



OFFICE OF THE SECRETARY OF DEFENSE

1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000



DEC 6 2000

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
ASSISTANT SECRETARY OF DEFENSE (COMMAND,
CONTROL, COMMUNICATIONS AND INTELLIGENCE)
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTOR, WASHINGTON HEADQUARTERS SERVICES

SUBJECT: Property, Plant and Equipment Program Management Office

In recent audit reports and testimony to the Congress, the General Accounting Office and the Inspector General, Department of Defense (DoD) have been critical of the Department's control of, and accountability for, property, plant and equipment (PP&E). Such audit findings, as well as similar audit findings by Military Department auditors, undermine the Department's credibility and confidence with the Congress and the public. More importantly, such findings highlight that many DoD systems used to control, manage and report PP&E have difficulty supporting the warfighters' requirements for total asset visibility and timely logistics support.

In addition to PP&E control and accountability problems raised by the auditors, the Office of Management and Budget has indicated that one of the major "showstoppers" preventing both the DoD and the federal government from achieving an unqualified audit opinion on annual audited financial statements is the Department's PP&E. To annually achieve unqualified audit opinions on DoD financial statements, property management and logistics systems must be modified or replaced, policies and procedures changed, and internal controls strengthened. Additionally, property management and logistics systems interfaces with acquisition, procurement and accounting systems must be developed, tested and implemented.

The Department's acquisition, procurement, logistics, and financial management communities have been working to resolve the problems associated with PP&E accountability, accounting and reporting and progress has been made. However, much remains to be done. In addition, the Federal Accounting Standards Advisory Board will be issuing a new standard for National Defense PP&E (weapons systems and other military equipment) that will significantly impact DoD business practices, policies, procedures, and systems. Compliance with the new standard will be mandatory and will require the effort of the acquisition, procurement, logistics, and financial management communities. It is critically important that the Department's efforts to implement the new National Defense PP&E standard be well coordinated and orchestrated and be accomplished within the implementation timeframes directed by the new standard.



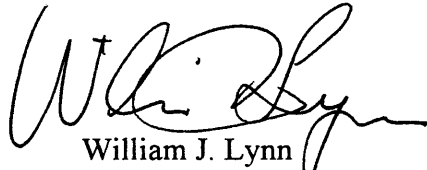
To more effectively coordinate and oversee DoD efforts to resolve existing PP&E accountability, accounting and reporting problems, as well as to facilitate and coordinate the DoD-wide implementation of the new National Defense PP&E standard, the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (OUSD(AT&L)) and the Office of the Under Secretary of Defense (Comptroller) have contributed resources to establish a Property, Plant and Equipment Program Management Office (PP&E PMO) within the OUSD(AT&L). Additional background information and the functions to be performed by the PP&E PMO are contained in the attachment to this memorandum.

Improving the Department's PP&E business practices, policies, procedures, and systems, as well as timely implementing the new National Defense PP&E standard, is a DoD-wide high priority that can be effectively and efficiently accomplished only by working in coordination with each other. Accordingly, to successfully accomplish the functions of the PP&E PMO will require the involvement of the Department's acquisition, procurement, logistics, and financial management communities and their full cooperation and participation is imperative. Therefore, to facilitate the efforts of the PP&E PMO, each Military Department is directed to designate a senior representative (Senior Executive Service or military equivalent) from each of the aforementioned communities, and each Defense Agency must designate one senior representative as their primary point of contact.

Please provide by January 5, 2001, the names and e-mail addresses of the individuals designated for your Component. Please provide this information to Mr. Stephen L. Tabone, who has been selected to be the Director of the PP&E PMO. Mr. Tabone may be reached by e-mail: tabones@osd.pentagon.mil or telephone at (703) 693-6520.



Jacques S. Gansler
Under Secretary of Defense
(Acquisition, Technology and Logistics)



William J. Lynn
Under Secretary of Defense
(Comptroller)

Attachment

**OFFICE OF THE UNDER SECRETARY OF DEFENSE
(ACQUISITION, TECHNOLOGY AND LOGISTICS)
PROPERTY, PLANT AND EQUIPMENT
PROGRAM MANAGEMENT OFFICE**

BACKGROUND

For the last few years, the General Accounting Office (GAO) has been critical of the Department's accountability and control over property, plant and equipment (PP&E). Such critical statements included the following:

- "Ineffective asset accountability and control adversely affects the Department of Defense's (DoD's) visibility over weapon systems."
- "Challenges include DoD's inability to properly account for and report (1) billions of dollars of inventory and PP&E and (2) National Defense assets, primarily weapon systems and support equipment."
- "Material weaknesses in DoD's ability to carry out its stewardship responsibilities over an estimated \$1 trillion in physical assets ranging from military items to buildings and facilities to multimillion dollar weapon systems were a major factor in the federal government's inability to account for and report on its assets."
- "Until its systems can accurately account for the existence and movement of general property, DoD cannot know the location and condition of those assets or safeguard them from physical deterioration, theft or loss."

Such GAO audit findings, as well as similar audit findings by DoD auditors, undermine the Department's credibility and confidence with the Congress and the public. More importantly, such problems highlight that many of the Department's property systems used to account for, manage and control PP&E are antiquated and cannot properly support the warfighters' needs for total asset visibility and logistics support. Therefore, it is critically important that the Department aggressively and expeditiously take appropriate and well coordinated and orchestrated corrective measures.

In addition to the PP&E accountability and control concerns raised by the GAO, the Office of Management and Budget also has indicated that one of the major "showstoppers" preventing both the DoD and the federal government from achieving an unqualified audit opinion on its annual audited financial statements is PP&E. In order to achieve an unqualified audit opinion, the DoD's PP&E must be properly recorded in compliant subsidiary property management systems that provide appropriate information to the Department's accounting systems, which report such information in the DoD Component financial statements. Complying with such a requirement has been extremely challenging to the DoD Components for many reasons and much needs to be done before this information can be reported in a manner that will allow it to regularly pass the annual tests of the auditors.

One of the complicating factors for the Department is the quantity and diversity of PP&E. The DoD has over \$1 trillion invested in various types of PP&E and annually spends over \$100 billion in acquiring and improving PP&E, which includes military equipment, real property and personal property. The enormous amount of PP&E owned by the DoD far exceeds the total amount of PP&E owned by all other federal agencies combined.

Besides the quantity and diversity of DoD PP&E, many other factors impact the Department's ability to properly control, account for and report PP&E. These factors include new and changing PP&E governmentwide accounting and reporting standards resulting in a need for new DoD policies and modifications to existing policies, which impact and necessitate new procedures or procedural changes. Additionally, many acquisition, procurement, logistic, and financial management organizations that have PP&E responsibilities lack adequate internal controls to ensure that the Department's policies and DoD Components' procedures are properly followed and executed. Furthermore, most of the Department's acquisition, procurement, logistics, and financial management systems were not designed to accomplish the requirements contained in the new PP&E standards. These factors impact the Department's ability to accurately and timely record all of the financial transactions associated with acquiring, improving and disposing of PP&E, to properly control PP&E in compliant property management systems and to accurately report PP&E information. They also undermine the Department's and the federal government's ability to demonstrate effective stewardship over its assets and to obtain an unqualified audit opinion on annual financial statements.

The Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (OUSD(AT&L)), Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Military Departments and the Defense Agencies have been diligently working to resolve the numerous problems associated with property accountability and accounting, property management systems, and the reporting of the quantities, condition and value of property. However, much remains to be done and the majority of what remains involves changes to "feeder" systems--those acquisition, procurement, logistics, environmental, and other systems that manage the Department's property and provide information to the Department's financial systems. The DoD Components generally have pursued independent efforts despite having common problems and objectives. Cooperative and joint efforts have not been the norm with the exception of efforts to determine the value of the Department's real property and to validate and/or improve the records of, and controls for, personal property. The factor that made a difference with these two significant efforts is that they were initiated, developed and organized by the Office of the Secretary of Defense (OSD) and were managed by two oversight committees chaired by OSD. The oversight committees are comprised of representatives of the DoD Components who regularly share with the oversight committees their accounting, accountability, control, process, and systems problems and issues for joint resolution.

Similarly, the successes and lessons learned from other individual DoD Component efforts to improve PP&E matters should be and can be more readily shared among the Components and additional joint efforts could be launched by the PP&E Program Management Office (PP&E PMO). The PP&E PMO has been established within the OUSD(AT&L) because the acquisition, procurement, logistics, and environmental communities are responsible for overseeing, managing and implementing the largest portion of the changes and improvements for

the remaining initiatives. Furthermore, such communities also must work collectively to effectively make progress, because many of the property related policies and systems issues overlap between the acquisition, procurement, logistics, and environmental communities. The PP&E PMO will better ensure that all of the appropriate OUSD(AT&L) communities, as well as the financial management community, effectively participate, as needed, depending on specific PP&E initiatives, issues and actions.

During this fiscal year, the Federal Accounting Standards Advisory Board (FASAB) will be issuing a new standard for National Defense PP&E. Although the Department has been aggressively working to minimize any adverse impact of the new FASAB standard, the new standard is expected to have a significant impact on the acquisition, procurement, logistics, environmental, and financial management communities. In order to ensure that the Department's affected communities meet the implementation dates that will be required by the new standard, the PP&E PMO will be focused on numerous new requirements and changes that will have to be made to existing policies, processes and systems. Orchestrating the efforts of the affected communities is vital because many of the policies, processes and systems are interrelated.

The remainder of this paper describes the functions of the PP&E PMO. When the functions of the PP&E PMO have been substantially and successfully accomplished, the resources, functions and responsibilities of the PP&E PMO will migrate back to their respective OSD offices. It is envisioned that the functions would be substantially achieved within three years.

PP&E PMO FUNCTIONS

The following summarizes the functions to be performed by the PP&E PMO. Such functions, as they pertain to PP&E, fall within the purview of the OUSD(AT&L) and the OUSD(C). Both the OUSD(AT&L) and the OUSD(C) have addressed these functional areas independently to improve PP&E accountability, accounting and reporting over the last two years with some success. However, because these areas of responsibility overlap and are interrelated, progress can be more effectively achieved by working more closely together under the joint efforts of a PP&E PMO.

Policy: Develop, write, coordinate, issue, and oversee the implementation of PP&E accountability, accounting and reporting policies. Such policy areas include policies for General PP&E (real and personal property), National Defense PP&E (weapons systems), Heritage Assets, Stewardship Land, deferred maintenance, and property in the possession of contractors. Specific policy functions include:

- Proposed DoD Directive and Manual, titled "Property Accountability" - Complete, coordinate and maintain the proposed DoD Directive and Manual. Respond and/or prepare appropriate level responses to the DoD Components and audit communities on PP&E accountability policy matters (clarifications, interpretations, waivers/exceptions, audit reports, etc.).

- DoD Financial Management Regulation (DoD 7000.14-R) - Maintain and update the PP&E chapter, PP&E portions of the Form and Content guidance and other PP&E related chapters. Respond and/or prepare appropriate level responses to the DoD Components and audit communities on PP&E accounting policy matters (clarifications, interpretations, waivers/exceptions, audit reports, etc.).
- Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) - Working with the appropriate OSD offices, ensure that revisions to the FAR and DFARS are written to incorporate appropriate requirements for PP&E accountability and Chief Financial Officer reporting.

Property Management Systems: Complete, coordinate, maintain and oversee the implementation of the concept of operations for DoD property management systems. Provide DoD oversight of DoD Component selection and implementation of new property management systems, improvements to existing systems and use of property management systems to ensure DoD Component compliance with the concept of operations. Oversight functions include:

- Provide support, as needed, to the DoD Financial and Feeder System Compliance Process for property management and logistics systems.
- Oversee and participate in the development of interfaces between acquisition and procurement systems with property management and logistics systems.
- Oversee and participate in the development of interfaces between accounting systems and property management and logistics systems.
- Monitor and provide OSD-level oversight for the implementation of the Defense Property Accountability Systems (DPAS) within the Departments of the Army and Navy and Defense Agencies using the DPAS, as well as monitor and provide OSD-level oversight for the implementation of other property management systems currently in use or in the process of being implemented (e.g., Defense Medical Logistics Standard Support System, Global Combat Support System-for Total Asset Visibility) by various other DoD Components.

Property in the Possession of Contractors: In addition to ensuring that DoD PP&E policies, FAR and DFARS properly reflect the requirements necessary for proper PP&E accountability and Chief Financial Officer (CFO) reporting:

- Work with the acquisition, procurement, logistics, and financial communities to develop procedures, controls and systems necessary to collect, record and report PP&E information on DoD property in the possession of contractors.
- Utilize the Defense Contract Audit Agency, contractors and other DoD resources to establish baseline information for DoD property presently in the possession of contractors.

Deferred Maintenance: In addition to ensuring that DoD policy and regulations properly reflect the requirements necessary for determining reliable estimates and proper CFO reporting, work

with the OUSD(AT&L)Maintenance Policy Directorate, the OUSD(AT&L)Installation Directorate and the Office of the Deputy Comptroller(Program/Budget) to improve deferred maintenance definitions, methodologies for determining amounts of deferred maintenance and reporting of deferred maintenance both in the Department's budget and annual financial statements.

- Lead a CFO Council sponsored government-wide deferred maintenance study.
- With the OUSD(AT&L)Maintenance Policy Directorate, manage and monitor a Logistics Management Institute's study on National Defense PP&E deferred maintenance.
- Assist the DoD Components' in their implementation of new planning, programming and budgeting policies and reporting requirements.
- Assist in the development and/or review of the DoD Components' deferred maintenance amounts and notes contained in their annual financial statements and budgets.
- Oversee and review the preparation of the DoD consolidated deferred maintenance amounts and notes.

National Defense PP&E: As the Federal Accounting Standards Advisory Board (FASAB) develops and finalizes a new standard for National Defense PP&E, support the DoD Board member in all matters pertaining to National Defense PP&E. Develop and coordinate the DoD response to the proposed new National Defense PP&E standard when issued as an Exposure Draft. At the appropriate time, prior to issuance of the final National Defense PP&E standard, work with the acquisition, procurement, logistics, and financial management communities to develop a DoD implementation strategy and plans for implementing the new standard. Such a strategy and plans should address:

- Policy, regulation and procedural changes.
- Availability of existing data to capture National Defense PP&E quantities, condition information and costs by appropriate level of detail.
- Modifications to acquisition, procurement, logistics, and financial management processes necessary to capture required National Defense PP&E data.
- Modifications to systems used by the acquisition, procurement, logistics, and financial management communities.
- Develop a DoD standard data management system to capture, retain and report National Defense PP&E information for financial statement purposes.

Once the FASAB National Defense PP&E standard has been finalized and issued, the PP&E PMO will coordinate, facilitate and oversee the execution of the implementation of the applicable requirements within the DoD.

Other Miscellaneous Functions:

- Assist in the preparation the DoD consolidated Supplemental Stewardship Reports for ND PP&E, Heritage Assets, Stewardship Land, Nonfederal Physical Property, and RDT&E.
- Chair, or support the OUSD(AT&L) in its chair of, the Property Systems Implementation Oversight Committee.
- Support the DoD Deputy Chief Financial Officer on all PP&E related FASAB matters.
- Oversee and manage all PP&E Implementation Strategies.
- Participate in joint reviews of PP&E information presented in annual financial statements.
- Encourage, facilitate, monitor, and oversee new and/or improved training for DoD personnel responsible for property accountability and accounting.