



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

09 APR 2001

MEMORANDUM FOR DISTRIBUTION

Subj: TRANSFER OF DEPARTMENT OF THE NAVY PROPERTY TO THE NAVY/
MARINE CORPS INTRANET (NMCI) CONTRACTOR

Ref: (a) FMB Memo of 6 June 2000
(b) FMB Memo of 10 October 2000

Encl: (1) DON NMCI Financial Procedures for Property Transfers
At Navy Working Capital Fund and General Fund
Activities

By references (a) and (b), financial procedures for use by all Department of the Navy (DON) customers of the Navy/Marine Corps Intranet (NMCI) were promulgated. As implementation of NMCI has proceeded this fiscal year, issues relative to the financial treatment of DON Information Technology (IT) property transferring to the NMCI contractor; i.e., Electronic Data System (EDS) have emerged. Thus, it is important that we formalize financial procedures for these transfers.

Under the terms of the NMCI contract with EDS, the Department of the Navy (DON) will provide, "...all existing IT infrastructure required to implement NMCI or whose function is replaced at these sites...", to the contractor. Since the NMCI service price delineated in the contract is based on the provision of existing DON IT property to EDS, the property transfer cannot be delayed.

Property accountability is essential to accurate financial reporting. In that the transfer of DON property to EDS will be reflected on the Department's financial statements, it is particularly critical that you ensure all IT property that transfers to EDS; i.e., capital property, as well as other personal property, is accurately documented in a comprehensive listing for each activity within your claimancy. The procedures to be used for these property transfers and associated documentation are specified in enclosure (1).

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Several claimants have expressed concern about the financial treatment of unrecorded depreciation for IT capital assets transferring to EDS from Navy Working Capital Fund (NWCF) activities. Based on accounting procedures delineated in the Department of Defense (DoD) Financial Management Regulation, DoD 7000.14-R, the unrecorded depreciation is written off as an expense in the year the transfer occurs, thus creating a loss. However, it is our intent to secure approval from the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) to treat this expense as an extraordinary write-off which would not be recovered in future year DON rates. While the OUSD(C) staff has indicated a willingness to consider approving an extraordinary write-off, they have clearly indicated that provision of an accurate listing of the property transferred is essential. Therefore, it is critical that the information you provide in response to the requirement specified in enclosure (1) is accurate and complete.


ROBERT L. FRAZIER
Associate Director
Office of Budget

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DEPARTMENT OF THE NAVY
NMCI FINANCIAL PROCEDURES FOR PROPERTY TRANSFERS AT
NAVY WORKING CAPITAL FUND AND GENERAL FUND ACTIVITIES

The DoD FMR, DoD 7000.14-R, Volume 4, Chapter 6 addresses the accounting standards and policy for DoD property, plant and equipment (PP&E), and defines the four categories of PP&E. The DON IT property transferring to EDS is considered general PP&E, most specifically capitalized or non-capitalized PP&E. Capitalized PP&E is recorded in the property accounting system, and reported in the DON annual financial statements. DoD PP&E that does not meet the capitalization threshold is recorded in property accounting systems for control purposes, if the cost of the item meets or exceeds the accountability threshold of \$2,500, or if the property is considered sensitive and/or subject to pilferage, regardless of cost; i.e., personal computers.

The following procedures will be used by all DON NWCF and General Fund activities for the transfer of DON IT property to the NMCI contractor; i.e., EDS.

- **CAPITALIZED IT PERSONAL PROPERTY**

- A comprehensive list of all IT capital property that will be transferred to EDS must be completed, and forwarded to FMB by the fifth day of the beginning of the quarter during which the transfer is scheduled to occur; i.e., the 5th of October for a transfer scheduled in the months of October, November, or December, etc. A separate list should be provided for each NWCF and General Fund activity, and must include the following information.
 - Specific Item/System
 - Acquisition Date
 - Recorded Cost of Item/System
(Note: The recorded cost will include additional ancillary costs, and is the basis for computing depreciation.)
 - Date of transfer to EDS
 - Accumulated depreciation as of the date of the transfer to EDS
 - Unrecorded depreciation as of the date of the transfer to EDS

Enclosure (1)

DEPARTMENT OF THE NAVY
NMCI FINANCIAL PROCEDURES FOR PROPERTY TRANSFERS AT
NAVY WORKING CAPITAL FUND AND GENERAL FUND ACTIVITIES
(Cont'd)

- Upon receipt of the list, FMB will forward to OUSD(C) a request for an extraordinary write-off for NWCF activities.
- Consistent with the policy delineated in the DoD FMR, Volume 11B, Chapter 58, NWCF activities must ensure that NMCI IT capital assets are transferred at the recorded acquisition cost less accumulated depreciation as of the date of the transfer, and that the unrecorded depreciation is expensed. Timely provision of information specified above should enable an expeditious turnaround within OUSD(C), and corresponding notification to the Defense Finance and Accounting Service for accounting purposes.
- The information provided for General Fund activities will be used for write off purposes on DON financial statements.
- Activity financial reports should include the following statement in the month the IT property transfer occurs:
 - Based on the provisions of the Department of the Navy (DON) contract with Electronic Data System (EDS) for Navy/Marine Corps Intranet Services, this report reflects the transfer of DON capitalized IT personal property valued at \$_____ to EDS. This report also reflects an expense amount of \$_____ for the unrecorded depreciation associated with this capital property.
- **NON-CAPITALIZED IT PERSONAL PROPERTY (NWCF & GENERAL FUND ACTIVITIES)**
 - A comprehensive list of all non-capitalized IT personal property that will be transferred to EDS should be completed and retained at the activity level.
 - Activity financial reports should include the following statement in the month the IT property transfer occurs:

Enclosure (1)

DEPARTMENT OF THE NAVY
NMCI FINANCIAL PROCEDURES FOR PROPERTY TRANSFERS AT
NAVY WORKING CAPITAL FUND AND GENERAL FUND ACTIVITIES
(Cont'd)

- Based on the provisions of the Department of the Navy (DON) contract with Electronic Data System (EDS) for Navy/Marine Corps Intranet Services, this report reflects the transfer of DON non-capitalized IT personal property valued at \$ _____ to EDS.