable baseline for all eligible military equipment programs.

So far, more than 1,100 program reviews have been completed; initial valuations were done for those meeting the criteria; and CAMS-ME has been developed to update and store future valuations.

Going forward, designated personnel will perform quarterly and annual updates, make data audit-ready, and ensure that source documentation is accessible.

Finally, if you have any questions or difficulties, turn to our website for help.

We at the P&E Policy Office sincerely appreciate your taking the time to learn about the MEV Initiative in this first of two courses.