



U.S. DEPARTMENT OF DEFENSE

SAP BUSINESS TRANSFORMATION STUDY

AT A GLANCE

Industry	Defense
Budget	US\$439 billion
Employees	2.5 million
Location	Washington, DC
Web Site	www.defenselink.mil
SAP® Solution and Services	SAP® ERP application
Implementation Partner	KPMG LLP

The U.S. Department of Defense (DoD) provides the military forces needed to deter war and protect the security of the United States. The DoD exercises authority over the chairman of the Joint Chiefs of Staff, 3 military departments, 9 unified combatant commands, the DoD inspector general, 15 defense agencies, and 7 DoD field activities. In this capacity, the DoD manages equipment and other capital assets worth more than US\$1.2 trillion.

Key Challenges

- Meet new regulations for valuation of military equipment with a capitalization above US\$100,000
- Create policies, processes, and systems to support this valuation
- Develop standards for collecting and interpreting data on costs involved in all operations
- Align costs with operational outcomes to defend U.S. Department of Defense (DoD) budget requests

Program Goals

- Identification and valuation of military equipment programs with assets meeting capitalization requirements
- An auditable process for tracking military asset valuations
- New tools for managing the accountability of military assets
- Maximized use of existing DoD investment in SAP® software

Implementation Best Practices

- Mix of KPMG LLP strength in financial management and accountability with SAP business process expertise
- Incremental development
- User-friendly reporting capabilities that fostered adoption of new software

Low Total Cost of Ownership

- Reduced implementation expense by leveraging previous installation of the SAP ERP application for the U.S. Navy
- Decreased expense for unnecessary equipment through better estimates of future equipment needs

Financial and Strategic Benefits

- New methods for capturing and managing information related to DoD equipment identity, location, valuation, and custodianship
- New baseline for planning and implementing standardized equipment depreciation practices
- Elimination of costly and unneeded equipment
- Better justification for new equipment

Operational Benefits

Key Performance Indicator	Impact
Improved equipment valuation	The DoD now has better and more accurate visibility of the value and types of its military equipment.
Justification of budget requests	The DoD believes that quantifiable data has improved the budget process.



First Equipment Valuations at U.S. Department of Defense

Capitalizing equipment is common practice for most businesses. Until recently, the U.S. Department of Defense (DoD) lacked the policies, processes, and IT systems for the highly complex valuations needed to capitalize military equipment and could only expense it. Existing DoD systems were not integrated, and focused on specific accounting functions rather than overall financial management. The DoD also lacked consistent methods for identifying and analyzing equipment costs for specific operations, programs, and initiatives – information the DoD needs to justify future equipment spending.

Under new regulations, however, the DoD must now manage military equipment more like a private business does. The regulations require the department to value, depreciate, and report equipment worth more than US\$100,000 on its financial statements. To address this challenge and other accounting issues, the DoD launched the first phase of a long-term integrated IT solution.

Building on Past Success

Leveraging SAP® software that the U.S. Navy has used for fixed-asset accounting, the DoD built a new equipment valuation and accounting module: the Capital Asset Management System – Military Equipment (CAMS-ME). CAMS-ME, which became operational in the third quarter of the DoD fiscal year 2006, uses the SAP ERP application to transfer data for military equipment expenditures from the accounting system for each military service into a central DoD data warehouse. The data is then transferred to and processed by CAMS-ME to establish baseline values for DoD equipment. To install the new system, the DoD combined the financial management and accountability expertise of KPMG LLP with SAP's knowledge of enterprise business processes.

A More Effective Allocation of Resources

For the first time, the DoD can accurately estimate the total gross book value of its military equipment (about \$630 billion) as well as the depreciated value of that equipment (about \$340 billion). The department calculates military equipment valuations using the average cost method based on program budgetary data. DoD personnel can update the status of military equipment assets via a Web-based portal.

In addition, CAMS-ME can provide financial, management, other reporting information. In the initial phase of the project, DoD personnel can export flat files from CAMS-ME to obtain information on asset additions, disposals and transfers, and the average cost of equipment by program or subprogram.

Besides helping the DoD meet its regulatory requirements, the improved information will let the department allocate its resources more effectively. It will also prove essential to defending DoD budget requests and aligning equipment costs with operational outcomes.