

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

JAN 28 2016

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Office of Audit, Office of Inspector General, Department of Labor, enclosed are our responses to questions posed in the exposure draft titled "Establishing Opening Balances for General Property, Plant, and Equipment".

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

Sincerely,

A handwritten signature in cursive script that reads "Elliot P. Lewis".

Elliot P. Lewis
Assistant Inspector General for Audit

Enclosure

Exposure Draft- Questions for Respondents due February 4, 2016*Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*

Name: Elliot P. Lewis, Assistant Inspector General for Audit

Organization: Office of Audit, Office of Inspector General, US Department of Labor

- Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for general property, plant, and equipment (PP&E) when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method and related disclosures.

- a) Do you agree or disagree with the proposal to permit opening balances of general PP&E to be valued based on deemed cost? Please provide your rationale.**

We agree with the proposal to permit opening balances of general PP&E to be valued based on deemed cost. We agree with the Board's position that the use of deemed costs for the valuation of opening balances of PP&E is consistent with GAAP established by SFFAS 48, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials. The use of deemed costs would provide a cost-effective starting point to value opening balances.

- b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.**

We generally agree that the related disclosures are appropriate. We agree that the requirement to disclose a description of the methods utilized in determining deemed cost is necessary. We further agree with the Board that to disclose the specific valuation methods by amount is unnecessary and would not provide further clarity, as all valuation methods outlined by the

proposed standard are considered acceptable, and are meant to serve as a surrogate for historical costs that are not available to the entity. However, the proposed standard notes that related disclosures need not be repeated in future periods. While we agree that details regarding the methods utilized in determining deemed cost are not needed in future periods (other than for comparative purposes), we suggest that the statement clarifies that use of deemed cost as a valuation method should be disclosed until such point as assets valued at deemed cost become immaterial.

- Q2. The Board proposes to amend Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, so that land categorized as general PP&E may be excluded from the opening balances of general PP&E. Instead, disclosures would reveal the acres of land and changes in those acres over time. A reporting entity electing to exclude land from its general PP&E opening balance should continue to exclude future land acquisition amounts and provide the disclosures.

Some members suggested valuing existing land holdings based on a set amount per acre of land or deemed cost. For example, one study estimated the land value in the United States at roughly \$4.5 trillion in the third quarter of 2009. Since the number of acres in the United States is almost 2.3 billion, this equates to approximately \$2,000 per acre. (Land values vary greatly based on location, potential use, and availability and cost of financing.) These members are interested in receiving comments on the usefulness of a general valuation approach that could be applied government-wide.

The Board intends to begin a project on land in the near future that would review existing standards and consider a consistent approach. Based on the results of that project, the decisions made for opening balances and future acquisitions of land in this Statement may be revised. Also, some members suggested deferring any changes in the historical basis for land acquired for use in operations until the Board completes a re-examination of the appropriate basis of accounting for land.

(See par. 12.d. and 12.g. for relevant standards and par. A27 – A34 for a discussion of certain members' concerns and A55 in the Basis for Conclusions.)

- a) **Do you agree or disagree with the proposal to allow exclusion of land from the opening balances of general PP&E even though other component reporting entities will report the cost of certain land in general PP&E?**

We disagree with the proposal to allow exclusion of land from the opening balances of general PP&E.

If you disagree, do you prefer (1) to value land holdings based on existing standards requiring historical cost of land acquired in connection with other general PP&E to be capitalized, a set amount per acre of land, deemed cost, or another valuation method, (2) to defer any changes in the current requirements until the Board completes a reexamination of the appropriate basis of accounting for land, or (3) to adopt another option? Please provide your rationale.

We prefer that the Board defer any change in current requirements and continue to value land at historical cost based on existing standards until the Board completes a reexamination of the appropriate basis of accounting for land to avoid potential consistency issues.

b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.

As noted above, we prefer that the Board defer any change in current requirements, and therefore, we decline to answer this question until the land project is completed.

c) Do you agree or disagree that a reporting entity electing to exclude land from its general PP&E opening balances should continue to exclude future land acquisition amounts? Please provide your rationale.

We disagree with the proposal to allow a reporting entity to elect to exclude land from its general PP&E opening balances, and therefore, we also believe future land acquisition amounts should be included. If land is excluded from general PP&E opening balances, a disclosure to that effect should be made and land should be capitalized under SFFAS No. 6 going forward to provide for some consistency with other reporting entities and other asset types.

d) The Board anticipates a project on land to review existing standards and to consider a consistent approach for all component reporting entities. Please provide any suggestions you have for improving current reporting on land.

We believe that the Board should consider the use and location of land in its review of existing standards and when considering a consistent approach for all component reporting entities.

Q3. The Board proposes to amend SFFAS 10, *Accounting for Internal Use Software*, to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software when presenting financial statements,

or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method. The Statement provides for selecting between (1) an alternative valuation method of deemed cost that is consistent with that provided for all general PP&E and (2) prospective capitalization of internal use software.

The proposed Statement describes the alternatives and related disclosures. (See par. 13-14 for relevant standards and par. A35 – A39 and A56 in the Basis for Conclusions.)

a) Do you agree or disagree with the proposal to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software? Please provide your rationale.

We agree with the proposal to allow a reporting entity to choose among alternative valuation methods in establishing an opening balance for internal use software, as this approach is consistent with the proposed approach for other types of general PP&E and is cost-effective. However, consistent with our disagreement above related to the exclusion of land from opening balances, we disagree with the prospective capitalization alternative as it will promote inconsistencies with other reporting entities. While SFFAS No. 10 effectively provided for prospective application, that standard has been effective since FY 2001, providing numerous years for implementation. In many cases, internal use software has similar or longer useful lives as equipment in the government and should not be treated differently.

b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.

We agree that the related disclosures are appropriate. Specifically, we agree that the requirement to disclose a description of the valuation methods utilized is necessary. We further agree with the Board that to disclose the specific valuation methods by amount is unnecessary and would not provide further clarity, as all valuation methods outlined by the proposed standard are meant to serve as a surrogate for historical costs that are not available to the entity. However, the proposed standard notes that related disclosures need not be repeated in future periods. While we agree that details regarding the methods utilized in determining opening balances are not needed in future periods (other than for comparative purposes), we suggest that the statement clarifies that use of alternative

valuation methods should be disclosed until such point as assets valued using those methods become immaterial.

- Q4. The Board proposes to rescind SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Accounting Standards 6 and 23*, because this Statement would provide comprehensive guidance for establishing opening balances. The Board has incorporated the relevant components of SFFAS 35 in the proposed guidance in this Statement. The Board did not incorporate language from SFFAS 35 that explicitly allows for reasonable estimates on a go-forward basis to identify the cost of newly-acquired or constructed general PP&E.

Instead, the Board acknowledges that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35, and are acceptable without guidance from the Board. (See par.18 - 19 for relevant standards and par. A43-A51 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to rescind SFFAS 35? Please provide your rationale.**

We agree with the Board's proposal to rescind SFFAS No. 35. Its key elements are sufficiently covered in other accounting guidance and this proposed standard.

- b) Do you agree or disagree that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35? Please provide your rationale.**

We agree that reasonable estimates are permitted in the preparation of financial statements with or without the existence of SFFAS No. 35. Use of estimates is a basic principle in financial reporting and need not be specified for any one financial statement line item.