



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

COMPTROLLER

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

JUL 24 2017

Dear Ms. Payne:

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board on the Exposure Draft, Federal Financial Accounting Technical Release (TR), *Implementation Guidance for Establishing Opening Balances*. The DoD understands the importance of providing useful, understandable information to users of the financial statements. Overall, the DoD agrees that the proposed Exposure Draft provides clear technical guidance and we appreciate the Board and FASAB Staff's efforts to provide clear guidance on the issue of Opening Balances. The comments that DoD are providing are limited to a few sections where additional clarification would be appreciated.

Thank you for considering the DoD's comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Alaleh A. Jenkins", is written over a horizontal line.

Alaleh A. Jenkins  
Assistant Deputy Chief Financial Officer

Enclosures:  
As stated



**Technical Release Exposure Draft: Questions for Respondents due July 21, 2017*****Implementation Guidance for Establishing Opening Balance***

**Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."**

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

**Please provide your name.**

Name:

**Please identify your organization, if applicable.**

Organization:

**Q1.** Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment. This TR explains the alternative valuation methods in greater detail and describes examples of the acceptable types of documentation that may support the valuation as outlined in SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended.

**Do you agree or disagree that this TR provides clear technical guidance? If you disagree, please identify the sections that require additional clarity. Please provide the rationale for your answer.**

*DoD Response:*

The DoD agrees that this TR taken as a whole provides clear technical guidance. However, the DoD suggests that Paragraph 22 be removed entirely from the document, as it creates ambiguity that introduces interpretational risk while not providing any additional technical guidance.

The reason for this recommendation is that it is not apparent whether this sentence creates a technical requirement for management to evaluate the measurement attribute (and its usefulness) compared to historical cost, and include documentation to demonstrate this evaluation. If there is a technical documentation requirement, The DoD believes this will limit the flexibilities provided by SFFAS 50 and thus lead to a higher level of rigor needed to substantiate the measurement attribute's appropriateness.

**Technical Release Exposure Draft: Questions for Respondents due July 21, 2017*****Implementation Guidance for Establishing Opening Balance***

In the event that the decision is made to keep paragraph 22, the DoD recommends moving it to the Basis for Conclusions and amending the last sentence to specifically acknowledge that Management understands that deemed cost will have a direct impact on the calculation of depreciation expense and cost of operations which will result in reduced usefulness of comparisons to accounting methods based entirely upon actual historical costs.

- Q2.** This TR acknowledges that the reporting entity may select any of the SFFAS 50 methods, and there is no preferred method because cost-beneficial options are the major goal of SFFAS 50. This TR clarifies that such flexibility was intended by SFFAS 50 and explains that management is not required to select the most precise or best method.

**Do you agree or disagree that this TR appropriately clarifies the flexibility intended in selecting among methods? Please provide the rationale for your answer.**

*DoD Response:*

The DoD agrees that this TR taken as a whole appropriately clarifies the flexibility intended in selecting among methods. However, the DoD recommends revising the language in paragraph 13 to remove the reference to "... to determine that valuations are reasonable..." and add as part of paragraph 13, that the reporting entity should describe their process (or system of internal controls) which ensures consistent application of the selected methodology.

The reason for this recommendation is that Paragraph 9 (paraphrased) states there is no preferred method among those permitted, making comparisons among methods is inappropriate, and management is not required to select the most precise or best method. The DoD's view is that the execution of the selected method allowed by the Standard (and TR) produces a result that, by default, is considered reasonable. As such, an auditor should be evaluating a reporting entity on how well they applied the chosen methodology as opposed to evaluating the "reasonableness" of one acceptable methodology in comparison with another. The requirement to document the determination of reasonableness could be construed to imply that the method selection is itself subject to audit, which is contrary to the stated goal of the TR, and this clarification is intended to mitigate that perceived risk.

- Q3.** **Are there additional issues that the AAPC should consider in this TR? If so, what are they, and how would you describe them?** Respondents may consult the AAPC project page for additional information about other issues considered during the deliberation of this TR. **Please provide the rationale for your answer.**

*DoD Response:*

The DoD believes that the major issues associated with Opening Balances are sufficiently covered by the TR.