

**U. S. Department of Justice**

Office of the Inspector General

November 30, 2010

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Financial Statement Audit Office of the Department of Justice's Office of the Inspector General appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's Exposure Draft on the Statement of Federal Financial Accounting Concepts, "Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording" dated September 13, 2010.

Please see the Enclosure for our response to the specific questions raised in the Exposure Draft. Thank you again for the opportunity to comment on this document. Please contact me at 202-616-4650 if you wish to discuss our comments further.

Sincerely,

A handwritten signature in blue ink, reading "David S. Laun", is positioned below the "Sincerely," text.

David S. Laun
Assistant Director
Financial Statement Audit Office

Enclosure

Enclosure

Q1. This Statement discusses whether and under what circumstances it might be more useful to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded (i.e., “historical cost,” subject to appropriate adjustments for amortization, depreciation, or depletion) or (b) at an amount measured at each financial statement date. These two amounts are referred to in this Statement as, respectively, “initial amounts” and “remeasured amounts.”

- a. Is the distinction between initial and remeasured amounts understandable and useful to you? If not, please suggest improvements.

Yes, the distinction between initial and remeasured amounts is understandable and useful. However, when viewing paragraph 15, the definition in the explanation of “approach c.” (remeasured amounts/nominal dollars) is confusing and should be defined the same as in paragraph 12c for consistency.

- b. Are the benefits and drawbacks of using each approach clear and complete? (See paragraphs 17-33.) If not, please suggest improvements or additions.

While the benefits and drawbacks presented are useful examples, it might be beneficial to state that they are not intended to be a complete list of all drawbacks and benefits. An additional drawback of remeasurement could be the cost-benefit of obtaining the updated valuation. For example, for forfeited real property, obtaining periodic appraisals would come at an expense of the government with little benefit in return and could be considered an unnecessary use of taxpayer funds.

The narrative provides a vast discussion of the benefits and drawbacks; however, the discussion is spread throughout the document by measurement attribute. It could be beneficial to the reader to create an illustration by accounting line item, such as the following:

| Accounting Line Item | Initial Amount | Remeasured Amount |
|-------------------------------|--------------------|--------------------|
| Property, Plant and Equipment | Pros: Cons: | Pros: Cons: |

In addition to providing the discussion, it would be helpful for the FASAB to provide a “preferred” or “most commonly used” distinction to provide the user more guidance in moving forward.

Enclosure

- c. Do you agree with the decision to exclude any discussion of the advantages and disadvantages of inflation-adjusted amounts from the Statement? (See paragraphs 14-15.) Please provide the rationale for your answer.

This Statement speaks a great deal to inflation in paragraphs 10 through 14 with the description of what the topic entails and its potential impact on the financial statements. We have two potential courses of actions that we recommend in the revision:

- 1) We encourage the removal of any discussion related to inflation. If this topic is not a consideration impacting the proposed concept, we see no need to introduce the information to the reader.
- 2) If the introduction of the inflation topic is to remain, we recommend providing the full discussion of advantages and disadvantages to disclose the topic in its entirety.

Q2. This Statement distinguishes among “measurement approach,” “measurement attribute,” and “measurement method.” (See paragraph 7.)

Are the distinctions clear? If not, please suggest improvements.

Yes. We believe that the distinctions among “measurement approach,” “measurement attribute,” and “measurement method” are clear and understandable.

Q3. The Statement asserts that:

[W]hen the goal is to help ensure that reported information meets several financial reporting objectives in response to the various decision-making needs of a range of users, it is necessary to accept that different measurement approaches, measurement attributes, and measurement methods may be appropriate to convey useful information about different transactions and underlying events. (See paragraph 33.)

Do you believe that it is appropriate to measure items presented in accrual-basis financial statements using different measurement approaches, attributes, and/or methods? Please provide the rationale for your answer.

We believe that it is appropriate to measure items presented in accrual-basis financial statements using different measurement approaches, attributes, and/or methods. We agree with the statements included in paragraph 33 stating that one measurement approach would not be appropriate in all situations and that the mixed-approach is beneficial to allow for the varying

Enclosure

circumstances. It may be useful to include a discussion that for comparability purposes, the same measurement approach, attributes, and/or methods should be applied consistently, per category of asset and liability from period to period.

Q4. Beginning in paragraph 34, this Statement presents the definitions of measurement attributes and discusses each attribute in relation to the qualitative characteristics that information in financial reports should demonstrate. These attributes will be relied on in establishing accounting standards in the future.

- a. Is the definition of each attribute clear and understandable? If not, please identify the attribute(s) for which you found the definition lacking, explain why, and suggest improvements.

Yes, the definition of each attribute is clear and understandable.

- b. Is the list of attributes complete? If not, please identify and define the attribute(s) that you would add to this Concepts Statement and explain why you would add it (them).

We did not identify any additional attributes.

- c. Are there any attributes in the list that you believe are inappropriate for accrual-basis federal government entity financial statements? If so, please identify the attribute(s) that you would exclude and explain why.

We believe that all of the attributes included are appropriate.

- d. Do you agree with the discussion of the extent to which the measurement attributes and methods fulfill the individual qualitative characteristics? If not, please identify which aspects you view differently and explain why.

Yes, we agree with the discussions. If the qualitative characteristic of “timeliness” is deemed to be of significant importance, we have concerns over the quality of information that could be obtained to support remeasured assets and liabilities at the end of the quarters and fiscal year. Quarterly statements are currently due twenty days after the close of the quarter. If the remeasured information is required for these statements, there is little time to obtain and validate the support for remeasurement. However, if the agencies are only required to perform the remeasurement at year-end, the process is not established to provide comfort over the quality of the data.

Other Comments:

The Appendix A: Illustration contains the current reporting model in effect in accordance with OMB Circular A-136 and indicates whether the initial or remeasured amounts should be used in the federal government-wide consolidated balance sheet in accordance federal financial reporting standards. We believe that the determination for seized monetary instruments and forfeited property requires clarification. SFFAS 3 paragraph 61 states,

Seized monetary instruments shall be recognized as seized assets when seized. In addition, a liability shall be established in an amount equal to the seized asset value. Seized monetary instruments are recognized upon seizure due to (1) the fungible nature of monetary instruments and (2) the high level of control over the assets that is necessary.

Additionally paragraphs 69 and 70 state,

Recognition and Valuation. Monetary instruments shall be reclassified from seized monetary instruments to forfeited monetary instruments when forfeited. Monetary instruments shall be valued at their market value when a forfeiture judgment is obtained. When the asset is recorded, revenue shall be recognized in an amount equal to the value of the monetary instrument and the associated liability for possible remittance shall be removed. Intangible property, real property and tangible personal property shall be recorded with an offsetting deferred revenue when forfeiture judgment is obtained. The property shall be valued at its fair value at the time of forfeiture. A valuation allowance shall be established for liens or claims from a third-party. This allowance shall be credited for the amount of any expected payments to third-party claimants.

We believe that seized monetary instruments and forfeited property should be presented at the initial measurement instead of remeasured. Seized monetary instruments are held as non-entity assets until a judgment is obtained, at which time they would become forfeited and be revalued. As noted in paragraph 61 of SFFAS 3, seized monetary instruments are recognized upon seizure in part, due to the high level of control over the assets. Remeasuring these assets as of the reporting date does not provide any benefit to decision-makers as these assets are held as non-entity. Forfeited property is presented on the balance sheet as it is awaiting liquidation. Generally, forfeited property is not held for long periods of time, as it will be converted into cash as soon as possible or transferred to in-use by an agency. The cost of obtaining appraisals of fair market value for forfeited property as of the reporting date far exceeds the benefit of the added precision. All of the appraisals are estimates and the Department intends to liquidate the property as soon as possible.