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From: Kienitz, Robert L., OIG DoD

Sent: Wednesday, May 23, 2012 8:00 AM

To: FASAB

Cc: Davis, Carolyn R., SES, OIG DoD; Alford, Debra E., OIG DoD; Gongola, Jeffrey L., OIG DoD

Subject: DOD OIG Comments on FASAB Exposure Draft on General PPE Impairment

Attached are the Department of Defense, Office of the Inspector General comments on the FASAB Exposure Draft "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use." Thank you for the opportunity to comment on the Exposure Draft.

Very Respectfully,

Robert Kienitz
DoD, Office of the Inspector General
Audit Policy and Oversight

DoD OIG Responses to the Questions for Respondents on the Exposure Draft of a Proposed Statement of Federal Financial Accounting Standards, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use, February 28, 2012"

Comments Requested by May 28, 2012

Name of Respondent: DoD OIG

Organization Represented: DoD OIG

Q1. The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.

We agree with the proposal to recognize impairment losses when there is a significant and permanent decline in the service utility of G-PP&E. This will allow asset managers to more accurately account for the value of property, which will lead to more accurate and reliable financial reporting of assets.

Q2. The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.

We agree with the proposal to not require entities to review their G-PP&E portfolios solely for potential impairments. The identification of impairments should be discovered through required use of internal controls and normal monitoring to ensure that controls are in place and operating. Special reviews would require more resources and ultimately, if controls are in place and operating, there is little benefit to expending the additional resources.

Q3. The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or

duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.

We agree with all of the listed indicators of G-PP&E impairments except construction stoppage or contract termination. Impairments are defined as a significant and permanent decline in the service utility of G-PP&E. Construction stoppages are not permanent until the contract is terminated. While a contract termination is permanent, the contract may be re-solicited or the G-PP&E may be transferred to another project/contract for use.

Q4. The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.

We agree that whatever measurement method is used should reasonably reflect the diminished service utility of the G-PP&E.

Q5. The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A - Basis for Conclusions for a discussion and related explanation.

a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.

There are no other costs or benefits, in addition to those identified by the Board, that should be considered in determining whether benefits outweigh costs.

- b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.

There are no G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply.

- c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.

We agree that the benefits of implementing this Statement outweigh its costs. The benefits of accurate and reliable financial reporting cannot be measured as it helps to instill in taxpayers a level of trust that the Federal Government is accounting for assets acquired with taxpayer funds in a responsible and efficient manner.