#20 Elliot P. Lewis Federal - Auditor

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

SEP 21 2011

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

Dear Ms. Payne:

On behalf of the Office of Audit (OA), Office of Inspector General (OIG), Department of Labor, enclosed are our responses to questions posed in the proposed Statement of Federal Financial Account Standards entitled, "Deferred Maintenance and Repairs – Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32."

The OA/OIG is in general agreement with the amending of the Statement of Federal Financial Account Standards 6, 14, 29, and 32. We believe it will provide important guidance for the proper accounting, presentation, and disclosure in financial statements.

Thank you for the opportunity to provide these comments. If you have any questions or need additional information, please contact Joseph L. Donovan, Jr. at 202-693-5248.

Sincerely,

Elliot P. Lewis

Elliot P. Lewis
Assistant Inspector General for Audit

Enclosure

Department of Labor
Office of Inspector General
Office of Audit

Exposure Draft: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32

Questions for Respondents

Q1. The Board proposes to eliminate the requirement to report condition information. Refer to paragraphs 13, 14, and 17 of the proposed standards and paragraph A8 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal to no longer require condition reporting? Please provide the rationale for your answer.

We agree. As noted in paragraph A8 of the exposure draft, there are no federal-wide uniform assessment or measurement methods, which may impact the comparability and understandability of the information. Though the determination of acceptable condition affects the amount of DM&R that is reported, we agree that the ultimate goal of the standard is to provide reliable information on the estimated cost of PP&E maintenance and repairs that have been deferred. Therefore, we believe it would be more beneficial for agencies to focus their efforts on reporting that information.

Q2. The proposed standards would require that DM&R estimates for beginning and ending balances be presented with an explanation of significant changes in estimates. Refer to paragraph 14.f. and g. of the proposed standard and paragraph A20 in Appendix A - Basis for Conclusions for a discussion and related explanation.

a. **Do you agree or disagree that DM&R estimates for beginning and ending balances should be presented? Please provide the rationale for your answer.**

   We agree that the Statement of Federal Financial Accounting Concepts (SFFAC) No. 1: Objectives of Federal Financial Reporting states, "Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes in, these costs." Therefore, we believe it is appropriate to present beginning and ending balances so readers can determine the change in estimated costs.

b. Do you agree or disagree with the requirement to explain significant DM&R changes? Please provide the rationale for your answer.

We agree. SFFAC No. 1 states, "Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes in, these costs. Examples of financial information that can help to address this objective include... relevant analyses of the composition and behavior of costs." As such, we agree with the requirement to explain significant DM&R changes. Furthermore, we also believe it is important for users to understand the significant changes that occurred during year.

Q3. The proposed standards state that entities should apply reported methods and reporting formats consistently unless management determines that changes are necessary and if changes to methods or formats are necessary, such changes should be explained. Refer to paragraph 11 of the proposed standards and paragraphs A10 and A11 in Appendix A - Basis for Conclusions for a discussion and related explanation.

a. Do you agree or disagree that entities should apply reported methods and reporting formats consistently? Please provide the rationale for your answer.

We agree that entities should apply reported methods and reporting formats consistently. SFFAC No. 1 states, "Financial reports should be consistent over time; that is, once an accounting principle or reporting method is adopted, it should be used for all similar transactions and events unless there is good cause to change. The concept of consistency in financial reporting extends to many areas, such as valuation methods, basis of accounting, and determination of the financial reporting entity." As such, we believe the reported methods and reporting formats should be consistent.

b. Do you agree or disagree with requiring an explanation if entities change methods or formats? Please provide the rationale for your answer.

We agree. As noted above, once an accounting principle or reporting method is adopted, it should be used unless there is good cause to change. In addition, SFFAC No. 1 states, "If accounting principles have changed or if the financial reporting entity has changed, the nature and reason for the change, as well as the effect of the change, should be disclosed." Therefore, we believe that if entities change methods or formats, they should explain the rationale for the change and disclose the quantitative impact on the DM&R estimate.

Q4. The proposed standards would require entities to provide narrative information describing M&R policies and other non-financial information including any significant changes to policies and other factors from the prior year. Refer to paragraphs 13 and 14, items a. through f. of the proposed standards and paragraphs A11 and A17, respectively in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with each of the above referenced requirements? Please provide the rationale for your answer.

We agree and believe the above referenced requirements provide users with the relevant information necessary to understand DM&R. However, we suggest that the option in paragraph 12, which relates to the disclosure requirement in paragraph 14d, be reconsidered. Specifically, if DM&R information related to non-capitalized or fully depreciated general PP&E is considered important data, it should be required of all entities to ensure consistency in financial reporting. (SFFAC No. 1 further states, "Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting procedures or practices.")

Q5. The proposed standards state that communication with and consideration of input from professionals in diverse disciplines is necessary to effectively compile and report DM&R. Refer to paragraph 11 of the proposed standards and paragraphs A15 and A16 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation.

Do you agree or disagree that communication with and consideration of input from professionals in diverse disciplines is necessary to effectively compile and report DM&R? Please provide the rationale for your answer.

We believe the consideration of input from professionals in diverse disciplines may be necessary depending on the nature of the entities' assets.

Q6. The proposed standards would eliminate the option to report a range of DM&R estimates and the distinction between critical and non-critical amounts. The reported amount of DM&R may be disaggregated in a variety of ways without explicit mention in the standards. Refer to paragraph 14 of the proposed standards and to paragraphs A18 and A19 in Appendix A - Basis for Conclusions for a discussion and related explanations.

a. **Do you agree or disagree with eliminating the option to report a range of DM&R estimates? Please provide the rationale for your answer.**

We agree and believe reporting the best estimate would provide readers with clarity and more useful information as it will eliminate ambiguity regarding the estimate of the cost that agencies actually expect to incur. It would also improve comparability among the agencies.

b. **Do you agree or disagree with eliminating the distinction between critical and non-critical DM&R estimates? Please provide the rationale for your answer.**

We agree that eliminating this distinction will address the potential lack of comparability as the reporting of critical and non-critical DM&R estimates was initially optional. However, we believe the intent of this disclosure was to provide insight on the timing of when DM&R costs may need to occur. As such, we believe the Board should consider an alternative to providing information on the amount of the ending balance of estimated DM&R costs that an entity would need to incur in the near term in order to avoid having the entity's ability to achieve its mission impacted by the deferral of such costs.

Q7. The proposed standards would be effective beginning in fiscal year 2015 with earlier implementation permitted.

Do you agree or disagree with the proposed effective date? Please provide the rationale for your answer.

We have no comment on the effective date.