

CAPITAL ASSET MANAGEMENT

- 1. REASON FOR ISSUE:** This directive establishes a uniform framework for VA's capital asset policies, standards, and business practices; is intended to be general in nature; and applies to all VA capital asset activities.
- 2. SUMMARY OF CONTENTS:** This directive sets forth VA's capital asset policy, which is based on a corporate capital asset programming framework and built from a uniform set of key components, consisting of:
 - a. Operational, Tactical, and Long-Range Capital Asset Plans;
 - b. Investment Matrix;
 - c. Program-Specific Guidance;
 - d. Investment Divestment Planning and Approval Process; and
 - e. Portfolio Capital Asset Management System
- 3. RESPONSIBLE OFFICE:** The Office of Management (004) is responsible for the contents of this directive.
- 4. RELATED HANDBOOK:** None.
- 5. RESCISSIONS:** None.

CERTIFIED BY:

**BY DIRECTION OF THE SECRETARY
OF VETERANS AFFAIRS**

/s/
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VA CAPITAL ASSET MANAGEMENT

1. PURPOSE

2. a. This directive establishes a uniform framework for VA's capital asset policies, standards, and business practices. This directive is intended to be general in nature and applies to all VA capital asset activities. The Department is committed to streamlining business practices, optimizing performance of its capital assets, and encouraging implementation of innovative asset management initiatives.
- a. b. VA-wide Capital Asset Management Policy is the framework each administration and staff office will follow to ensure decisions and initiatives are planned and executed with the goal of constructing a corporate capital asset portfolio of maximum functional and financial value. Administrations and staff offices will ensure their capital asset management policies complement the VA-wide framework.
- b. c. Comprehensive policies, procedures, and business practices that reflect and/or incorporate components of VA's Capital Asset Management Policy do not need to be revised. In order to facilitate the implementation of this corporate capital asset policy, the Office of Asset Enterprise Management (OAEM) is available to work collaboratively with administrations and staff offices to develop and provide:

- (1) Detailed guidance about each of the VA Capital Asset Management Policy components;
- (2) Department wide program specific guidance for each asset category (information technology, energy-savings performance contracts, enhanced-use leasing, enhanced-use sharing agreements, major construction, minor construction, non-recurring maintenance and repair, medical and non-medical equipment, leases/GSA space assignments, and other real property).

2. POLICY

a. It is VA policy that decisions regarding investment, management, and disposal of VA's capital assets will be based on a corporate capital asset programming framework built from a uniform set of key components, reflective of the following four principles:

- (1) (1) **Life Cycle Management.** Policies, procedures, and business practices should facilitate effective management of capital assets at all life-cycle stages (planning, investing, acquiring, managing, and disposing). A life-cycle management approach incorporates asset management practices to monitor and assess asset performance using operational and financial criteria (e.g. utilization, functionality, condition, value, and cost of asset ownership).
- (2) **Empowerment of Accountable and Qualified Asset Decision-makers.**
 - (a) (a) In order to build an integrated capital asset program, each administration and staff office will internally identify the specific offices and/or positions within their organization, as well as their scope of

responsibility and level of accountability, that provide the following capital asset-related functions and skills:

1. Operations (e.g., buying or constructing, owning, leasing, sharing, or other asset management acquisition or disposal transaction);
2. Support (e.g., financial accounting, budget, and legal counsel); and/or
3. Policy or oversight.

(b) The goal is to ensure VA has the professional staff with sufficient knowledge, training, skills, and expertise to ensure the integrity of VA's capital asset management system.

(3) **Due Diligence.** Stewardship of VA's capital asset portfolio requires "good-faith" compliance with applicable laws, regulations, policies, and procedures; full accounting of all costs, prudent oversight and evaluation; and strong administrative controls. "Due diligence" reviews will be conducted by the Administrations and staff offices. Reviews will cover a wide range of issues (e.g., checklists and protocols for environmental requirements; assessments; liabilities; impacts; property entitlements or encumbrances; and closing documentation needs) as appropriate affecting capital asset management decisions.

(4) **Maximizing Benefits to Veterans.** Maintaining VA's capability to perform mission-critical functions and seeking to effectively and efficiently maximize benefits to veterans should always be the primary consideration in every capital asset-related decision.

(a) Value management -- striving to return value to VA's business and managing existing value to greater return, is at the core of VA's capital asset management policy. All capital asset activities, policies, and procedures outlined in this policy should work together to further the goal of constructing a corporate VA capital asset portfolio of maximum functional and financial value.

(b) VA's capital asset management policy consists of the following five components:

1. **Operational, Tactical, and Long-Range Capital Asset Plans.** Administrations' and staff offices' plans for (1) investments; (2) actions to maintain or enhance the condition and/or utilization of existing assets; and (3) strategies to improve the functional and financial performance of the overall portfolio will be outlined in operational, tactical, and long-range capital asset plans that are consistent with the strategic goals and objectives of the Department. These plans will serve as the Administrations' and staff offices' road map to ensure a consistent and coordinated approach to capital asset management.

2. **Investment Matrix.** Each administration and staff office will follow VA's Investment Matrix (IM) for all proposed capital asset investments or divestments (VA Directive 4086). The matrix provides the structured methodology of options (e.g., enhanced-use leasing, construction, general leasing) that should be pursued in order to enhance, acquire, or divest a capital asset. The IM takes into account needs, costs, financing, strategic goals and objectives, and benefits to VA. Its primary purpose is to ensure *all* viable capital asset investment and divestment options have been explored, and delineates reasons for viability or non-viability.

3. Program-Specific Guidance. For each capital asset program, Administrations and staff offices will follow processes and procedures outlined in Departmental program-specific guidance and make sure substantiating documentation is available and maintained to ensure:

- a. Compliance with applicable laws, regulations, policies, and procedures;
- b. Risk is minimized;
- c. Benefit to VA is maximized; and
- d. Sufficient documentation exists to justify the need, cost, and scope of the initiative, and/or other factors relevant to the investment, management, or disposal of the asset.

4. Investment Divestment Planning and Approval Process. Each administration and staff office will follow VA's capital investment methodology for above-threshold investments requiring Strategic Management Council approval, and are strongly encouraged to establish and follow complementary investment/divestment methodologies and processes for below-threshold capital asset investments.

5. Portfolio / Performance Measurement System

a. The Department's capital asset portfolio will be established and maintained. Each administration and staff office will contribute to this portfolio to ensure VA is able to:

- (1) Account for its inventory of capital assets;
- (2) Determine the value of VA's assets;
- (3) Monitor and evaluate the performance (strategic, operational, and financial) of VA's assets;
- (4) Plan and budget for VA's immediate and long-term asset requirements;
- (5) Account for expenses and liabilities associated with or derived from capital assets (e.g., VA lease payments, leasehold encumbrances of VA property, termination liabilities, and other contingent liabilities);
- (6) Account for revenues and other economic benefits derived from such assets; and
- (7) Identify opportunities for innovative sources of revenue.

b. In order to effectively oversee the performance of the Department's capital asset portfolio, key data elements will be captured to facilitate the tracking and reporting of performance metrics for new and existing assets.

- (1) Cost, schedule, and performance will be tracked and evaluated using earned value analysis for new above-threshold investments.

(2) Measures will be developed and tracked that permit decision-makers to assess the functional and financial performance of a given asset, a class of assets, and the portfolio of all asset classes in order to make sound decisions regarding acquisition, maintenance, and disposal of VA's existing assets.

3. RESPONSIBILITIES

a. **VA Strategic Management Council (SMC).** The SMC, chaired by the Deputy Secretary, is the decision-making body for the capital asset planning and investment process. The SMC establishes capital policy and makes decisions on major capital investments, including providing guidance about the percentage of funding that should be invested in capital assets each fiscal year in support of the Secretary's priorities.

b. **VA Capital Investment Panel (CIP) and CIP Working Group (CIPWG).** The CIP supports the SMC and provides input on policy/guidance development in addition to their role of reviewing investment proposals. The CIPWG serves as a vehicle for appropriately vetting capital asset policies throughout the Department. The CIPWG reviews proposed capital asset policies and procedures and provides input to the CIP.

c. **Assistant Secretary for Management.** The Assistant Secretary for Management serves on the SMC, participates in setting VA's capital asset management policy direction and ensures fiscal integrity of VA's portfolio of assets.

d. **Assistant Secretary for Information and Technology.** Under the Clinger-Cohen Act (PL 104-106, Div. E, as amended), the VA Chief Information Officer (CIO) is responsible for ensuring that information technology (IT) acquired and information resources are managed for VA in a manner consistent with the requirements of the Act. In addition, the VA CIO has been delegated, by the Secretary: (1) the responsibility for approving planning and technical documentation prior to expending funds for any information technology program, project, or initiative; and (2) execution authority over VA IT appropriations.

e. **Under Secretaries, Assistant Secretaries, and Other Key Officials.**

(1) Participate in setting Departmental capital asset policy direction;

(2) Ensure that the policies set forth in this directive are implemented within their respective organizations and field activities; and

(3) The Administrations, the Office of Information and Technology, and the Office of Human Resources and Administration are required to have a focal point or centralized capital asset management function within their organization to interface with OAEM.

f. **Capital Asset Focal Points.** Focal points are responsible for working closely with OAEM to ensure capital assets are managed in a strategic, fiscally sound manner throughout the Department. Focal points bridge the oversight responsibilities of OAEM with the operational responsibilities for capital assets within the Administrations and staff offices. Specifically, focal points are responsible for:

(1) Ensuring conformity to Department policies and procedures;

- (2) Instituting procedures for investments both above and below-threshold;
- (3) Coordinating submission of a long-term capital asset plan;
- (4) Contributing to, and participating in, maintenance of VA's portfolio of existing assets; and
- (5) Maintaining operational responsibility for asset management activities.

g. **Office of Asset Enterprise Management (OAEM).** OAEM is responsible for providing oversight in the capital asset arena to ensure a consistent and cohesive Department approach to capital asset management.

4. REFERENCES

- a. Federal Acquisition Streamlining Act of 1994.
- b. Government Performance and Results Act of 1993.
- c. OAEM Intranet Web site: <http://vaww.va.gov/budget/capital>.
- d. Office of Management and Budget (OMB) Circular A-11.
- e. OMB Capital Programming Guide.
- f. OMB Circular A-130, Management of Federal Information Resources.
- g. Public Law 104-106, Clinger-Cohen Act of 1996, August 8, 1996.
- h. VA Capital Investment Methodology Guide.

5. DEFINITIONS

a. **Capital Asset Management.** A comprehensive management effort to ensure that all organizational decisions and initiatives dealing with capital assets are planned and executed with the goal of constructing a corporate capital asset portfolio of maximum functional and financial value.

b. **Capital Assets.** The President's Office of Management and Budget defines a capital asset as land, structures, equipment and intellectual property, including software and services that have an estimated useful life of two or more years (note: a "capital asset" is not necessarily the same as a "capitalized" asset). VA's capital assets include: medical and non-medical equipment; land; buildings; intellectual property; information technology; leases; GSA space assignments; enhanced-use leases; enhanced-use sharing agreements; energy savings performance contracts (ESPC); and other real property.

c. **Due Diligence.** Due diligence can be defined as making a reasonable effort to provide accurate, complete information. A typical example of due diligence is a study that precedes

the purchase of a property. Due diligence considers the physical, financial, legal, and social characteristics of the capital asset and its expected investment performance.

d. **Investment Matrix.** A standard methodology to determine which investment or divestment options to consider, under certain circumstances. The Investment Matrix outlines the order in which various methods (e.g., enhanced-use, construction, general leasing) should be pursued in order to acquire or divest an asset.

e. **Life-cycle Management.** A management approach that incorporates asset management practices to monitor and assess asset performance using operational and financial criteria (e.g., utilization, functionality, condition, value, and cost of asset ownership).

f. **Performance Measurement.** A systematic method for determining the responsiveness of capital assets to the Department's needs through the use of standards and/or milestones. This form of measurement can be used at all levels, including projects, assets, and portfolios.

g. **Portfolio.** Inventory of capital asset holdings by type and location including liabilities, encumbrances, and market valuation.

h. **Portfolio Management.** Managing capital asset holdings in such a way as to leverage an investment, or combination of investments, in order to minimize risk and maximize the cost-effectiveness and performance of VA's assets.