

**United States Department of State***Deputy Chief Financial Officer**Washington, D.C. 20520*

August 5, 2011

Dear Ms. Payne:

The Department of State (Department) appreciates this opportunity to review and comment on the Federal Accounting Standards Advisory Board's (FASAB) Technical Bulletin 2011-2 Exposure Draft entitled "Extended Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs." Overall, we agree with the proposed one-year deferral. Also, for reasons detailed below, we believe the FASAB should adopt the Department of the Interior's (Interior) request to report asbestos-related cleanup costs in the near term in Required Supplementary Information (RSI) in addition to the one-year deferral.

The Department's real property assets primarily consist of facilities used for U.S. diplomatic missions abroad (in almost every country of the world) and capital improvements to these facilities, including unimproved land; residential and functional-use buildings such as embassy/consulate office buildings; office annexes and support facilities; and construction-in-progress. Title to these properties is held under various conditions including fee simple, restricted use, crown lease, and deed of use agreement. Some of these properties are considered historical treasures to both the host government and the United States and are considered multi-use heritage assets. In short, the Department has a unique asbestos-related reporting and clean-up responsibility in light of the challenging nature of conducting business in our global, foreign affairs environment.

To date, the Department has addressed known situations that pose immediate health threats. Consequently, the existing challenge is to assess, estimate and report, for our large volume of diverse overseas facilities, the future removal of asbestos that does not pose an immediate health threat. To implement the required reporting, the Department must survey individual properties as well as contend with host country laws and practices. To do so, the Department must review and codify host country clean-up requirements and determine whether a host country has applicable construction and cleanup cost indexes for asbestos. This is an added facet for us to manage on top of a sizeable requirement that places a profound compliance burden on available Department resources and subsequent audit processes. Also, in many developing countries the requirements will change over time and as a result, will require subsequent surveys to keep the data relevant on projects that would not be funded for several more years. Given budget constraints, and to avoid unnecessary costs, we normally do not perform further surveys until the project approaches the year of execution to ensure a more accurate projection of requirements and costs.

The Department is working towards developing an estimate, and has already expended \$12.1 million to assess 8,348 real properties in 187 countries covering US Government-owned, long-term leased and approximately 10% of short-term leased properties. This is approximately 46% of the requirement of approximately 18,000 total occupied Department-controlled facilities and does not cover the additional requirement to fully assess host country laws and any available disposal indexes. To date, what we have found is that our unique operating environment requires primarily property-specific assessment surveys that are expensive and time-consuming whether done in house or via a contracting arrangement. While other estimation options are allowed (e.g., extrapolation for cleanup of similar properties or cost models and information from industry specific cost-estimation publications), these less-expensive estimation methodologies are not practical to apply across multiple countries or regions without producing skewed results as a result of varied building standards and materials, differences in host country conditions, and varying inflation and foreign currency exchange indexes. Consequently, the Department estimates that it will need to expend \$6 million over the next 5 years for the remaining balance of surveys and therefore may not achieve an audit compliant estimate until the fiscal year beginning after September 30, 2017. In addition, this would not include the added requirement to fully assess host country laws and any available disposal indexes.

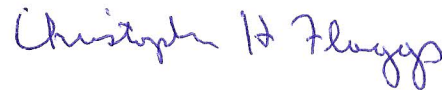
More importantly, the Department has an aggressive and essential construction program necessary to provide and maintain secure facilities at overseas posts that place USG personnel out of harm's way. This will continue to be a Department priority, and as such a priority for our overseas building operations program and staff. While we understand and support the importance of this reporting requirement under Technical Bulletin (TB) 2006-1, in light of current and anticipated resource constraints, it will clearly be a lower priority. Consequently, similar to Interior, the Department may experience financial statement audit difficulties once TB 2006-1 and associated guidance, as written, becomes effective.

As noted above, a one-year deferral in the current fiscal environment is not sufficient for the Department to fully comply with the requirement, and the Department will most likely sustain a detrimental financial statement audit effect. However, we understand the importance of making progress on reporting this information instead of continually "kicking the can down the road." We do not believe that there is any disagreement that the reporting of this information needs improvement or that it is required information. It is the current quality of this information that is at issue. Specifically, the Department concurs with Interior's request in its April 15, 2011 letter that FASAB allow agencies to present the asbestos related clean-up costs in the Required Supplementary Information instead of the Basic Information of the Agency Financial Report until more data and resources become available for reliable asbestos-related cleanup cost estimates. We believe, in addition to the cost/benefit consideration cited by Interior, that if this information is not subject to a reliable estimation by a number of agencies (including those that

comprise a majority portion of those holding real property assets and, therefore, by extension in the Financial Report of the United States Government), then it is more appropriately presented as RSI. As issues are resolved, the information should then be deemed basic at some point in the future. Alternatively, FASAB could establish a future date in TB 2011-2 that would move this information from RSI to basic.

Again, we sincerely appreciate the opportunity to comment and the collaborative manner in which FASAB and FASAB staff have worked to implement this complex subject. Should you have any questions, please contact me on (202) 261-8620.

Sincerely,



Christopher H. Flaggs

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