U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

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Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814 (Mailstop 6k17V)
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Office of Audit, Office of Inspector General, U.S. Department of Labor, please find responses to questions about the exposure draft entitled "Implementation Guidance on the Accounting for the Disposal of General Property, Plant and Equipment."

If you have any questions or need additional information, please contact Joseph L. Donovan, Jr., Audit Director, at 202-693-5248.

Sincerely,

Elliot P. Lewis

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Assistant Inspector General
for Audit

Enclosure

Office of Audit
Office of Inspector General
Department of Labor

Exposure Draft: Responses to Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment

Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.

We agree with the criteria outlined for differentiating between temporary and permanent removal from service. However, some of the language in paragraph 7 appears to be conflicting. For instance, it states in paragraph 7 that "Removal of service is defined as an event that terminates the use of a G- PP&E asset…." It further states that "the removal of service may occur because of a change in the manner of duration of use…." If the asset is still in use and only the manner or duration has changed, why would this be considered a removal from service? The Board should consider further clarifying what is meant by a "change in the manner or use" or remove this language from the paragraph.

Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.

We agree with the transactions as outlined in paragraph 11. However, the language as currently written is confusing. For instance, in the first sentence it states "…the asset's use is terminated, the asset's acquisition cost and associated accumulated depreciation are removed from the G-PP&E account and the asset is recorded at its net realizable value with an offsetting entry to gain or loss." This language is confusing as it says that the acquisition cost and related accumulated depreciation should be removed but then says the asset is recorded at its net realizable value, which appears to be contradictory.

Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide your rationale for your answer.

We disagree with the financial transactions outlined in paragraph 13 because they do not address assets whose temporary removal may be due to impairment and/or whose useful service life has changed, which under existing accounting standards may require changes to the future transactions.

Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.

We disagree with the G-PP&E disposal financial transactions outlined in paragraph 15. It states in paragraph 15 that "for assets recognized using a group or composite method of depreciation, transactions to recognize permanent removal of assets will apply only when the entire group has been permanently removed from service." However, the paragraph goes on to discuss how to remove an asset within a group when the other assets in the group have not been permanently removed from service. These transaction triggers seemingly contradict one another. The Board should clarify whether the transactions should be recorded for individual assets or if they should only be recorded when the entire group is permanently removed.

In addition, paragraph 15 states that "...if an asset within the group is permanently removed, retired, and/or disposed while other assets in the group have not been permanently removed from service, no gain or loss is recognized." This seems to contradict SFFAS 6, paragraph 38 which states, "Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service."

Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.

We agree in part with the financial transactions illustrated in paragraph 14. It says in paragraph 14 that the liability and associated cleanup cost expense should continue to accumulate for assets if removal from service is temporary. However, in accordance with SFFAS 6, paragraph 98, "Recognition of the expense and accumulation of the liability shall begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation." Based on SFFAS 6, it would appear that if the asset is not in service that cleanup cost should not continue.

Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.

We believe the additional guidance to record disposal transactions related to G-PP&E should not be in this proposal because it introduces two new terms that are not addressed in the Statements of Federal Financial Accounting Standards, permanent and temporary removal. The Board should consider whether it is necessary to amend SFFAS 6 to define these terms and to better clarify when an asset is to be disposed.