



February 11, 2009

Memorandum

To: Members of the Board

From: Monica R. Valentine, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: ***Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23: Comment Letters Received through February 4, 2009 – TAB G***<sup>1</sup>

**MEETING OBJECTIVE**

Members are asked to review comment letters received as well as the staff analysis and recommendations. The objective for this session is to decide whether to hold a public hearing and identify major issues requiring further research.

**BRIEFING MATERIAL**

Attached to this transmittal memorandum, you will find staff's summary of the comments received.

**Attachment 1** – Staff Summary of Responses includes:

- Tally of Responses by Question
- Quick Table of Responses by Question

**Attachment 2** – Full text of Answers and Comments by Question and by Respondent and Listing of Additional Comments from Respondents

**Attachment 3** – Full text of Comment Letters

---

<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## BACKGROUND

The exposure draft (ED) proposes amendments to Statement of Federal Financial Accounting Standard (SFFAS) 6 and 23 to clarify that reasonable estimates of original transaction data historical cost may be used to value general property, plant, and equipment (G-PP&E). Reasonable estimates may be used upon initial capitalization as entities implement G-PP&E accounting for the first time, as well as by those entities who previously implemented G-PP&E accounting.

## SUMMARY OF OUTREACH EFFORTS

The exposure draft, ***Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23***, was issued November 14, 2008 with comments requested by January 30, 2009. Upon release of the exposure draft, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, and *Government Accounting and Auditing Update*;
- d) The CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, and the Federal Financial Managers Council; and
- e) Committees of professional associations generally commenting on exposure drafts in the past.

This broad announcement was followed by direct mailings of the exposure draft to:

- a) Relevant congressional committees
  - a. Senate Subcommittee on Federal Financial Management, Government Information, and International Security Committee on Homeland Security and Governmental Affairs
  - b. House Subcommittee on Government Management, Organization, and Procurement Committee on Oversight and Government Reform

To encourage responses, a reminder notice was provided on January 5, 14 & 29, 2009 to our Listserv. In addition, we contacted professional associations and affected agencies directly if a response had not been received by the date requested.

## RESULT

As of February 10, 2009, we have received 31 responses from the following sources:

	<b>FEDERAL (Internal)</b>	<b>NON-FEDERAL (External)</b>
Users, academics, others		7
Auditors	3	1
Preparers and financial managers	20	

The comment letters are provided as Attachment 3. The comment letters include a table of contents and identify respondents in the order their responses are received. The comment letters appear as the final component of this memo to facilitate compilation and pagination. However, I encourage you to read the letters in their entirety before reading the staff summary below.

## STAFF SUMMARY

Staff has summarized responses to the questions. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters.

**Tab G - 1** provides the staff summary. The summary presents:

- a) a Tally Of Responses by Question and
- b) a Quick Table Of Responses by Question.

**Tab G - 2** includes a full text of Answers and Comments by Question and by Respondent and Listing of Additional Comments from Respondents.

**Tab G - 3** includes a full text of Comment Letters.

In a separate memo presented at **Tab G - 4** staff provides analysis including an overall summary of responses, a list of issues identified with staff analysis and recommendations.

## ATTACHMENT 1 – STAFF SUMMARY OF RESPONSES

### Tally of Responses by Question

QUESTION	YES/AGREE	NO/DISAGREE	NO COMMENT	OTHER NARRATIVE
<p>Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&amp;E accounting for the first time. See paragraphs 7 and A9.</p> <p><b>Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&amp;E upon initial capitalization is appropriate for entities that have not previously reported G-PP&amp;E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.</b></p>	25		1	5
<p>Q2. The Board proposes that initial capitalization of G-PP&amp;E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].</p> <p><b>Do you agree or disagree that initial capitalization of G-PP&amp;E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.</b></p>	18	3	2	8

## Tally of Responses by Question

QUESTION	YES/AGREE	NO/DISAGREE	NO COMMENT	OTHER NARRATIVE
<p>Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&amp;E. See paragraphs 7 and A10 – A13A.</p> <p><b>Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&amp;E? Please provide the rationale for your answer.</b></p>	24		1	6
<p>Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20</p> <p><b>Do you believe that the use of reasonable estimates to value G-PP&amp;E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.</b></p>	<p>Date-certain (3)</p> <p>Open-ended (16)</p>		3	9
<p>Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See</p>	2	17	4	8

## Tally of Responses by Question

QUESTION	YES/AGREE	NO/DISAGREE	NO COMMENT	OTHER NARRATIVE
<p>paragraphs A18. through A20.</p> <p><b>Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.</b></p>				
<p>Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.</p> <p><b>Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&amp;E? Please explain what areas require additional clarification and provide the rationale for your answer.</b></p>	17	8	4	2

### Quick Table of Responses by Question

<b>RESPONDENT</b>	<b>Q1. Initial Capitalization</b>	<b>Q2. SFFAS 23 Estimating on a Continuing Basis</b>	<b>Q3. Use of Reasonable Estimates</b>	<b>Q4. Open-ended or Date-certain</b>	<b>Q5. Patton Alternative View</b>	<b>Q6. Additional Clarification</b>
<b>#1 Laine Individual</b>	Other comments	Other comments	Other comments	Other comments	Other comments	Other comments
<b>#2 Glenn-Croft, SSA-CFO</b>	Agree	Disagree	Agree	Date-certain	Disagree	None
<b>#3 Winter Individual</b>	Agree	Agree	Agree	Open-ended	No comment	No Comment
<b>#4 Maresca Individual</b>	No comment	No comment	No comment	No comment	No comment	No comment
<b>#5 Henderson USDA – OIG</b>	Agree	Agree	Agree	Open-ended	Disagree	None
<b>#6 Calvin DOT – MARAD</b>	Agree	Agree	Agree	Open-ended	Disagree	More guidance

TAB G -- ATTACHMENT 1: STAFF SUMMARY OF RESPONSES

## Tally of Responses by Question

<b>RESPONDENT</b>	<b>Q1. Initial Capitalization</b>	<b>Q2. SFFAS 23 Estimating on a Continuing Basis</b>	<b>Q3. Use of Reasonable Estimates</b>	<b>Q4. Open-ended or Date-certain</b>	<b>Q5. Patton Alternative View</b>	<b>Q6. Additional Clarification</b>
<b>#7 Bobich TSA - OFA</b>	Other comments	Other comments	Other comments	Other comments	Other comments	Other comments
<b>#8 Fletcher CFOC</b>	Agree	Other comments	Agree	Other comments	Other comments	More guidance
<b>#9 Kovlak GWSCPAs</b>	Agree	Agree	Agree	Open-ended	Other comments	None
<b>#10 Dougherty SSS</b>	Agree	Other comments	Agree	Open-ended	Other comments	None
<b>#11 Fletcher Interior – CFO</b>	Agree	Agree	Agree	Open-ended	Disagree	None
<b>#12 Niemiec DHS- USCG</b>	Agree	Agree	Agree	Open-ended	Other comments	More guidance

TAB G -- ATTACHMENT 1: STAFF SUMMARY OF RESPONSES

## Tally of Responses by Question

<b>RESPONDENT</b>	<b>Q1. Initial Capitalization</b>	<b>Q2. SFFAS 23 Estimating on a Continuing Basis</b>	<b>Q3. Use of Reasonable Estimates</b>	<b>Q4. Open-ended or Date-certain</b>	<b>Q5. Patton Alternative View</b>	<b>Q6. Additional Clarification</b>
<b>#13 Jenson NASA – OIG</b>	Other comments	Other comments	Other comments	No comment	No comment	More guidance
<b>#14 Cenci USDA – OCFO</b>	Agree	Agree	Agree	Open-ended	Disagree	More guidance
<b>#15 Davis DoD – OIG</b>	Agree	Disagree	Other comments	Date-certain	Agree	More guidance
<b>#16 Ishol Deloitte &amp; Touche</b>	Agree	Disagree	Agree	Date-certain	Disagree	More guidance
<b>#17 Alston Commerce – OCFO</b>	Agree	Agree	Agree	Open-ended	Disagree	None

TAB G -- ATTACHMENT 1: STAFF SUMMARY OF RESPONSES

## Tally of Responses by Question

<b>RESPONDENT</b>	<b>Q1. Initial Capitalization</b>	<b>Q2. SFFAS 23 Estimating on a Continuing Basis</b>	<b>Q3. Use of Reasonable Estimates</b>	<b>Q4. Open-ended or Date-certain</b>	<b>Q5. Patton Alternative View</b>	<b>Q6. Additional Clarification</b>
<b>#18 McHugh American Appraisal</b>	Other comments	Other comments	Other comments	Other comments	Other comments	More guidance
<b>#19 Childree AGA – FMSB</b>	Agree	Other comments	Agree	Other comments	Disagree	More guidance
<b>#20 Tucker HUD - OCFO</b>	Agree	Agree	Agree	Other comments	Other comments	More guidance
<b>#21 Jessup Energy -</b>	Agree	Agree	Agree	No comment	No comment	No comment
<b>#22 Powers Aerospace Industries Association</b>	Agree	Agree	Agree	Open-ended	Disagree	None

TAB G -- ATTACHMENT 1: STAFF SUMMARY OF RESPONSES

## Tally of Responses by Question

<b>RESPONDENT</b>	<b>Q1. Initial Capitalization</b>	<b>Q2. SFFAS 23 Estimating on a Continuing Basis</b>	<b>Q3. Use of Reasonable Estimates</b>	<b>Q4. Open-ended or Date-certain</b>	<b>Q5. Patton Alternative View</b>	<b>Q6. Additional Clarification</b>
<b>#23 Smith DoD – OCFO</b>	Agree	Agree	Agree	Open-ended	Disagree	More guidance
<b>#24 Bowie NASA – OCFO</b>	Agree	Agree	Agree	Open-ended	Disagree	More guidance
<b>#25 Marshall WAPA</b>	Agree	Agree	Agree	Other comments	Disagree	No comment
<b>#26 Simpson Labor- OCFO</b>	Agree	Agree	Agree	Open-ended	Disagree	More guidance
<b>#27 Bers DHS – OCFO</b>	Agree	Agree	Agree	Open-ended	Disagree	None
<b>#28 NSA – RMD</b>	Other comments	No comment	Other comments	Other comments	Agree	More guidance

TAB G -- ATTACHMENT 1: STAFF SUMMARY OF RESPONSES

## Tally of Responses by Question

<b>RESPONDENT</b>	<b>Q1. Initial Capitalization</b>	<b>Q2. SFFAS 23 Estimating on a Continuing Basis</b>	<b>Q3. Use of Reasonable Estimates</b>	<b>Q4. Open-ended or Date-certain</b>	<b>Q5. Patton Alternative View</b>	<b>Q6. Additional Clarification</b>
<b>#29 Reed ODNI – OCFO</b>	Agree	Other comments	Agree	Other comments	Disagree	More guidance
<b>#30 Gillam EPA – OCFO</b>	Agree	Agree	Agree	Open-ended	Disagree	More guidance
<b>#31 Lingebach Treasury</b>	Agree	Agree	Agree	Open-ended	Disagree	More guidance

TAB G -- ATTACHMENT 1: STAFF SUMMARY OF RESPONSES



## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1**

### **Comments on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23***

**Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.**

Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

#### **#1 Mitch Laine, Individual**

No Comments.

#### **#2 Mary Glenn-Croft, SSA**

Yes, we agree that it is appropriate to make reasonable estimates of original historical cost and accumulated depreciation when the original data is not available. There are many instances where obtaining the original transaction data is neither practical nor cost-effective.

#### **#3 Kenneth Winter, Individual**

No Comments.

#### **#4 Joseph Maresca, Individual**

No Comments.

#### **#5 Bill Henderson, USDA – OIG**

We agree that using reasonable estimates upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports for the first time.

Entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future may not have maintained historical cost data and reasonable estimates may be the only option available.

#### **#6 Wendy Calvin, DOT – MARAD**

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1**

### Department of Transportation, Maritime Administration's (MARAD) Response:

We agree and support this standard.

MARAD's vessels under the national defense reserve force (NDRF) program were treated as national defense PP&E according to the FASAB SFFAS No. 11 issued in December 1988. This PP&E was reported as expenses in the DOT's financial statement prior to FY 2003. However, SFFAS No. 23 issued by FASAB in May 2003, eliminated the national defense PP&E. MARAD started to report these NDRF vessels as G-PP&E depreciable assets on the DOT's financial statement in FY 2003.

In order to track and report the G-PP&E, agencies must determine whether the acquisitions are meeting G-PP&E criteria and must establish G-PP&E costs, life and depreciation methods, etc. As a result of the change of the standards from No. 11 to No. 23, MARAD had to retroactively reconstruct the historical cost information for these vessels as G-PP&E. MARAD had a difficult time substantiating the historical book values of many vessels associated with the original documents, multiple transactions occurred years before the standard (SFFAS No. 23 of May 2003) was issued; the documentation (e.g., purchase orders, invoices, book values) may no longer exist or; the records have been archived or disposed (as the retention period for documents has expired.) The costs of reconstructing historical financial information for G-PP&E would be enormous for G-PP&E acquired prior to the SFFAS No. 23 and there is little benefit to construct a perfect historical financial information for this type of G-PP&E because the book values of many of these properties are \$0 or almost depreciated. Therefore, estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate.

### **#7 Jeffrey M. Bobich, Transportation Security Administration**

No Comments.

### **#8 Daniel Fletcher, CFO Council**

i. We agree that it is appropriate that reasonable estimating techniques could be used in place of historical cost records if such historical records are unavailable or development of such records would be cost prohibitive upon initial capitalization by entities that have not previously reported General PP&E on their entity financial reports and for those who have not previously prepared financial reports. First time implementers may need such approaches to prevent excessive cost being incurred that would have minimal financial reporting impact.

ii. For example, Department of Transportation (DOT) Maritime Administration's (MARAD) vessels under the national defense reserve force (NDRF) program were treated as national defense PP&E according to the FASAB SFFAS No. 11, issued in December 1988. This PP&E was reported as expenses in the DOT's financial statement prior to FY 2003. However, SFFAS No. 23 issued by FASAB in May 2003, eliminated the national defense PP&E. MARAD started to report these NDRF vessels as General PP&E depreciable assets on

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1**

the DOT's financial statement in FY 2003.

In order to track and report the General PP&E, agencies must determine whether the acquisitions are meeting General PP&E criteria and must establish General PP&E costs, life and depreciation methods, etc. As a result of the change of the standards from No. 11 to No. 23, MARAD had to retroactively reconstruct the historical cost information for these vessels as General PP&E. MARAD had a difficult time substantiating the historical book values based on the original documents due to the following reasons: multiple transactions supporting single assets occurred years before the standard (SFFAS No. 23 of May 2003) was issued; the documentation (e.g., purchase orders, invoices, book values) may no longer exist; or, the records have been archived or disposed (as the retention period for documents has expired). The costs of reconstructing historical financial information for General PP&E would be enormous for General PP&E acquired prior to SFFAS No. 23 and there is little benefit to construct perfect historical financial information for this type of General PP&E because the book values of many of these properties are \$0 or almost depreciated. Therefore, estimating the original transaction data historical cost and accumulated depreciation of General PP&E upon initial capitalization is appropriate.

vi. Another example involved the National Science Foundation (NSF) which manages the U.S. Antarctica Program and many of the General PP&E from the program were transferred to NSF by Department of Defense (DoD) and some of these General PP&E were acquired or built long before they were transferred to NSF and some records were not available at the time of transfer. Additionally, NSF also gained General PP&E by inventory through the inventory process undertaken annually that is usually a result of these General PP&E 're-appearing' from being buried under snow and ice. Some of these posed problems to NSF in terms of being able to provide the historical financial information for capitalization purposes, especially if no other like asset is found on the books.

### **#9 Daniel Kovlak, Greater Washington Society of CPAs – FISC**

Generally, we agree with allowing Federal agencies to use reasonable estimates upon initial capitalization of G-PP&E. Both inside and outside the Department of Defense community, our committee members have witnessed a substantial amount of effort being expended by Federal agencies to accumulate historical cost data when a reasonable estimate may have produced a similar, and substantially more efficient, amount to be recorded on the entity's books.

It is the position of several of our committee members that this ED is a long-awaited recognition that cost-benefit principles are necessary when tackling some of the urgent and complex accounting matters facing the Department of Defense. Some of our committee members also feel that the time spent specifically by the Defense community on accumulating historical cost data for national defense PP&E has been particularly significant. Without an alternative treatment to expense national defense PP&E as a cost of defense readiness, the implementation of SFFAS No. 23 has led to a number of Federal agencies spending time attempting to locate auditable cost information. By allowing Federal agencies to use reasonable estimates in perpetuity

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1**

for the initial capitalization of G-PP&E, this ED provides some welcome relief to those financial statement preparers.

### **#10 Regina Dougherty, Selective Service System**

Yes, I agree that it is appropriate to make reasonable estimates of original historical cost if the historical records are unavailable or development of such records would be cost prohibitive.

### **#11 Daniel Fletcher, Department of Interior**

The Department of the Interior (Interior) agrees that it is appropriate to use estimates to establish original historical cost and accumulated depreciation for previously unreported PP&E. Estimates are a longstanding component of accounting practice and improve accountability in the absence of actual data. For some entities that have not previously reported PP&E, reliance upon an estimate may be the only option available. When calculated using a reasonable methodology, estimates are appropriate for providing data for initial asset capitalization.

### **#12 Capt. Jack Niemiec, US Coast Guard**

The Coast Guard agrees with this provision because agencies may not have supporting documentation for older legacy or discovered assets. Many entities that have not had to produce audit ready support will find that the documentation they have available may not be complete enough to satisfy audit requirements. For example, the Coast Guard was missing a significant amount of historical documentation when we initially valued many of our real property assets, and we had to use a discounted plant replacement value to value many buildings and structures for which no invoices or contract documents exist.

### **#13 Mark C. Jenson, NASA – OIG**

No Comments.

### **#14 Melanie Cenci, USDA**

Agree. The use of reasonable estimates may be more cost effective than reconstructing actual historical amounts based on inadequate or non-existent accounting records.

### **#15 Carolyn Davis, DOD – OIG**

We agree with allowing estimates of costs and depreciation of G-PP&E upon initial capitalization for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but may be required to in the future. We believe this will be a benefit to the entity because if an entity was not required to keep track of G-PP&E, most likely they will not have

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1

accurate historical information. Lacking historical records makes verifying historical costs difficult which questions the reliability of the information. Currently, entities are expending resources to generate historical cost data for G-PP&E based on inadequate accounting data. By letting the entity estimate the initial capitalization of G-PP&E, they have time to implement the new procedures and be prepared to report the following year. The use of estimates is a cost effective approach to getting historical costs. Using other information reflecting amounts expended or deriving from current replacement costs will help these entities reach a reasonable historical cost.

### #16 Larry Ishol, Deloitte & Touche LLP

We agree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate. However, we believe that a deployed asset (i.e., deployed in War, Space, etc.) in which there is a strong likelihood that the asset will not return to the entity, may need a different accounting treatment other than estimating the historical cost and accumulated depreciation. We feel that the Accounting and Auditing Policy Committee would be an ideal vehicle for addressing the accounting treatment of these assets.

In addition, we recommend that the FASAB clarify, "previously prepared financial reports" as to whether this applies to both audited and unaudited financial reports that an entity prepares. Entities report assets on their audited and unaudited financial statements using estimating techniques that may not be considered appropriate or reasonable under SFFAS 6 and 23. We believe that this situation would not be included under "initial capitalization", but under the "initial **application**" of the standards. Therefore, FASAB should also include "initial application" since it is addressed in Paragraph 16 of the ED (under SFFAS 23), *Adjustment to Cumulative Results of Operations*. Under "initial capitalization," the FASAB includes agencies which have not been audited. We recommend that the FASAB clarify whether this also includes agencies that have failed audit due to their inability to establish a PP&E baseline.

### #17 Gordon Alston, Department of Commerce

The Department agrees that, in the absence of transaction-based information, the use of estimates to establish initial capitalization of historical cost and accumulated depreciation data for G-PP&E is appropriate, as long as the estimates are done on a systematic and rational basis and can withstand audit scrutiny.

### #18 Kevin McHugh, American Appraisal

I believe that if the entity maintains a fixed asset record/reporting system while it may not report supportable Historical Cost, it probably maintains an asset description, model, manufacturer, serial number and date of acquisition. If so, an estimated Original Cost may be generated via a "normal costing" methodology. This methodology is the "backtrending" of the assets current Replacement Cost to the reported or Estimated Date of Acquisition, via reverse inflation indices by asset type, or classification code. It is important to note that

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1**

these indices are available by classification code and are more accurate than employing a backtrending methodology based upon a general CPI factor, which is very broad based and general and not asset class specific. Backtrending by asset class would generate a more accurate Estimated Original Cost

The entity should perform an "existence and completeness" check of the asset inventory prior to the aforementioned exercise to ensure that the inventory reasonably represents the assets reported that are physically present at the entity's physical location.

The entity should then be required to report the actual Historical Cost for newly acquired assets on a "go forward" basis. The aforementioned costing methodology is consistent with GAAP.

### **#19 Bob Childree, AGA FMSB**

Yes, we agree that developing a sound and reasonable estimate for the original transaction cost and accumulated depreciation is a viable means for agencies that do not have an easy or cost effective way (based upon manhours and lack of documentation) of obtaining historical records to determine such costs. Obtaining records from inception of the G-PP&E may not be possible based upon records retention for the entity (e.g., six years for the federal government) and/or lack of adequate documentation. So we believe that estimates are appropriate. In the private sector, the cost of assets that are depreciated can have a major impact on profitability, and so use of estimates can raise significant concerns. However, in the public sector, performance of mission is paramount and accounting for the costs of mission performance is only secondary.

### **#20 Gerald Tucker, HUD**

Agree. For those entities where original transaction historical cost data is not available, estimation is a viable solution to accurately reflecting the G-PP&E and Accumulated Depreciation account balances without incurring substantial expense to obtain the historical information. HUD is of the opinion that a revaluation model should be used for all properties and a cost model or fair value model should be employed for plant and equipment. Because the fair value model is market-based, the market approach should be utilized as the primary or assenting approach. If the market approach is not apparent, then the income model should be considered.

### **#21 Lois Jessup, Department of Energy**

The Department of Energy agrees with reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PPE upon initial capitalization is appropriate for entities that have not previously reported G-PPE. Occasionally, the Department has had assets, older than 20 years, where paperwork simply no longer exists.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1**

### **#22 Richard Powers, Aerospace Industries Association**

Agree. From a Government contractor's perspective, for the Government property held at the Contractor's sites, reasonable estimates should be used as actuals are not obtainable without an unreasonable amount of effort and expense. Government property at contractors may be G-PP&E based upon FASAB 6. Historical costs are commingled with overall contract cost, which in accordance with today's standards, are Government overhead or G-PP&E.

### **#23 David Smith, DOD**

DoD agrees with this proposal. This is a practical response to the challenges faced by some agencies as they work to establish sound financial systems and controls. The use of estimates is a more cost effective means of implementing new requirements than reconstructing actual historical amounts based on inadequate or non-existent accounting records. DoD has one general comment. The Executive Summary clearly presents the guidance intentions; therefore, we suggest this guidance be included in the Standards section along with the proposed paragraph revisions in SFFAS 6 and 23.

### **#24 Terry Bowie, NASA**

Agree. The important thing is for agencies to capture this information going forward in a manner that is cost effective and useful to managing the entity, which is NASA's approach. Where the Agency has not previously capitalized its assets and/or maintained historical information on the cost of these assets that can be readily assessed, NASA found that there was not a positive cost/benefit of going back and doing so retrospectively. In any event, it proved impossible to do so for the ISS and the SS no matter how much money was spent. Reasonable estimates would provide an adequate basis for making fair representations of balances on the financial statements, while enabling agencies to continue to enhance their G-PP&E cost accumulation and reporting practices. Agencies, like NASA, have struggled with this very thing for many years. The ED proposal makes good common and business sense. If the cost of the assets (depreciation) is being used to set prices or recover costs, greater precision may be needed. But when that is not the case, the ISS and SS being prime examples, estimates can provide a fair representation of the value of those assets. The focus should be on the development of effective practices for capturing this information and capitalizing asset acquisitions.

### **#25 Wendy Marshall, Western Area Power Administration**

Agree, it isn't cost effective for an entity to go back & determine the historical cost of PP&E assets if they haven't already done so.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1**

### **#26 Cynthia Simpson, Department of Labor**

The Department of Labor (DOL) agrees that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future. However, recognition of G-PP&E is appropriate if the asset (1) will be held for use by a Federal entity for a number of years (e.g., a period of at least two or more years) and (2) is still depreciable.

In the event that the entity recognizes the asset, but has the ability and intent to dispose of the asset within a short time frame (e.g., in less than two years), then the recognition and disposal of the asset within such a short time span puts the entity in no different net position than if it had not recognized the asset.

Furthermore, we believe that the use of estimates for valuing G-PP&E may also be appropriate for entities that have previously prepared financial reports, particularly for non-recurring types of transactions. For example, recognition of G-PP&E by a reporting entity in circumstances involving (1) reorganizations (e.g., where a reporting entity and non-reporting may have to report as a single entity), (2) assets acquired through reversionary interests, and (3) changes in Federal lands or territories, either acquired, disposed, or re-characterized (e.g., pursuant to new legislation, treaties, or other arrangements that may involve other Federal entities, nations, U.S. States or municipalities, or other entities). The use of estimates may also assist reporting entities in recognizing costs related to G-PP&E for activities that occur between two entities, including imputed costs and parent/child reporting.

### **#27 Melinda Bers, DHS**

Agree, with reservations. Agencies should be authorized to estimate after reasonable efforts to determine historical data have been completed.

This would be helpful for agencies that may not have supporting documentation for older legacy or discovered assets. Certain entities that have not had to produce audit ready support will find that the documentation they have available may not be complete enough to satisfy audit requirements. For example, the Coast Guard was missing a significant amount of historical documentation when they initially valued many of their real property assets, and had to use a discounted plant replacement value to value many buildings and structures for which no invoices or contract documents exist.

In addition, an estimate is a prudent use of government resources. These numbers provide a baseline for comparison and future internal control improvements. For agencies that struggle with the identification of capitalized assets, it can be a challenge to just get these assets reflected on the books. Certain agencies have assets throughout the world that are deployed in war zones and remote locations. For them, the people on site must first accomplish the mission relating to their deployment,

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #1

focusing on safety first. Accurate records and accountability is expected, but not necessarily at a level of precision that ignores costs and reasonableness.

### **#28 Resource Management Directorate, National Security Agency**

Need to spend a reasonable amount of time researching for original documents (contracts, invoices, budget requests, etc), before using an estimation process to determine value.

### **#29 Katherine Reed, Office of the Director of National Intelligence**

Yes, the IC agrees with estimating historical cost and accumulated depreciation upon both initial capitalizations and to correct previously capitalized G-PP&E. As indicated in the General Comments section, the IC has already adopted estimation policies for IC G-PP&E which have passed audit scrutiny. The IC firmly believes that historical cost documentation should serve as the basis for recording the acquisition cost of an asset. However, the IC experience has been, determining the historical cost posed significant challenges, proving to be time consuming and costly. This is due to a lack of supporting documentation, inconsistent business processes and inadequate systems to support reliable historical cost valuations. In addition, the IC can not sustain accurate and timely data updates to historical information. The IC's CFO offices have focused their limited FTEs and resources toward developing internal controls, processes and systems that will ultimately yield better methods of gathering the actual costs of G-PP&E assets rather than wasting resources searching for old documents that may never be located.

The IC recommends that paragraph A9 be revised to remove language that states estimation techniques are only *“available to reporting entities that have not previously prepared financial reports but who may be required or elect to do so in the future and do not yet have adequate controls or systems to capture these costs.”* The current FASAB standard focuses on the CFO and GMRA Act agencies, however, the IC has agencies that fall under other Acts, such as the Accountability of Tax Dollars Act (ATDA) of 2002, but do not accurately capitalize and sustain the balances for all categories of G-PPE. The language as written suggests that entities already preparing reports and capitalizing property cannot take advantage of the proposed changes to the use of reasonable estimates. Lack of documentation and inability to find the information has resulted in G-PP&E values being understated on IC financial statements. Where the source documentation is no longer available to determine the accurate valuation of a previously capitalized asset, estimation techniques are a cost beneficial means for improving IC financial reporting. For the IC, estimation techniques are the best way to fill gaps in *capitalized property records* and for any agency required to produce audited financial statements under ATDA.

### **#30 Stefan Silzer, EPA**

Yes, EPA agrees. “Reasonably estimating” is, however, a broad standard. On page 11, we suggest deleting the last bullet under Estimation of Historical Cost (SFFAS 6), [40.], which is: “other reasonable methods,” and replacing it with “a certified appraisal by someone who is licensed, board certified or otherwise acknowledged as technically competent to appraise Federal assets.”

**#31 James Lingeback**

Agree. Allowing for the use of reasonable estimates of transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is a logical and appropriate approach to encourage and support entities that are electing to, or are being required to, prepare financial reports with G-PP&E for the first time. The utilization of estimates efficiently accounts for previously expensed historical G-PP&E data, allowing entities to focus on the development and implementation of compliant G-PP&E business practices.

The process of estimating asset costs for initial capitalization worked very well for Treasury, especially at our largest bureau, the Internal Revenue Service where G-PP&E assets are located at hundreds of locations throughout the country. During FY 99 (the first year IRS was required to report G-PP&E) they sampled a number of IRS office sites and worked closely with the Government Accountability Office (GAO) during the process to ensure that the final results would meet the requirements in SFFAS 6. Using estimates allowed IRS and other bureaus to implement SFFAS 6 on time at a reasonable cost.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

**Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].**

Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

### **#1 Mitch Laine, Individual**

No Comments.

### **#2 Mary Glenn-Croft, SSA**

Entities should use reasonable estimates in situations where it has been determined it is impractical to obtain the original transaction data or it is not available. In order to make historical data compliant with SFFAS 6 and SFFAS 23, the use of reasonable estimates would be appropriate, but not for future purchases of GPP&E. Allowing for the use of estimates on a continuing basis may deter agencies from developing new systems and processes to capture historical costs.

### **#3 Kenneth Winter, Individual**

No Comments.

### **#4 Joseph Maresca, Individual**

No Comments.

### **#5 Bill Henderson, USDA – OIG**

We agree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis.

However, it should be stressed that this should be an exception to the rule that appropriate and sufficient documentation should be maintained and used to establish the historical cost of G-PP&E.

### **#6 Wendy Calvin, DOT – MARAD**

We agree that initial capitalization of G-PP&E based on reasonable estimation methods is acceptable on a continuing basis.

The vessels that Maritime Administration acquires for the Ready Reserve Force (RRF) are often older vessels (e.g., over ten years old). The majority of these vessels and

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

PP&E equipment on the vessels (e.g., forklifts) were transferred from other agencies, foreign shipyards, etc. and the original documentation (e.g., purchase orders, invoices, and book value) may no longer exist.

### **#7 Jeffrey M. Bobich, Transportation Security Administration**

No Comments.

### **#8 Daniel Fletcher, CFO Council**

i. The response from this committee has two schools of thought. There is the one that understands the need to have estimating techniques available but is concerned that an open-ended approach may lead to delays in entities developing better systems and mechanisms to identify actual historical costs at the transaction level. It is believed that estimating techniques should remain an available option as long as estimated results are determined to be accurate enough to not cause material errors in General PP&E balances and overall financial statement presentation. Entities using estimating techniques need to address the lack of appropriate systems or data capturing methods for determining historical cost transactions as the basis for General PP&E and evaluate any associated control risks. Even though using alternative techniques may result in materially accurate financial statements, it also may increase the risk of potential errors, especially when dealing with significant dollar estimates. Therefore, the committee recommends that FASAB addresses this issue in this Exposure Draft. There is also the concern on the long-term continued usage of estimating techniques by any entity as a potential management issue that should be addressed from perspectives such as OMB scorecards, OMB Circular A-123 and A-127 requirements, as well as FFMI implementation guidance or other areas as noted in Exposure Draft paragraph A13.

ii. On the other hand, there are agencies that support the estimation methods on a continuing basis where there are instances when the General PP&E were transferred from other agencies, abandonment, etc., and the original documentation (e.g., purchase orders, invoices, book value) may no longer or does not exist, and it is not cost effective to determine the historical cost values.

Example: If an agency was to transfer an asset to another agency, it would be unwise and unreasonable of the receiving agency to reject this asset simply because the General PP&E documentation was not retained.

### **#9 Daniel Kovlak, Greater Washington Society of CPAs – FISC**

We agree with the Board's proposal to allow that reasonable estimation methods be used on a continuing basis.

### **#10 Regina Dougherty, Selective Service System**

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

Using reasonable estimates to make historical data compliant with SFFAS 6 and SFFAS 23 is appropriate where the original transaction data is not available or cost prohibitive to reconstruct. However, some measure should be instituted to ensure agencies are making progress on implementing a system to capture historical cost data on current purchases rather than continuing to use estimates.

### **#11 Daniel Fletcher, Department of Interior**

Interior agrees that it is acceptable, on a continuing basis, to rely on reasonable estimation methods for initial capitalization of General-PP&E as provided in SFFAS 23, as amended. SFFAS 23 provides several fair and reasonable methods for estimation and does not restrict entities from using additional methods of estimation that may be more suitable for the specific asset being capitalized. This flexibility will allow entities to provide the estimating methodology which is most appropriate for the asset being capitalized.

### **#12 Capt. Jack Niemiec, US Coast Guard**

The Coast Guard agrees that initial capitalization of G-PP&E based on reasonable estimation methods should be acceptable on a continuing basis when acceptable historical documentation (i.e., invoices and contracts) are not available. It is not cost effective to appraise all assets or to continue to search for supporting documents beyond a reasonable time. The Coast Guard has successfully used all of these methods and found them to be very helpful and fully auditable.

Capital intensive federal entities have significant difficulties in gathering, maintaining and controlling historical support for the G-PP&E that they acquire, especially for items that are constructed (i.e., vessels, aircraft, buildings) rather than purchased off the shelf (i.e., fork lifts). Many of these types of constructed assets are in construction-in-process for several years before they are available for use, and many have complex overhead costs that must be applied in order to conform to the full historical cost basis required by SFFAS No. 6.

Even for those federal entities that are actively pursuing the goal of valuing G-PP&E via historical cost, it often requires several iterations of policy, process and systems before they can satisfy the audit requirements necessary to support these G-PP&E assets on a historical basis. Allowing the use of reasonable estimating methods on a continuing basis will allow these entities to provide reasonable estimates of value without expending substantial resources to reconstruct historical documents that in many cases will not meet the auditor's requirements. In this way, the federal entity can work through the policy, process and system issues required to satisfy historical cost requirements while at the same time providing reasonable estimates of G-PP&E values. If reasonable estimates are not permitted on an on-going basis, then the federal entities will be forced to expend resources on system and process developments in addition to the costs associated with reconstructing historical costs. If the reconstructed historical costs are not supportable from an auditor's perspective, then this attempt to reconstruct costs from inadequate or non-existent accounting records is potentially a waste of tax

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

payer money. During the time frame that a federal entity is attempting to develop auditable policies, processes and systems to support historical costs, the backlog of unaudited and/or non-recognized G-PP&E assets continues to build unless there is an acceptable estimating methodology to value and recognize these assets that are not fully supported with historical costs.

### **#13 Mark C. Jenson, NASA – OIG**

No Comments.

### **#14 Melanie Cenci, USDA**

Agree. Use of reasonable estimates to value G-PP&E should be permitted at any time when reconstructing actual historical amounts is not cost effective because of inadequate or non-existent accounting records. However, using estimates in lieu of systems to capture the actual acquisition costs of assets should be an exception rather than standard operating procedure.

### **#15 Carolyn Davis, DOD – OIG**

We do not agree with the use of reasonable estimates on a continuing basis. The use of estimates should not replace historical cost supported by original transactional data. Allowing Federal entities to estimate the historical costs of their G-PP&E on a continuing basis gives them an incentive to discard historical records instead of using these documents as support for the historical cost of the assets. The National Archives and Records Administration has published guidance addressing the retention of Federal records, thus Federal entities are required to retain their records in accordance with specific schedules. As a result, Federal entities should comply with the retention schedules the National Archives and Records Administration has published and retain supporting documents to support the historical cost of its assets. Furthermore allowing Federal entities to revise the historical cost of its assets on a continuing basis defies the point of using the historical costs to report an entity's assets. Constantly revising the estimate of the historical cost of assets will cause the Federal entities to constantly restate their financial statements.

### **#16 Larry Ishol, Deloitte & Touche LLP**

Deloitte recommends that the reasonable estimation method be permitted for a limited period of time until a specified date established by an agency's independent action plan or, at the latest, an effective date stipulated by FASAB. We believe that the entity should have a commitment to a final transition date and provide regular status updates to their Inspector General, and possibly OMB.

We believe it is acceptable to allow the use of the reasonable estimation method to determine historical valuation of assets until an agency can put in place the appropriate policies, processes and systems to enable an agency to capture actual cost. A date

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

certain, established by FASAB or the agency itself, provides a sense of urgency and minimizes indefinite deferral of the required investment. See response to Q4.

### **#17 Gordon Alston, Department of Commerce**

The Department agrees that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis. In a changing environment within government, entities may arise during reorganizations, for example, and find that records predating their existence may no longer be available. In this case and in similar cases, we believe that such entities should be permitted to use estimation methods to establish historical cost and accumulated depreciation of G-PP&E.

### **#18 Kevin McHugh, American Appraisal**

I agree that the "base unit" and its components should be capitalized at the date of acquisition. However, any subsequent additions/modifications to the equipment should be a separate line entry, and perhaps a suffix to the base asset, and its cost reported separately to allow for proper depreciation calculations and subsequent asset transactions such as asset retirements, or transfers to another entity.

In many instances, via a "Standard Costing" methodology, which is a comparison method to like assets that do have an accurate acquisition date and cost basis, would be more acceptable than a random selection. If the entity has an electronic fixed asset system, then this effort can be accomplished with minimal resource effort via a electronic sorting capabilities.

### **#19 Bob Childree, AGA FMSB**

Yes, but by "continuing basis", we assume that what is meant is whenever an entity has to start reporting G-PP&E asset values for the first time (as opposed to allowing agencies to continue to estimate historical costs after they begin reporting asset values). It would be nice if all entities captured this information, even if they were not required to report it, but we have to be practical. We do believe that, at some point, say ten years after inception, all federal entities should have adequate systems and financial reporting in place so that estimation would no longer be required. In fact, we want to emphasize that, in our opinion, each federal entity should have systems in place as soon as possible (and far sooner than ten years) to track new or additions to G-PP&E, whether or not they are currently required to include such information on the financial statements. Further, systems should be in place to record and track the costs of all PP&E.

### **#20 Gerald Tucker, HUD**

Agree. DOD works under "special circumstances and thus should be allowed to use reasonable estimation methods on a continuing basis in accordance with SFFAS 23.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

### **#21 Lois Jessup, Department of Energy**

The Department of Energy believes that the initial capitalization for G-PPE based on reasonable estimation methods as provided in SFFAS 23 are acceptable on a continuing basis.

### **#22 Richard Powers, Aerospace Industries Association**

Agree. Providing estimates is a much more economical and efficient way to arrive at cost - particularly for componentization purposes. For example: If a contract has one line item to produce a deliverable-the total direct cost of the item may include high cost special test equipment, as well as the deliverable. The special test equipment remains at the contractor's site for future government contracts and the deliverable is sent to a government site. Providing a reasonable estimate after the fact is much more efficient than trying to separate commingled contract cost. Separating actual cost, after the fact, would require extensive research and investigation for thousands of line items for labor and material cost and still may result in an estimate or educated guess due to the age and complexity of the transaction.

### **#23 David Smith, DOD**

DoD agrees that capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis.

Additional guidance is needed to confirm that estimates are allowed for those entities that have been reporting General Property, Plant, and Equipment (G-PP&E) assets in financial reports but are unable to validate the historical acquisition cost of those capitalized assets due to the lack of historical documentation and system deficiencies. In these cases, estimations of the historical cost of property already capitalized may be necessary.

This would be the case when existing property has been recognized in the financial statements, but the historical cost records are not reliable, resulting in a qualification or disclaimer. It appears that the intent of this document is to permit use of estimates for this type of existing property. However, selected statements in the document imply that use of estimations for historical cost applies only when initially capitalizing the underlying property. For example, the proposed revision to SFFAS 23, paragraph 12, states, "When *establishing* the historical cost of G-PP&E...." Additional clarification of this point would be helpful.

### **#24 Terry Bowie, NASA**

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

Agree. The ultimate goal should be to effectively and efficiently capitalize assets using historical costs at the time of acquisition. Until such time that an agency is in a position to do so, reasonable estimation methods should be acceptable. It should be expected that the estimation methods would evolve over time as agencies make improvements to provide for the use of actual costs to determine capitalized values.

### **#25 Wendy Marshall, Western Area Power Administration**

Agree, I would think there would be many cases where historical information of long lived assets just isn't available or isn't available in an auditable fashion.

### **#26 Cynthia Simpson, Department of Labor**

DOL agrees that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis. The proposed standard provides adequate flexibility in estimation methods to be used by management.

Furthermore, we believe the use of reasonable estimation methods should also be allowed in recognition of G-PP&E by entities that have previously prepared financial reports, particularly for non-recurring types of transactions. Please refer to the discussion in our response to Q1.

### **#27 Melinda Bers, DHS**

DHS agrees that initial capitalization of G-PP&E based on reasonable estimation methods should be acceptable on a continuing basis when acceptable historical documentation (i.e., invoices and contracts) are not available. It is not cost effective to appraise all assets or to continue to search for supporting documents beyond a reasonable time. Within DHS, The Coast Guard has successfully used all of these methods and found them to be very helpful and fully auditable.

Capital intensive federal entities have significant difficulties in gathering, maintaining and controlling historical support for the G-PP&E that they acquire, especially for items that are constructed (i.e., vessels, aircraft, buildings) rather than purchased off the shelf (i.e., fork lifts). Many of these types of constructed assets are in construction-in-process for several years before they are available for use, and many have complex overhead costs that must be applied in order to conform to the full historical cost basis required by SFFAS No. 6.

Even for those federal entities that are actively pursuing the goal of valuing G-PP&E via historical cost, it often requires several iterations of policy, process and systems before they can satisfy the audit requirements necessary to support these G-PP&E assets on a historical basis. Allowing the use of reasonable estimating methods on a continuing basis will allow these entities to provide reasonable estimates of value without expending substantial resources to reconstruct historical documents that in many cases

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

will not meet the auditor's requirements. In this way, the federal entity can work through the policy, process and system issues required to satisfy historical cost requirements while at the same time providing reasonable estimates of G-PP&E values. If reasonable estimates are not permitted on an on-going basis, then the federal entities will be forced to expend resources on system and process developments in addition to the costs associated with reconstructing historical costs. If the reconstructed historical costs are not supportable from an auditor's perspective, then this attempt to reconstruct costs from inadequate or non-existent accounting records is potentially a waste of tax payer money. During the time frame that a federal entity is attempting to develop auditable policies, processes and systems to support historical costs, the backlog of unaudited and/or non-recognized G-PP&E assets continues to build unless there is an acceptable estimating methodology to value and recognize these assets that are not fully supported with historical costs.

### **#28 Resource Management Directorate, National Security Agency**

No Comment.

### **#29 Katherine Reed, Office of the Director of National Intelligence**

While the IC agrees that use of estimation methodologies is appropriate and generally accepted for use where necessary, we do not agree that continuously estimating the historical cost of PP&E is appropriate. The IC recommends that the FASAB include additional guidance in the ED that agencies are allowed to use estimates on a continuing basis to capture all costs of G-PP&E until acceptable internal controls, processes, and core accounting and feeder systems are implemented to support capturing the historical cost.

The IC does not believe that the FASAB can establish a specific date for the estimation methodology to expire. Our basis for this opinion concerns the time and effort it would take for FASAB to establish a date given that each agency is at different states of implementation of internal controls, business process, core financial and feeder systems and corrective action plans.

Each agency within the Federal Government has unique business processes driven by their respective missions and subsequently, are at different maturity levels across the agencies. For example, some agencies have developed and implemented comprehensive business processes and integrated financial management systems which support timely and accurate data. While other agencies, like the Department of Defense, rely on decentralized business processes and systems that require manual updates and inadequate data. Further, many federal agencies fund federal and state agencies to procure PP&E on behalf of the federal agencies. These types of intragovernmental transactions represent a large percentage of IC's PP&E transactions. However, given the diverse and multiple numbers of processes and systems that are encountered to collect documentation on these transactions, it is virtually impossible to gather and maintain historical data much less, to go back and find it after long periods of time have transpired.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #2**

This standard is very much needed by the IC and other agencies. We believe that a “one size fits all” or “hard date” and FASAB’s search to come up with either of these would only delay the release of these standards.. We recommend that leaving it in the hands of the agencies to develop internal plan for implementation of capturing G-PP&E historical costs with FASAB guidance is the best approach.

### **#30 Stefan Silzer, EPA**

We agree that a reasonable estimate that includes any major improvements or betterments can be used. But if that estimate cannot be supported by cost of a similar asset at time of acquisition or current cost of a similar asset discounted for inflation since the time of acquisition per “Estimation of Historical Cost” (SFFAS 6), a valuation of the asset should be made by a certified appraiser.

### **#31 James Lingeback**

Agree. The initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, should be considered acceptable on a continuing basis.

Because entities that have not established adequate systems are expending resources on both system development and manual generation of historical cost data for G-PP&E, we believe that allowing the use of estimation methods on a continuing basis is a more cost effective means of implementing new requirements.

However, as systems and processes are put into place and operating effectively, the need for using estimates should decline over time. On occasion, through normal reviews, entities may discover G-PP&E items purchased in earlier accounting periods that were erroneously not capitalized. In those cases, if source documentation is not readily available, it may not be cost effective to conduct lengthy manual searches.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #3**

**Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.**

Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

### **#1 Mitch Laine, Individual**

No Comments.

### **#2 Mary Glenn-Croft, SSA**

Yes, we agree with the proposed amendment to SFFAS 6 found in paragraph 7 and paragraph A10-13A. The various approaches on how to make an estimate are clear and understandable. However, paragraph A12 states ‘...entities should use judgment regarding the decision to use estimated historical cost in lieu of original transaction based data.’ It seems this statement is encouraging the preparer to select one or the other. Obviously, if transaction data is available, estimates should not be used.

### **#3 Kenneth Winter, Individual**

No Comments.

### **#4 Joseph Maresca, Individual**

No Comments.

### **#5 Bill Henderson, USDA – OIG**

We agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E.

### **#6 Wendy Calvin, DOT – MARAD**

We agree with the proposed amendment to SFFAS 6 because it allows for various methods to derive reasonable estimates and determine reasonable life of the related G-PP&E. We concur with the paragraph 12 and 13 that the estimates may be based on budget appropriation, engineering documents, contracts and other reports reflecting the amount to be expended and alternatively, current replacement costs of similar items. MARAD sometimes uses the independent appraised fair market value to determine the cost of the defaulted guaranteed ships. We propose the paragraph 12 includes the “independent appraisal value”.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #3**

### **#7 Jeffrey M. Bobich, Transportation Security Administration**

No Comments.

### **#8 Daniel Fletcher, CFO Council**

Yes, we agree (as stated in the Q1 response). The proposed amendment to SFFAS 6 allows for various methods to derive reasonable estimates and determine reasonable life of the related General PP&E. We concur with SFFAS 6 paragraph 12 and 13 that the estimates may be based on information such as, but not limited to, budget appropriation, engineering documents, contracts, and other reports reflecting the amount to be expended and alternatively, current replacement costs of similar items.

### **#9 Daniel Kovlak, Greater Washington Society of CPAs – FISC**

We agree with the Board's proposal to apply reasonable estimates to the historical cost information and accumulated depreciation. We, however, recommend that paragraph 13A be removed. It is our opinion that the explicit reference to the mid-point of a range is too specific, and contradicts past practices of the Board in providing principles-based standards for the Federal accounting community.

### **#10 Regina Dougherty, Selective Service System**

Yes, I agree with the proposed amendment. Paragraphs 12 and 13 provide guidance on estimation methods.

### **#11 Daniel Fletcher, Department of Interior**

Yes, Interior agrees with the proposed amendment to SFFAS 6, which allows the use of reasonable estimates of original transaction data historical cost and accumulated depreciation for General -PP&E. Estimates will allow entities that are required to report General-PP&E for the first time to provide meaningful information in the absence of "actual" data. Reasonable estimates are and always have been an integral part of financial statement preparation and serve to improve their completeness and accuracy.

### **#12 Capt. Jack Niemiec, US Coast Guard**

The Coast Guard agrees with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. The Coast Guard must ensure, however, that auditors are fully cognizant and agreeable to a reasonable approach with respect to the application of these standards. If allowed by auditors, the recommended alternative techniques will save agencies much time and money to search for invoices and contracts that may no longer exist. The standard calls for the use of reasonable estimates of historical cost and accumulated depreciation.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #3**

Allowing reasonable estimates while Federal entities are working towards the implementation of the policies, processes and systems to support auditable historical costs improves the quality and consistency of the G-PP&E data on the financial statements. Currently, many of the G-PP&E assets are either not reported or at least not auditable because they are not supportable from a historical cost basis. Allowing the use of estimates with adequate disclosure will improve the quality of the financial statement information.

### **#13 Mark C. Jenson, NASA – OIG**

No Comments.

### **#14 Melanie Cenci, USDA**

See response to Q1 above.

### **#15 Carolyn Davis, DOD – OIG**

We neither agree nor disagree with the question. On the one hand, with the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E should be used only under specific circumstances. Because if estimates can be used when the entity deems it “impractical” to use historical data, the entity would not have motivation to improve their systems to make obtaining accurate historical data possible. On the other hand, we agree with the proposed amendment to SFFAS No. 6. We think entities should be able to use estimation methods, especially if lacking documentation. While historical cost is preferable, estimates are necessary in some cases. Using estimation methods will probably provide more timely historical costs than manually generating it.

Federal entities that have not previously reported G-PP&E on their entity financial reports and for the entities who have not previously prepared financial reports, but who may be required or elect to do so in the future should be allowed to use reasonable estimates to report the historical cost of their assets upon initial capitalization of the G-PP&E. Once the entity either starts preparing financial statements or determines that it may have to do so, the entity should retain documentation that supports the cost of its assets and use that information to report the historical cost of the asset. Allowing Federal entities to revise their estimates of the historical cost of assets contradicts the purpose of using historical costs in the first place and puts into question the reliability of the financial statements.

### **#16 Larry Ishol, Deloitte & Touche LLP**

We agree with the proposed amendment to SFFAS 6. We believe that it is important to note that whether the valuation assertion is satisfied by historical cost or reasonable estimation methods, financial statement assertions relating to existence of the underlying asset must be

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #3**

verifiable. Also, the FASAB should specify whether there is a hierarchy to the ordering of the new bulleted items specified in SFFAS 6, paragraph 40.

### **#17 Gordon Alston, Department of Commerce**

Department of Commerce Response:

A3. The Department agrees with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E, for the same reasons given in answers 1 and 2. Also, the amendment should provide a hierarchy for valuing G-PP&E, beginning with the most accurate and objective basis (transaction-based historical cost) and ending with the most subjective estimation basis. The choice of valuation basis should take into consideration the feasibility, cost effectiveness, and reliability of the valuation.

### **#18 Kevin McHugh, American Appraisal**

I agree, however, as mentioned in Q1 above, the reverse inflation indices should be based upon asset classification and not a general CPI. Reverse inflation indices by classcode are more accurate in that they are reflective of technology changes and overall product market conditions.

Guidance should be extended to the entity relative to substituting "latest" Acquisition Cost for "current" Replacement Cost in terms the age of the "latest" Acquisition Cost, as if aged, this methodology may not be applicable.

### **#19 Bob Childree, AGA FMSB**

Yes, for the same reasons expressed in the answer to Q1 and because the issue here is how an entity that did not capture this information originally can manage to recreate it. Each situation will be unique based on what information is available to the entity, so it makes sense to simply require the basis be reasonable rather than specify what the only valid methods are.

### **#20 Gerald Tucker, HUD**

Agree. HUD believes that the use of reasonable estimates is a prudent business decision in this time of limited resources. However, the addition of "other reasonable estimation methods", as noted in paragraph 7, would require further explanation and the Agency should also seek the guidance from the Agency's auditors prior to employing such methods.

Additionally, the estimate of accumulated depreciation should take into account the systemic basis of the G-PP&E useful life, thereby reflecting the pattern in which the asset's past and future economic benefits are consumed by the entity.

### **#21 Lois Jessup, Department of Energy**

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #3**

The Department agrees with the proposed amendment of SFFAS-6 that would allow the use of reasonable estimates of the original transaction data historical costs and accumulated depreciation for G-PPE. While we agree with the proposed amendment, maintaining original documentation is the ideal accounting preference.

### **#22 Richard Powers, Aerospace Industries Association**

Agree. Accumulated depreciation by definition is an estimate whether actual costs or estimated costs are used.

### **#23 David Smith, DOD**

DoD agrees with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. However, the DoD requests specific language be added to the standard to communicate that there is no preference among the three methodologies to prevent the interpretation that the estimates have to be based on a hierarchy of the methodologies provided in the standard. This could be accomplished by adding "or" after each methodology in paragraph 40 of SFFAS 6 or by inclusion of a sentence that the options are presented in no particular order. The additional language would resolve any confusion between agency and auditors in their review/audit of financial statements for the purpose of rendering an opinion.

### **#24 Terry Bowie, NASA**

Agree. We agree largely for the reasons stated in our answers to questions 1 and 2. This is a reasonable alternative that balances cost and utility to what has been a difficult problem. However, we caution that to avoid implementation problems there will have to be a consistent understanding as to the definition and application of a "reasonable estimation method." This is especially important for older PP&E for which historical data may be lacking. For instance, how does "reasonable" in the context of an estimate differ from "reasonable assurance" as defined in Government Auditing Standards? It will be important for the preparer and the auditor to work closely together toward a common understanding as to the application of the standard. Doing so will help to ensure a fair presentation of the financial statements through the use of reasonable estimates.

### **#25 Wendy Marshall, Western Area Power Administration**

Yes.

### **#26 Cynthia Simpson, Department of Labor**

DOL agrees with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #3**

depreciation for G-PP&E. The proposed amendment provides adequate flexibility for the use of reasonable estimates by management.

Furthermore, we believe that the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E should also be allowed in recognition of G-PP&E by entities that have previously prepared financial reports, particularly for non-recurring types of transactions. Please refer to the discussion in our response for Q1.

### **#27 Melinda Bers, DHS**

Agree, with reservations. While base cost data may not be available, the cost of follow-on significant modifications may be available. Where such historical data is available, it should be utilized

We must ensure, however, that auditors are fully cognizant and agreeable to a reasonable approach with respect to the application of these standards. In that case, the recommended alternative techniques will save agencies much time and money avoiding the search for invoices and contracts that may no longer exist.

Allowing reasonable estimates while Federal entities are working towards the implementation of the policies, processes and systems to support auditable historical costs improves the quality and consistency of the G-PP&E data on the financial statements. Currently, certain G-PP&E assets are either not reported or at least not auditable because they are not supportable from a historical cost basis. Allowing the use of estimates with adequate disclosure will improve the quality of the financial statement information.

### **#28 Resource Management Directorate, National Security Agency**

Agree that the use of reasonable estimates be use for value, given that a reasonable amount of time and energy has been expended to locate historical documents. Agree with Mr. Patton's view that the reasonable estimations should be used one-time, to determine historical costs for all un-valued assets that are determined to be older than the current budget process or older than five (5) years from the date of FASAB implementation date. Assets purchased within the current budget process or those acquired within the past five years should have some form of paperwork available with costs.

### **#29 Katherine Reed, Office of the Director of National Intelligence**

The IC agrees with the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. Accounting for G-PP&E is a significant challenge for the IC who expends significant resources to acquire complex technological assets with an acquisition life-cycle spanning several years. Additionally, some components of the full acquisition life-cycle cost for high technological assets are not always considered a

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #3**

capital cost, unlike assets procured off-the-shelf using firm-fixed priced contracting. As a result, the IC's attempts to identify and support the historical cost of items such as past "non-capital" costs have proven to be very time consuming and in some cases impossible, as discussed in Q1 above.

### **#30 Stefan Silzer, EPA**

We agree that a reasonable estimate makes sense in circumstances where documentation may be incomplete or missing. A reasonable estimate would be the fastest and most cost effective approach to accounting for the property as long as an effort was made to make them as accurate as possible. However, if the estimate cannot be supported by cost of a similar asset at time of acquisition or current cost of a similar asset discounted for inflation since the time of acquisition per "Estimation of Historical Cost" (SFFAS 6), a valuation of the asset should be made by a certified appraiser.

### **#31 James Lingeback**

Agree. The use of estimates to establish the original transaction data historical costs and accumulated depreciation can save agencies money and time in implementing requirements of SFFAS 6. The process for agencies in researching back several years to find the historical cost of each asset and verifying that the asset is still in use by the agency can be very time consuming, costly and in cases where assets were purchased several years ago, the detail may no longer exist on site or at all.

Additionally, the net book value of assets is an estimate, since assets are depreciated or amortized over their estimated useful lives. If estimates are appropriately used, then the asset values presented should be reasonably stated. Please refer to our response to question 2 for additional information which is also relative to this question.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4**

**Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20**

Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

### **#1 Mitch Laine, Individual**

No Comments.

### **#2 Mary Glenn-Croft, SSA**

We believe a date certain option is the best approach. Establishing a specific date will encourage preparers to develop a system, or some other method, to capture historical costs. Keeping in mind the burden this may place on some agencies, FASAB should establish a reasonable timeframe (i.e., 5 years) to develop systems and/or approaches to ensure the reporting of accurate data.

### **#3 Kenneth Winter, Individual**

No Comments.

### **#4 Joseph Maresca, Individual**

No Comments.

### **#5 Bill Henderson, USDA – OIG**

We believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option). Financial statements are audited to ensure that the financial statements are reasonably accurate. The entity should maintain sufficient and appropriate documentation to support their estimation methodology to enable an auditor to verify the balances. However, these instances should only be used when historical cost documentation (contracts, invoices, appraisals etc...) are not available or not cost effective to obtain. These instances should be rare especially for entities that have been preparing audited financial statements over the years.

### **#6 Wendy Calvin, DOT – MARAD**

We believe that the use of reasonable estimates to G-PP&E should be permitted at any time for certain types of G-PP&E, such as, the transfers or donation of old PP&E (e.g., vessels). For example, if the U.S. Navy were to transfer a seaworthy vessel to MARAD,

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4**

it would be unwise and unreasonable of MARAD to reject this vessel simply because the G-PP&E documentation was not retained.

### **#7 Jeffrey M. Bobich, Transportation Security Administration**

No Comments.

### **#8 Daniel Fletcher, CFO Council**

See response to Q2 above.

### **#9 Daniel Kovlak, Greater Washington Society of CPAs – FISC**

We agree with the Board's proposal to allow that reasonable estimation methods be used on an open-ended basis. We feel that the open-ended option would provide the greatest amount of flexibility for management to make its own cost-benefit decision when initially capitalizing G-PP&E.

### **#10 Regina Dougherty, Selective Service System**

I believe that an open-ended option with a measurement of the agencies progress on implementing a system to capture cost of current purchases would be appropriate. The open-ended option without some measurement of the agencies progress does not provide sufficient motivation to implement a system. A date-certain option does not take into consideration the difficulties some agencies would encounter in implementing a system.

### **#11 Daniel Fletcher, Department of Interior**

Interior believes that reasonable estimates should be available for entities to use anytime. Entities should not be restricted by any cut-off date, because it is impossible to predict when the need to utilize an estimate may arise or when reliance upon estimates is no longer necessary. The option to use estimates must remain available to federal entities that may have no other avenue for asset valuation. It is unreasonable to put any expiration date on a methodology that is a longstanding, widely accepted, and integral component of responsible financial reporting.

### **#12 Capt. Jack Niemiec, US Coast Guard**

The Coast Guard supports the open-ended option. To value real property, the Coast Guard will need to first conduct a complete wall to wall inventory, gather all supporting documentation available and analyze the results. The Coast Guard started what was to be a 3 year effort in 2005. Funding constraints have caused a temporary cessation of this work. Consequently, this work will not be completed in the original time estimate. In addition, the Coast Guard is finding that from an audit perspective there are significant information gaps that will raise valuation issues into the future.

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4

In theory, the creation of a date-certain approach would force federal entities to change their G-PP&E policies, processes and systems in order to become compliant. The reality as stated in the GAO report on the Federal FY 09 Financial Statements is that "the size and complexity of the federal government and the long-standing nature of its financial management systems weaknesses continue to present a formidable management challenge in providing accountability to the nation's taxpayers." GAO also pointed out that "FFMIA requires auditors, as part of the 24 CFO Act agencies' financial statement audits, to report whether those agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's Standard General Ledger at the transaction level. For fiscal years 2008 and 2007, auditors for 14 and 13 of the 24 CFO Act agencies, respectively, reported that the agencies' financial management systems did not substantially comply with one or more of these three FFMIA requirements." GAO stated that "according to many of the agency auditors' reports, serious problems remain for the financial management systems. As a result, federal agencies' financial management systems are unable to routinely produce reliable, useful, and timely financial information, which hampers the federal government's ability to effectively administer and oversee its major programs. While agencies anticipate that the new systems will provide reliable, useful, and timely data to support managerial decision making, our work and that of others has shown that has often not been the case."

Although many of these system issues have prevented the federal government from supporting historical costs for G-PP&E, the results of management and audit efforts have improved the overall accountability of G-PP&E within the federal government. For example, the Coast Guard has successfully used a variety of "reasonable estimates" to satisfy audit and financial reporting requirements where specific historical supporting documentation was not available. However, the Coast Guard still has and will have for the foreseeable future many financial system related issues that impede our ability to adequately support G-PP&E transactions with historical transactions. In addition, many of the larger and more complex G-PP&E assets, such as aircraft, vessels, buildings and structures take years to complete and, if not properly set up and monitored during their construction, provide incomplete historical documentation that does not comply with audit requirements to support valuation. Often, these discrepancies are not identified until years after the project is initiated and the creation of adequate documentary support is not always possible. Allowing federal entities the ability to apply alternate means until they have auditable policies, processes and systems will continue to improve the quality of federal financial information.

The Coast Guard also believes that it would be very helpful if FASAB would develop standards for the useful lives of assets. Currently, each department/agency develops their own useful lives for their assets. We suggest that standards are needed to ensure consistency among similar classes of assets across the federal government. We believe this would improve the Consolidated Financial Statements of the U.S. Government and result in greater consistency among audits of different federal agencies.

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4

### #13 Mark C. Jenson, NASA – OIG

No Comments.

### #14 Melanie Cenci, USDA

See response to Q2 above.

### #15 Carolyn Davis, DOD – OIG

We believe the use of reasonable estimates should be permitted only through a definitive end date. Given that G-PP&E be reported at historical costs, based on supporting documentation, entities should be working towards creating systems, processes, and internal controls to be able to do that. The use of estimates should be used only on G-PP&E items that do not have historical costs supported by original transactional data. Entities should keep all supporting documentation and original transactional data for new G-PP&E purchased in accordance with SFFAS No. 23. As G-PP&E items with estimated historical costs retire, the G-PP&E items remaining will be those with historical costs based on original transactional data, which is how G-PP&E should be reported on the financial statements.

Additionally, Statement of Federal Financial Accounting Concepts 1: *Objectives of Federal Financial Reporting*, states that the recommendation of accounting standards “necessarily involve[s] judgments about the costs and benefits of producing more information or of reporting it differently” [para. 151, 4<sup>th</sup> sentence]. SFFAC 1 continues by stating that accounting standards can have many different effects. Those effects include “the activities of agency accountants and the auditors who review reports prepared by those accountants” and an “influence [on] which physical assets are under accounting control and the extent of work the auditor does to provide assurance about those assets” [para. 152, 1<sup>st</sup>-3<sup>rd</sup> sentences]. An accounting standard that allows the continuing use of estimates, however reasonable, could result in some federal agencies continuing the use of estimates for an indefinite length of time [para. A20, 1<sup>st</sup> sentence].

Further, the exposure draft indicates that “initial application of this standard by an entity previously reporting G-PP&E should be treated as a correction of an error” [para. 16, 1<sup>st</sup> sentence]. According to SFFAS 21: *Reporting Correction of Errors and Changes in Accounting Principles*, “errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared” [para. 10, 1<sup>st</sup> sentence]. Presumably, the exposure draft is considering the reporting of G-PP&E as correcting an oversight of facts in existence when the financial statements were prepared. Allowing the continuing use of estimates, especially if it would result in some federal agencies not transitioning to actual G-PP&E historical cost, would continue to overlook facts in existence when preparing financial statements.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4**

### **#16 Larry Ishol, Deloitte & Touche LLP**

We recommend a date certain should be stipulated by the FASAB so that federal entities have a commitment to a final transition date. Otherwise, we believe that entities may not have a sense of urgency to implement processes and systems for timely capturing of historical cost. In establishing a date-certain, we also believe that FASAB should consider the burden placed on some entities to develop an approach and/or systems that captures historical costs.

### **#17 Gordon Alston, Department of Commerce**

The Department agrees that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) if the original transactional data is no longer available. As previously stated in answer 2, in a changing environment within government, entities may arise during reorganizations, for example, and find that records predating their existence may no longer be available. In this case and in similar cases, we believe that such entities should be permitted to use estimation methods to establish historical cost and accumulated depreciation of G-PP&E.

### **#18 Kevin McHugh, American Appraisal**

The Board may want to consider an approach similar to that which the Governmental Accounting Standards Board (GASB) utilized for Statement No. 34. The GASB implemented a "phase in" approach that various sized governments could use, specifically:

- Governments with annual revenues of >\$100 million - June 15,2001
- Governments with annual revenues of \$10 million to \$100 million - June 15, 2002
- Governments with annual revenues of <\$10 million - June 15,2003
- 

This "phase in" approach would require the larger entity to comply first as presumably it should have systematic and personnel resources to respond more timely then the medium and similar entities. By having a set implementation date, it would highlight the importance of the standard from an accountability and stewardship point of view.

### **#19 Bob Childree, AGA FMSB**

We prefer the open-ended option, see Q2 above. It is impractical to require entities not currently required to report certain information to track it in case they suddenly meet the requirements to report it. As stated in Q2 above, we think that a set time frame (starting from when the entity is first required to report on G-PP&E) is logical based upon requirements to prepare financial statements, implementation of sound property systems and gradual recording of all G-PP&E. Ten years seems a reasonable time frame as an entity should be able to implement any number of off-the-shelf property systems.

### **#20 Gerald Tucker, HUD**

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4**

HUD believes that the use of reasonable estimates to value G-PP&E should be available at anytime to allow for any “new” reporting entities to use reasonable estimation methods.

### **#21 Lois Jessup, Department of Energy**

No Comment.

### **#22 Richard Powers, Aerospace Industries Association**

Permitted at any time. Requiring a definitive end date will generate less useful information that can be reported to the public and decision makers. Reasonable estimates are used now on transactions such as partial retirements. Ultimately, precision in cost data requires an investment in infrastructure, processes and administrative cost. The cost to implement the requirement for actuals would rarely provide sufficient benefits and would divert resources from the primary objectives.

### **#23 David Smith, DOD**

DoD agrees that reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended opinion). DoD believes that this will enable Federal agencies to focus accounting resources on long-term, system based solutions. There is wide acknowledgement of both the value and the long-term cost-effectiveness of capturing financial data at the transaction level. The ongoing availability of the use of estimates supports the goal of establishing reliable and cost-effective financial systems.

Agencies should be encouraged to move towards systems that will support transaction based valuation of assets since the ability to link specific transaction values with individual assets demonstrates that an Agency has effective internal controls in place to support financial reporting. However, reporting accurate financial information to the public is also important and should be facilitated while transaction-based systems are developed.

Further, DoD believes that this guidance should be placed as an amendment to SFFAS No. 6 rather than as an amendment to SFFAS No. 23, since the guidance applies to all GPP&E, not just that property formerly classified as National Defense PP&E.

### **#24 Terry Bowie, NASA**

Yes. We support the open-ended option as long as a reasonable estimation method has been established. As stated in answer to Q2, we would expect the estimation method to evolve over time, with a higher bar set as agencies that previously could not capture

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4**

the costs required to capitalize assets improve their capabilities to do so. We understand the position of the FASAB member regarding the use of an open-ended time period for the use of estimates. The end goal for all agencies should be to effectively and efficiently report the actual costs required to capitalize G-PP&E. At the same time, a reasonable estimation method can provide the information needed to fairly present the financial position of the agency. For some agencies, it may be years before they can put in place actual G-PP&E cost reporting. Therefore, it is difficult to place a date certain on the use of estimates. Our view is that the use of estimates is a viable means of financial reporting. To place a date certain on this could be viewed as arbitrary, since the challenges faced by agencies differ greatly, and would seem to be inconsistent with the thrust of the ED, that reasonable estimation methods which are already used to support the fair presentation of other financial statement line items are acceptable for G-PP&E.

### **#25 Wendy Marshall, Western Area Power Administration**

The use of estimates should be open ended to allow for the transfer of assets between agencies. When an asset moves between two agencies one agency may have a need to account for the asset at a lower level of detail than the transferring agency. In that case the receiving agency may use estimates to arrive at the cost by the proper unit of accounting in their agency.

### **#26 Cynthia Simpson, Department of Labor**

DOL believes that the use of reasonable estimates to value G-PP&E should be permitted at any time so as to provide maximum flexibility by management. Furthermore, we believe that the open-ended option should also be allowed in recognition of G-PP&E by entities that have previously prepared financial reports, particularly for non-recurring types of transactions. Please refer to the discussion in our response to Q1.

### **#27 Melinda Bers, DHS**

Agree, reluctantly. Until such time as all agencies are required to develop financial reports, placing a date certain option on the standard only opens the Board to having to re-issue the standard at some point in the future.

Also, justifying the rationale behind the estimate is the responsibility of the agency that uses this method. Likewise, they are responsible for providing justification sufficient to prove that their estimate is reasonable. With this responsibility, agencies should still strive for process improvements because they are not “off the hook. It is easier to provide a precise answer than to provide justification for an estimate, so it is likely that agencies will move in this direction.

The following comments apply specifically to the Coast Guard.

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4

To value real property, the Coast Guard will need to first conduct a complete wall to wall inventory, gather all supporting documentation available and analyze the results. The Coast Guard started what was to be a 3 year effort in 2005. Funding constraints have caused a temporary cessation of this work. Consequently, this work will not be completed in the original time estimate. In addition, the Coast Guard is finding that from an audit perspective there are significant information gaps that will raise valuation issues into the future.

In theory, the creation of a date-certain approach would force federal entities to change their G-PP&E policies, processes and systems in order to become compliant. The reality as stated in the GAO report on the Federal FY 09 Financial Statements is that "the size and complexity of the federal government and the long-standing nature of its financial management systems weaknesses continue to present a formidable management challenge in providing accountability to the nation's taxpayers." GAO also pointed out that "FFMIA requires auditors, as part of the 24 CFO Act agencies' financial statement audits, to report whether those agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's Standard General Ledger at the transaction level. For fiscal years 2008 and 2007, auditors for 14 and 13 of the 24 CFO Act agencies, respectively, reported that the agencies' financial management systems did not substantially comply with one or more of these three FFMIA requirements." GAO stated that "according to many of the agency auditors' reports, serious problems remain for the financial management systems. As a result, federal agencies' financial management systems are unable to routinely produce reliable, useful, and timely financial information, which hampers the federal government's ability to effectively administer and oversee its major programs. While agencies anticipate that the new systems will provide reliable, useful, and timely data to support managerial decision making, our work and that of others has shown that has often not been the case."

Although many of these system issues have prevented the federal government from supporting historical costs for G-PP&E, the results of management and audit efforts have improved the overall accountability of G-PP&E within the federal government. For example, the Coast Guard has successfully used a variety of "reasonable estimates" to satisfy audit and financial reporting requirements where specific historical supporting documentation was not available. However, the Coast Guard still has and will have for the foreseeable future many financial system related issues that impede our ability to adequately support G-PP&E transactions with historical transactions. In addition, many of the larger and more complex G-PP&E assets, such as aircraft, vessels, buildings and structures take years to complete and, if not properly set up and monitored during their construction, provide incomplete historical documentation that does not comply with audit requirements to support valuation. Often, these discrepancies are not identified until years after the project is initiated and the creation of adequate documentary support is not always possible. Allowing federal entities the ability to apply alternate means until they have auditable policies, processes and systems will continue to improve the quality of federal financial information.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4**

The Coast Guard also believes that it would be very helpful if FASAB would develop standards for the useful lives of assets. Currently, each department/agency develops their own useful lives for their assets. We The Coast Guard suggests that standards are needed to ensure consistency among similar classes of assets across the federal government. We believe this would improve the Consolidated Financial Statements of the U.S. Government and result in greater consistency among audits of different federal agencies.

### **#28 Resource Management Directorate, National Security Agency**

Agree that the use of reasonable estimates be use for value, given that a reasonable amount of time and energy has been expended to locate historical documents. Agree with Mr. Patton's view that the reasonable estimations should be used one-time, to determine historical costs for all un-valued assets that are determined to be older than the current budget process or older than five (5) years from the date of FASAB implementation date. Assets purchased within the current budget process or those acquired within the past five years should have some form of paperwork available with costs.

### **#29 Katherine Reed, Office of the Director of National Intelligence**

The IC agrees that reasonable estimates be permitted at any time; however, we do not believe that there should be an open-ended time period for use of the estimates. The IC does not support a date certain approach. In addition to the reasons provided in A2 for why the FASAB would have difficulties establishing a date certain the following additional comments are provided.

The IC believes that allowing the use of estimates to value G-PP&E assets should be subject to the Agency CFO management's discretion. Use of estimation methods require the development and execution of detailed implementation plans to design and implement auditable processes, controls, and systems to support the future accumulation of actual costs in lieu of estimates. Progress should be monitored by the agency CFO with advice by agency IGs. OMB oversight requirements such as the PMA Scorecard, A-11, and other circulars would provide sufficient opportunities to report the implementation of estimates and historical costs of G-PP&E.

In addition, the IC has grave concerns that instituting a date certain would have negative impacts on the IC's multitude of multiyear acquisitions The IC would be presented with significant challenges to implement if an early date implementation date is selected. The IC believes that the date certain approach would require clear implementation guidance to avoid confusion between agency management and independent auditors.

If a date certain option is chosen by the Board, the IC believes the Board should explicitly state in the Standard that the expectation is, as of the date certain, historical operational G-PP&E may be valued using reasonable estimates. Likewise, WIP as of the date certain may be valued using reasonable estimates. As a result, when the WIP at the date certain is completed

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #4**

and put into use, the value of that WIP should either be based on reasonable estimates (because it was under construction as of the date certain), or on the reasonable estimate established at the date certain, plus additional historical costs captured after the date certain until the asset is completed. In essence, WIP existing as of the date certain will be valued in a “hybrid” fashion – part reasonable estimate, part historical cost. All new GPP&E acquired after the date certain would then be valued using historical cost.

However if an approach is implemented by the Board, the IC encourages the Board to consider the need for precise implementation instructions as suggested in our answer to question #4. IC believes “hybrid” valuations should be acceptable for assets under construction as of the date certain under a multiyear acquisition lifecycle for agencies similar to the IC.

If a date certain approach is not chosen, the Board should understand that the “to be” processes, systems and controls to capture historical cost data on a transaction basis will need to be implemented for a significant period of time before the intended results of utilizing original transaction detail to value assets under construction at the date certain and completed after the date certain can be realized. As a result the implementation of a date certain approach for implementing processes, systems and controls would yield auditable results based on estimates for a given year, but the multiyear original transaction data could not produce auditable evidential matter in the subsequent year under this scenario.

### **#30 Stefan Silzer, EPA**

EPA supports the open-ended option because we believe the definitive end date approach is too constricting. The open-ended approach allows agencies more time and flexibility in exploring various methodologies and selecting the one that works best for their purposes. There are a variety of factors that come into play in valuing an asset that wasn’t previously valued for reporting purposes. Therefore, flexibility in the standard is critical.

### **#31 James Lingeback**

Use of reasonable estimates to value G-PP&E should be permitted at any time. A definitive end date for the use of estimates could result in the loss of significant amount of estimation work when a large agency that is working to implement SFFAS 6 is not able to implement within a mandated timeframe. That agency would have to start back over using actual historical cost. An open ended time period would allow a large agency to comply with the standards in stages for different types of assets, if they are unable to implement a process for all asset types at once.

Several of our bureaus did, however, raise concern that without specified limits to encourage compliance, some entities will likely postpone efforts to improve methods of capturing and reporting G-PP&E data. The Board could address some of their concerns regarding the assignment of a definitive end date by applying a flexible/tiered approach grouped by volume or complexity of data.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #5**

**Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.**

Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

### **#1 Mitch Laine, Individual**

No Comments.

### **#2 Mary Glenn-Croft, SSA**

We do not agree with Mr. Patton's position that this ED would "...be ineffective in improving federal financial reporting for the foreseeable future." Mr. Patton raises some concerns about the use of estimates, stating that there would be no "...objective basis upon which to compare the estimates made by an agency." The use of estimates for financial reporting has been used successfully by federal agencies; there is no evidence that the use of estimates for historical costs would not be as effective. In addition, Mr. Patton's concerns that agencies will "...defer or delay the creation of systems for a considerable time period," could be addressed by establishing a "date certain option" as discussed in paragraphs A14-A15.

### **#3 Kenneth Winter, Individual**

No Comments.

### **#4 Joseph Maresca, Individual**

No Comments.

### **#5 Bill Henderson, USDA – OIG**

We do not agree with the views expressed in the Alternate View in the Basis for Conclusions.

The use of estimates has been accepted for years in the accounting and auditing communities as long as the methodology is reasonable and sufficient and appropriate supporting documentation is maintained. Financial statements audit opinions are based on the reasonable accuracy of the account balances. Further, it is expected that these historical cost estimates should be rare and the exception to the historical cost documentation rule.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #5**

### **#6 Wendy Calvin, DOT – MARAD**

We do not agree with Mr. Patton for the reasons expressed in our responses to the questions 1 – 4.

### **#7 Jeffrey M. Bobich, Transportation Security Administration**

No Comments.

### **#8 Daniel Fletcher, CFO Council**

i. We do see potential risks to the use of estimating techniques, particularly for assets of significant dollar amounts. In many instances, estimating techniques can be used to produce reliable results that are appropriate for financial reporting. As noted in the responses to Q2 and Q6, management and auditors need to evaluate the potential risk of reporting errors that could result from significant and continued use of estimating techniques. These evaluated risks should be factored into the determination of whether the Balance Sheet and other financial reporting related to General L PP&E are fairly stated.

ii. While we see the risks involved and the 'chicken or egg' concept based on A20 of the Exposure Draft, we have to acknowledge the difficulties some agencies face to derive the historical costs for capitalization purposes when none exists to begin with. Perhaps the Board may want to define or look into defining certain criteria or frameworks for agencies to use reasonable estimates or allowable estimation methods that are not subject to a date certain requirement on certain types of General PP&E, such as, the transfers or donation of old assets or recovery of assets through gain by inventory from conditions that are caused by extreme climate conditions or remote locations or abandonment.

### **#9 Daniel Kovlak, Greater Washington Society of CPAs – FISC**

We certainly appreciate Mr. Patton's views. We agree with his statement that "some federal agencies will defer and delay the creation of systems for a considerable period of time, perhaps until another measurement approach is adopted for federal financial reporting." However, we believe that it is up to the Federal agency personnel to devise a reliable and consistent methodology that can be supported when reviewed by external auditors.

### **#10 Regina Dougherty, Selective Service System**

See answer to Q#4 above.

### **#11 Daniel Fletcher, Department of Interior**

No, Interior does not agree with the Alternative View, which prefers a limited or date certain period for the use of estimates. The Alternative View references paragraph A16, **which** encourages Federal entities using estimates of historical cost values of General-PP&E to do the

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #5

following;

*...establish processes and practices (i.e., adequate systems and internal control practices) for **future** acquisitions that will capture and sustain transaction based data that meet the General-PP&E historical cost valuation requirements.*

Also, the Alternative View suggests, in paragraph A20, that the open-ended timeframe for the use of estimates, as provided by the Exposure Draft, runs counter to the intent of AI 6 and will allow some federal agencies to;

*...defer and delay the creation of systems for a considerable period of time, perhaps until another measurement approach is adopted for federal financial reporting.*

While the need for, and usefulness of, such systems is undeniable, that need is an issue that should remain independent of any requirements for estimating historical cost. It does not follow that entities using estimates for PP&E will automatically forego all attempts at developing efficient cost capturing systems. Delayed creation of these systems is more attributable to budgetary restrictions than to an open ended approach to the use of estimates.

Further, The Alternative View asserts that if an entity does not have a system;

*... to capture the actual historical acquisition cost of assets means that there would appear to be no objective basis upon which to compare the estimates made by an agency. Thus, any standard based on the criteria in the ED is likely to be ineffective in improving federal financial reporting for the foreseeable future.*

The lack of a system to capture historical cost does not necessarily compromise comparability of estimates. The criteria in the ED provides for the use of *reasonable* estimates. The methodologies which provide these *reasonable* estimates, many of which are rooted in management's detailed knowledge of the intricacies of a specific asset, will serve as the objective basis for comparability.

Limiting the timeframe during which agencies can use estimates does more to impede improved federal financial reporting than does not having a comprehensive cost capturing system in place. Agencies that have not or, in many cases, cannot implement such systems should not be penalized by a restricted ability to use reasonable estimates. Therefore, Interior believes the use of reasonable estimates does indeed represent an improvement in federal financial reporting.

### **#12 Capt. Jack Niemiec, US Coast Guard**

The Coast Guard generally agrees with the ED as written with an open ended completion date. If the standard is implemented as written, the Coast Guard will implement period discipline to use estimates only so long as needed to value assets where adequate supporting documentation may not exist. The Coast Guard will apply our own discipline to prevent the situation that Mr. Patton describes from occurring, i.e.,

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #5**

so open ended that appropriate values are not determined nor effected in the financial system.

### **#13 Mark C. Jenson, NASA – OIG**

No Comments.

### **#14 Melanie Cenci, USDA**

Disagree. Use of estimates may be necessary in the preparation of financial statements when relevant data concerning events that have already occurred cannot be accumulated on a timely cost-effective basis.

### **#15 Carolyn Davis, DOD – OIG**

We agree with the view expressed in the Alternate View in the Basis for Conclusions. When cost information was not maintained the use of estimates would be an appropriate necessity to report G-PP&E acquired. Additionally, the use of a date-certain option would prevent agencies from continuing to use estimates indefinitely. Without an actual deadline of when to setup systems to capture actual acquisition costs, some entities will push off this responsibility. Granted, some reporting entities will still delay implementing this requirement; however, an actual timeline should lessen the number that does push off this necessity. Perhaps, it would be appropriate to address entities with a large volume of G-PP&E on a case-by-case basis to grant them additional time to implement the system.

### **#16 Larry Ishol, Deloitte & Touche LLP**

We disagree with the Alternative View in the Basis of Conclusions of the ED. We believe that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E can be accomplished and audited. Also, we believe that if there is a date-certain established it is likely that agencies will be deterred from delaying, for a considerable period of time, the creation of systems that are designed to capture historical costs based on transaction data. We believe that a datecertain approach will address some of the primary concerns raised in the Alternative View.

### **#17 Gordon Alston, Department of Commerce**

The Department disagrees with the Alternate View in that we believe that a lack of defined due dates for estimating valuations is not likely to be a primary cause for entities to defer implementing Federal Financial Management Improvement Act (FFMIA)-compliant systems. We believe that implementing FFMIA-compliant systems is mainly contingent on many other factors, in addition to the ability to use estimated asset valuations. We do, however, agree with the Alternate View that transaction-based historical cost should be used as a valuation basis rather than estimates, whenever possible, and as soon as feasible.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #5**

### **#18 Kevin McHugh, American Appraisal**

I agree with the concerns expressed in paragraph A20 from the perspective that there needs to be a consistent reporting and estimating methodology and there needs to be a reporting date requirement for compliance. If these basic two principals do not exist, compliance with the Standard will not be taken seriously. Given the current financial crisis, timely reporting and financial accountability is of paramount importance.

I would suggest that the Board review the implementation guidance associated with GASB 34 and Executive Order 13327 for Real Property in that certain asset management system requirements and data elements are set forth, as well as "phase in" compliance dates for mandatory compliance.

### **#19 Bob Childree, AGA FMSB**

No, we believe there are other factors involved. An entity that is subject to audit, is rated on an OMB rating tool, or subject to other oversight, will feel pressure to build transaction-based systems capable of capturing historical cost of assets, regardless of what FASAB allows. We believe most federal entities have already begun moving to complete reporting of all G-PP&E and do not have to be dictated to have sound financial and inventory systems in place before implementing such. As budgets continue to shrink, it is in a federal entity's best interest to properly record and maintain property due to limited funding to purchase new property or equipment without adequate support.

### **#20 Gerald Tucker, HUD**

The Department agrees that the views expressed by Mr. Patton have merit, however limited resources may not permit entities with the opportunity to build systems to track acquisition/development costs.

### **#21 Lois Jessup, Department of Energy**

No Comment.

### **#22 Richard Powers, Aerospace Industries Association**

No. See the comments provided in Question 4. G-PP&E line item cost is generally rolled up by classification into G-PP&E totals, as finite details in financial reports are not considered useful for decision makers. Currently most financial systems do have the capability to produce actuals if at inception there is an agreed upon accounting treatment. Frequently it is uneconomical and unreasonable to require and do exact accounting - for example in the self construction of five like kind items, it is more economical to treat the transaction as a lot then divide the total cost by five to arrive at the capitalized costs of the individual items. The cost variations between individual items are immaterial.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #5**

### **#23 David Smith, DOD**

DoD **does not** agree with the Alternative View. As noted in response to Question 4, cost estimations and other cost finding techniques are more costly over time than effective financial systems that capture real-time transaction data. The ability to estimate historical cost data when necessary will not detract from the long-term goal. Rather, this flexibility will enable agencies to focus accounting resources on long-term solutions.

The Board's position is that reasonable estimates should be open-ended. The alternative view sets a time limit which is inconsistent with the Board's view. Further, the alternative view states concerns that without substantial constraints some federal agencies will defer and delay the creation of systems for a considerable period of time. DoD places a high priority on establishing and maintaining high-quality financial management systems.

### **#24 Terry Bowie, NASA**

No. While we support the majority view of the Board, the alternative view has some merit. It is certainly possible that an agency could continue to prepare estimates without modernizing its financial management systems. At the same time, the Agency's auditor would be reporting continuing problems in internal control and/or non-compliance of the financial management system with the Federal Financial Management Improvement Act. It would also be inefficient to have to continually estimate the value of G-PP&E. In addition, having modernized financial management systems is a priority across the Federal Government, and agencies are already required to have property accounting systems that meet Federal requirements apart from the accounting standards and financial reporting requirements issued by FASAB. Actions to improve accounting systems are being taken across Government because it makes good business sense to do so. We support SSFAS 6 and 23 and plan to comply through a well designed and operating financial management system. For some agencies, this may take some time to accomplish. The reason for permitting estimates is to recognize that while improvement are underway, they will not impact certain G-PP&E for which agencies must include values in their financial statements.

### **#25 Wendy Marshall, Western Area Power Administration**

No.

### **#26 Cynthia Simpson, Department of Labor**

DOL does not agree with the views expressed in the Alternate View in the Basis for Conclusions because the standards should provide maximum flexibility to management in the use of estimates and estimation methods. Please refer to the discussions in our responses to Q1. and Q4.

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #5

### #27 Melinda Bers, DHS

No. We do not fully agree with Mr. Patton's view. For the same reasons that he wants a date-certain option, we think it is unreasonable to propose one. The ability of an agency to implement these rules comes down to funding and priorities. Insisting upon a date-certain does not guarantee implementation.

If the standard is implemented as written, the affected DHS components will implement period discipline to use estimates only so long as needed to value assets where adequate supporting documentation may not exist. Internal discipline will be established to prevent the situation that Mr. Patton describes from occurring, i.e., so open ended that appropriate values are not determined nor affected in the financial system.

### #28 Resource Management Directorate, National Security Agency

No Comment.

### #29 Katherine Reed, Office of the Director of National Intelligence

The IC does not agree with Mr. James Patton, the IC appreciates that the use of estimation techniques could potentially have unintended consequence of deferring and delaying the implementation of systems, processes, and controls to capture historical costs. It's possible that the CFO's programs could continue on its current path of being the last in line for system and FTE resources, while mission offices continue to obtain the largest resources. However, coupled with robust existence and completeness testing, statistical estimation techniques do provide for reasonable valuation estimates, fair presentation, and comparability of G-PP&E on the financial statements. The Alternate View's concern over the absence of substantial constraints on the use of estimates could be addressed through more robust disclosure requirements than those at paragraph 45 requiring disclosing *use and general basis of any estimates used*. In addition, agency financial statements must pass audit scrutiny, which includes obtaining and evaluating sufficient competent evidential matter to support those estimates. To implement the revised standards and apply estimating techniques, agency management must consider and develop subjective and objective factors, as well as make assumptions about conditions that existed in the Agency's past, current, and future G-PP&E environment.

In addition, the IC's experience has proven that the design and implementation of processes, systems, controls, and documentation to support the successful audit of G-PP&E is a complex undertaking that requires the coordination and transformation of many integrated business processes (i.e. Finance, Contracting, and Budgeting). Based on the nature and complexity of the operations of each individual agency, some agencies will be able to implement adequate processes, systems, and controls more quickly than others.

In addition, the IC believes each agency should determine and develop their own policies that determine a timeline for converting from estimates to historical costs for G-PP&E. The Agency should work with their auditor to determine the timeline that works best for their individual

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #5**

situations. The IC has developed several business processes that have proven that the design and implementation of processes, systems, controls, and documentation to support the successful audit of G-PP&E is a complex undertaking that requires the coordination and transformation of many integrated business processes (i.e. Finance, Contracting, and Budgeting). Based on the nature and complexity of the operations of each individual agency, some agencies will be able to implement adequate processes, systems, and controls more quickly than others. It would be virtually impossible for FASAB to determine where each agency is and then select a date that would satisfy each Federal agency.

### **#30 Stefan Silzer, EPA**

EPA disagrees with the Alternate View. We concede that some agencies may defer or delay systems development, but do not believe that practice would be widespread enough to justify abandoning the “reasonable estimate” approach. Consequently, the advantages of the approach proposed by FASAB far outweigh this particular potential disadvantage.

### **#31 James Lingeback**

Disagree. While the delay of developing a system to capture historical costs based on transactional data is a possible outcome, it is not a likely outcome.

When an agency knows that it needs to capture current costs of assets on an ongoing basis, that agency should be able to establish a process to capture those costs. The process does not have to be a highly technical one. Agencies will find that once a process is set up to capture historical costs based on transactional data, the ongoing maintenance of that process is easier than continually trying to re-establish estimates, and revalidate the assumptions that are incorporated into the estimates based on new economic conditions.

Several of our bureaus did, however, share Mr. Patton's concern that although the Exposure Draft encourages federal entities to develop systems to capture historical costs based on transaction data, the time period allowed for the use of reasonable estimates is open-ended. This open-ended option may result in the prolonged use of estimates when not appropriate because the ability to use estimates appears to be without substantial constraints. One bureau believes that the Exposure Draft lacks sufficient language to effectively encourage full entity compliance with G-PP&E standards and that the Board needs to define baseline requirements for reasonable estimates, develop expectations for system development and process improvements, and assign a definitive timeline for compliance.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #6**

**Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.**

Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

**#1 Mitch Laine, Individual**

No Comments.

**#2 Mary Glenn-Croft, SSA**

No, we believe the information provided in this ED is clear and understandable.

**#3 Kenneth Winter, Individual**

No Comments.

**#4 Joseph Maresca, Individual**

No Comments.

**#5 Bill Henderson, USDA – OIG**

We do believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E. Implementation guidance would be helpful such as what are suggested methodologies, examples of appropriate and sufficient supporting documentation.

**#6 Wendy Calvin, DOT – MARAD**

FASAB could provide more guidance for the paragraph 12 and 13 by providing more reasonable options for estimating historical costs.

**#7 Jeffrey M. Bobich, Transportation Security Administration**

No Comments.

**#8 Daniel Fletcher, CFO Council**

i. We believe management should consider multiple estimating techniques to develop a range of reasonable estimates when significant dollar General PP&E estimates are used. The range of reasonable estimates and the techniques used should be disclosed in footnotes to the financial statements.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #6**

ii. Various estimating techniques could produce significantly different results. In addition, today's assets may not be equivalent to similar assets 20 years ago due to advancements and technology improvements. This is why we suggest developing a range of reasonable estimates as well as options (see SFFAS 6 paragraph 12 and 13) for estimating historical costs. Selecting an estimate from the low range would be a conservative approach to minimize potential overstatement of asset values.

### **#9 Daniel Kovlak, Greater Washington Society of CPAs – FISC**

We do not believe that additional clarifications are needed.

### **#10 Regina Dougherty, Selective Service System**

No, I believe the information provided in ED is clear and understandable.

### **#11 Daniel Fletcher, Department of Interior**

No, Interior believes that the ED clearly communicates the circumstances under which the use of estimates is appropriate. However, it would be beneficial if FASAB could provide meaningful direction on what constitutes a "reasonable method" and include some illustrative examples.

### **#12 Capt. Jack Niemiec, US Coast Guard**

The Coast Guard believes that the provision on page 9, paragraph 2, last sentence, is sufficient. This sentence states that "In addition, these amendments also apply in those cases where entities have decided to use estimates to determine the historical cost values of general property, plant, and equipment (G-PP&E)." This will cover agencies like the Coast Guard that already prepare financial statements but still need to use estimates to value their assets because original documentation is not available.

### **#13 Mark C. Jenson, NASA – OIG**

No Comments.

### **#14 Melanie Cenci, USDA**

Additional clarification on using estimates to value G-PP&E may be helpful.

### **#15 Carolyn Davis, DOD – OIG**

Yes, additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E. Paragraph A10- A13 is unclear about when estimates can be used. The way the paragraph reads, is that the agency gets to interpret what they consider impractical. We believe that the Board should consider identifying more requirements that are specific.

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #6

Furthermore, the Board should consider explaining those estimates developed using the estimating methods outlined in SFFAS 23 as reasonable. The standard should state that Federal entities could only use reasonable estimates for historical cost of G-PP&E upon initial capitalization if they have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but may be required to in the future. In addition, the standard should state that once the entity starts preparing financial statements or determines that it may have to do so, it should report the historical cost its G-PP&E assets and retain transaction records that support the historical cost of the asset. If the Board does not add clarification to the standards, each Federal entity will implement the standards in a different way. This will make it difficult to prepare comparative and /or consolidated financial statements for the Federal government. Additionally, this will present a challenge to the audit community in determining if the entities are reporting assets in accordance with Generally Accepted Accounting Principles thus making it difficult to express an opinion on the financial statements.

### **#16 Larry Ishol, Deloitte & Touche LLP**

We recommend that the FASAB discuss how an entity would support and document reasonableness through the use of examples of reasonable documentation that is adequate to support financial statement assertions.

### **#17 Gordon Alston, Department of Commerce**

The Department does not believe additional clarification is needed at this time, as it is clearly stated in paragraph 8 1401, *Estimation of Historical Cost* (page 11), that the measurement basis remains historical cost, and that reasonable estimates may be used to establish historical cost.

### **#18 Kevin McHugh, American Appraisal**

Yes, I do believe that additional guidance is/will be necessary for implementation such as:

- Cost Estimation
- Acquisition Date Estimation
- Asset Lifting
- Consistent Classification Coding
- Basic Fixed Asset Reporting Data Elements
- Dates for Compliance
- Implementation Guide Preparation for use by the reporting entity

### **#19 Bob Childree, AGA FMSB**

Yes, the modification to SFFAS 23 explicitly states the estimates are to be used when assets are first subject to reporting, but SFFAS 6 does not explicitly state this (perhaps

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #6**

because SFFAS 23 amends 6). We would like to see similar language put into SFFAS 6.

### **#20 Gerald Tucker, HUD**

Yes. An example is the third bullet under item 40 on page 11 of the exposure draft that allows “other reasonable methods” to be used for estimation. Other examples include item 12 on page 12 where estimates are based on documentation, but no time frame is defined.

Reasonable estimates should contain quantitative, qualitative, and time factors, as applicable. HUD believes that reasonable estimation methods should be identified when the historical data is not available, as the current definition is vague. Valuation methods should be identified for G-PP&E, to provide for reasonable estimate methods and guidelines as approved by senior management and discussed with the Agency’s auditors prior to final execution.

### **#21 Lois Jessup, Department of Energy**

No Comment.

### **#22 Richard Powers, Aerospace Industries Association**

Comment: The proposed guidance is easily understood and comprehensive.

### **#23 David Smith, DOD**

DoD believes that clarification would be helpful in the following areas.

First, as noted in DoD's response to Question 4, the location of the guidance may create confusion. The estimation instructions, including guidance for estimating the in-service date, are currently proposed as amendments to SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment*. However, since this guidance applies to all G-PP&E we suggest that the guidance be placed as an amendment to SFFAS 6.

Second, as discussed in DoD's response to Question 2, estimations of historical cost for property already capitalized may be necessary. This should be expressly permitted.

Third, DoD believes that additional clarification of "other reasonable methods" is needed. The amendments to SFFAS No. 23 indicate that estimates of historical cost may be based on information such as, but not limited to, budget, appropriation, engineering documents, contracts, or other reports reflecting amounts to be expensed. DoD suggests that one or more bullets be added to SFFAS 6 to specifically permit these sources of information.

In addition, guidance on how to determine whether an estimate is reasonable should be

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #6

added either in the Standards or the Basis for Conclusions. This is likely an area where disagreements between auditors and Agencies will arise. For example, the guidance could state that the estimated value of an asset might vary depending on whether it was established using budgets (the original estimate submitted to Congress), appropriations (the amount provided by Congress in response to the budget request), contracts (the amount obligated for the items), or other reports reflecting amounts to be expensed (or reflecting amounts expensed). These alternate methods would not be expected to result in identical estimated values. The FASAB exposure draft indicates that for Federal financial reporting purposes all of the referenced types of information would be acceptable for establishing asset values. This point should be emphasized.

Fourth, to improve consistent application of the Standards, the Department of Defense recommends that the Board include examples in the Basis for Conclusion. The examples might specify that estimating values based on the Congressional appropriation provided to acquire a group of assets or estimating the values using reports that track expenditures against these appropriations would meet the "reasonableness" criteria included in the standard and would be acceptable. DoD provides the following examples of information that could be presented in the Basis for Conclusions.

The estimated value of an asset might vary depending on whether it was established using budgets (the original estimate submitted to Congress), appropriations (the amount provided by Congress in response to the budget request), contracts (the amount obligated for the items), or other reports reflecting amounts to be expensed (or reflecting amounts expensed). For Federal financial reporting purposes, any of these sources of information would be acceptable for establishing asset values.

Federal entities evolved a detailed process for developing budgets, tracking appropriated funds, recognizing obligations and tracking expenditures against appropriations. Throughout this process various internal and external reviews are performed to ensure that the amounts requested and ultimately appropriated are reasonable. Further, all Federal Agencies provide reports to Congress on the status of expenditures by appropriation line. This control ensures that Agency expenditures do not exceed the related appropriations and this level of oversight and continuing reporting is somewhat unique to the Federal reporting environment. This control process supports FASAB's decision to accept budget and appropriation data for establishing the historical cost of assets.

A problem that Agencies frequently must address when using accounting system data is systems may not associate program expenditures with individual assets. In this situation, estimates must be applied to program level total cost to determine what should be reported for individual assets. As long as these estimated allocations are based on data included in budgets, appropriations, or contracts, the associated estimates should be deemed reasonable.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #6**

Additional considerations when determining the reasonableness of an estimate might include:

- Ensuring the total amount capitalized does not exceed the amount appropriated,
- Determining the extent to which the estimates and related financial reporting meet the needs of internal and external users, and,
- Ensuring the efforts required to value the assets are commensurate with the usefulness of the related financial data.

Fifth, the Department of Defense recommends that additional guidance be added to the Basis for Conclusions indicating that use of estimates should be considered as a secondary approach, used if historical cost data cannot be obtained and maintained cost effectively. Establishing information systems, internal controls, and business practices for obtaining actual transaction value costs for accounting and reporting of G-PP&E should be encouraged.

### **#24 Terry Bowie, NASA**

Yes. We believe that the proposed amendment and the examples contained in it provide adequate guidance for the preparer and its auditor to determine and agree upon the “reasonable estimation method(s)” to be employed in the fair presentation of an agency’s financial statements. Agencies already have experience in making the necessary and reasonable estimates for many of their financial statement line items that are required to provide a fair presentation of their financial position. While it is management’s responsibility for the fair presentation of the financial statements, it is important and necessary for their auditors to work closely with them.

However, we also believe it would be helpful if FASAB made it explicitly clear that reasonable estimation methods can be, as appropriate, applied to legacy G-PP&E already acquired, legacy G-PP&E still being acquired, and G-PP&E to be acquired in the future.

### **#25 Wendy Marshall, Western Area Power Administration**

No Comment.

### **#26 Cynthia Simpson, Department of Labor**

DOL believes that additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E, especially in dealing with non-recurring transactions and unusual circumstances. The clarification does not need to be specific; a statement which allows reporting entities to use reasonable estimates and estimation methods in dealing with non-recurring or unique transactions is sufficient.

### **#27 Melinda Bers, DHS**

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #6**

No. The “reasonable” standard is sufficiently clear, so long as agencies are required to document the methodology employed and the methodology is consistent across all such estimating actions. This allows for flexibility in deriving a reasonable estimate, in a cost effective manner.

The provision on page 9, paragraph 2, last sentence, is quite clear. It states that “In addition, these amendments also apply in those cases where entities have decided to use estimates to determine the historical cost values of general property, plant, and equipment (G-PP&E).” This will cover agencies that already prepare financial statements but still need to use estimates to value their assets because original documentation is not available.

### **#28 Resource Management Directorate, National Security Agency**

No Comment.

### **#29 Katherine Reed, Office of the Director of National Intelligence**

The proposed accounting standard proposes using estimates of original transaction data, presumably at the level of discrete individual items or assets. For additional clarification, the IC believes that the revised standard should include other examples of estimation techniques such as statistical extrapolation methods that allow for the development of population estimates that capture balances for classes of property, for initial capitalization, or “base lining” purposes. The statistical baseline could then be maintained at an item level using estimates of original transaction data for assets.

The IC recommends that a disclosure should be added to the financial statements. The disclosure should require a description of the estimation method used and the rationale for using that particular method/estimate.

The IC believes additional clarification is needed for Agencies who have already received cleaned opinions on G-PP&E under the provisions of SFFAS 23 and 6 prior to this new standard. These Agencies require assurance that auditors won’t go back and rescind opinions made on the former standard are not affected by audit interpretations made based on this of new provision.

### **#30 Stefan Silzer, EPA**

With the exception of the clarification noted in our response to Q1 above, EPA believes that the Exposure Draft is clear about the use of reasonable estimates.

### **#31 James Lingeback**

Yes. We believe additional clarification is needed. Further defining what constitutes an estimate, and including some concrete steps that must be followed prior to making the decision to use estimates would be beneficial. Expanding the disclosure requirement for

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Question #6**

including the use and general basis of any estimates used to include describing the process used to determine the estimates would be encouraged. Additionally, current guidance is somewhat vague and lacks proper limitations. The use of the word "reasonable" is used throughout the Exposure Draft and needs to be further defined to provide a baseline expectation/requirement.

In addition, to prevent continued use of estimates after a practical timeframe, the Board may want to consider adding that continued use of estimates after a certain period of time by an agency requires 1) re-validating the assumptions incorporated into the estimates, 2) providing a justification to auditors as to why the agency is continuing to use estimates.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

### **OTHER COMMENTS**

#### **#1 Mitch Laine, Individual**

Below is my comment to fasab regarding the ppe ed:

In response to the PPE ed, I think that fasab should rescind sffas 23 and acknowledge that it is not useful to spend a significant amount of time and effort to require national defense assets to be included on the balance sheet - an alternative treatment is to to expense them and simply consider them the cost of defense readiness

Capitalizing these assets provides no useful information to financial statement readers - what ever happened to the cost benefit test?

And I assume that the dept of defense tracks these assets for operating purposes and doesn't need to put them on the balance sheet to assure proper control (if they don't track them we really are in bad shape!)

The time and effort spent on capitalizing these assets should be used to clean up the real major accounting issues that preclude defense from getting out reliable statements

#### **#2 Mary Glenn-Croft, SSA**

No Comments.

#### **#3 Kenneth Winter, Individual**

Thank you for the opportunity to comment on this important accounting matter. FASAB should issue the proposed November 14, 2008, PP&E amendments and allow and encourage entities to apply cost estimation techniques to estimate/establish PP&E values. FASAB should also support related non-traditional approaches to valuation documentation (such as related budget information). Such estimations and documentation should be allowed at any time and for any entity. Estimations support timely, reliable financial information objectives in a variety of other financial areas and should be allowed to support similar objectives in the PP&E area. Such objectives include demonstrating accountability and providing useful information, including information to improve government management.

FASAB should issue the noted amendment/clarification to existing standards. The clarification is required because some auditors (and preparers) continue to misinterpret prior guidance and insist upon, in certain circumstances, unachievable PP&E valuation and documentation concepts. Unfortunately, more reasonable interpretations of prior guidance have not been universally achievable. For example, during the late 1990's the National Aeronautics and Space Administration (NASA) and its auditors applied appropriate judgment and estimated and verified old legacy asset values based on available non-traditional documentation, such as budget information. Pursuant to then-Federal practice and document retention policies, traditional historical cost

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

documentation either did not exist or could not be economically recreated for certain PP&E.

During the 1990's, NASA received consistent unqualified audit opinions. In more recent years, a new audit firm has insisted upon traditional documentation and consistently disclaimed opinions, in part, based on their noted inability to verify PP&E. The underlying systems, controls and PP&E practices were basically consistent. The primary difference was a different interpretation (misinterpretation) of the standards.

Unless corrected through the noted amendment, such continuing misinterpretations will likely cost the Federal government millions of dollars for remedial activities and/or result in continuing credibility issues for entities that continue to receive disclaimers of opinion, at least in part, because auditors continue to insist upon traditional payment receipt documentation for certain legacy (often old) PP&E. The costs of continuing misinterpretations and related government efforts to recreate traditional historical cost valuations and related documentation clearly out weigh the related benefits, particularly in this circumstance where a reasonable, cost efficient, alternative approach exists.

Entities should be allowed and encouraged to apply appropriate judgment and estimate the historical cost of PP&E through reasonable estimating techniques. Such techniques should include, but not be limited to, estimates based on the cost of similar assets, estimates based on discounting/"deflating" the current cost of similar assets and other reasonable estimates. Such estimates can also be based on non-traditional information, such as, but not limited to, budget information, appropriation information, engineering documents/information, contract information and other reports/information.

Reasonable estimates and PP&E value estimating techniques should be permitted at any time (on an ongoing basis) for any entity. The FASAB noted open-ended option is appropriate because: (1) estimates are used in a wide variety of other financial reporting matters and (2) estimates can efficiently and effectively support key underlying government information and reporting objectives. Such objectives include, full financial accountability, budgetary integrity, operating performance improvements and timely, reliable financial information for internal and external decision makers and oversight.

Estimation should be allowed for PP&E valuation and non-traditional documentation should be noted as fully acceptable. While historical cost and related traditional documentation may be preferred, reasonable estimates of historical costs and available related alternate documentation should be acceptable as an economic, efficient and effective alternative. Estimates can provide reliable and verifiable values that can support external and internal financial reporting objectives. Such estimates can support appropriate full reporting for all entities regardless of when the entities may have been required to begin required PP&E reporting. Such information and transparency are critical to optimum Federal government credibility, integrity and accountability.

Thank you for your continuing service in establishing and maintaining quality Federal accounting standards. Also, thank you for the opportunity to comment on these

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments

important financial matters. Please do not hesitate to contact me if you require additional information.

### #4 Joseph Maresca, Individual

The issuance seeks to accomplish reasonable judgmental estimates over historical costs due to non-existent record-keeping . There are instances where judgments are required because cost aggregation may not be practical. Nonetheless, there are ways to quantify judgments electronically. In addition, uniform metrics have been useful in establishing fair judgmental criteria. Lastly, standardized data protocols in electronic data processing may assist in providing a uniform naming standard for data aggregation purposes.

Details follow:

(1) Modernization of record keeping may be accomplished via uniform naming standards for data identification and aggregation purposes. For instance, the name of the data set should be addressed consistently by reference to an electronic dictionary for the involved system application. The electronic dictionary of words would have global application for ALL users.

(2) The use of artificial intelligence in expert systems allows the knowledge engineer to poll a community of experts in order to arrive at an "advice giving" database. The polling of a statistically significant group of experts will provide an unbiased assessment on the collective wisdom available for defining a problem by all known criteria given the input from a community of unbiased experts. The knowledge engineer is responsible for polling the community of experts and incorporating their collective wisdom onto the "Advice Giving" system or database application.

(3) **ACROSS THE CABINET**

---

The Secretaries of State are interested in accomplishing specific missions and the effectiveness of incurred costs. Historical costs and market value costing have less significance in this mix.

In some instances, United Nations Forces and Peacekeeping provide opportunities for shared costs and burden-sharing.

The Secretaries of the Interior, Agriculture Commerce and Labor have a similar mission-based or goal-oriented interest. Artificial Intelligence and "Advice Giving" systems will have utility for these cabinet groups because input from a community of experts is necessary oftentimes.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

The Secretaries of Treasuries are interested in GDP growth, moving averages, the VIX index,

General Price Level, market trends in inflation/deflation and the present value concepts in finance.

The Treasury Department is concerned that estimates are rational and that replication is effortless by the community of experts in the area of finance and government accounting.

The Secretaries of Defense are interested in accomplishing clearly definable missions within a reasonable range of relevant costs. Historical costs are indicators; however, these measurements don't disclose much useful information because judgments are based on clearly definable present and future missions and not past missions or historical costs. Nonetheless, judgmental estimates must be made in key areas. For instance, the engineering Mean Time Between Failures provides a fair measurement of how long a piece of equipment will operate until an anticipated field breakdown or anticipatory preventive maintenance.

The next important question involves whether or not technology is up-to-date.

Facilities or equipment which is "dated" must be replaced or upgraded.

Here again, artificial intelligence provides a useful tool for polling a community of experts to update the knowledge data base by the knowledge engineer.

Functionality and ease of use are other important metrics which govern utilization in the field of operations. Equipment or processes which are exceeding complicated have a retarded or delayed throughout which interferes with optimal efficiency.

Therefore, historical cost alone will not provide the requisite information for strategic decision-makers.

The Secretary of Housing and Urban Development has a strategic interest in the effectiveness of program efforts. For instance, is the Section 8 program providing a definable benefit as against the various Mortgage Programs aimed at home ownership? Historical cost may be co-opted by inflation/deflation pressures.

There are other questions for the Secretary of HUD. Should the government purchase the land and lease it to homeowners in place of the standard mortgage which covers both the house and the land. A government purchase/lease of the land would remove banks from the portion of the mortgage dealing with land and focus on the house only.

This action would reduce risks to banks and make home ownership more affordable.

The Secretary of Transportation has a longer term view because new transportation facilities have a useful life of decades. Therefore, present value concepts in finance are dispositive and not necessarily historical costs. In addition, certain roads and bridges

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments

may be financed with tolls so that the outlay can be matched with future revenues on a present value basis.

The Secretary of Energy is concerned about promoting affordable energy for the current and future generations of Americans. Historical cost is less important. The most important decision criteria is to select the optimal mix of energy sources both now and in future years. The state of technologies in solar energy, windmills, natural gas ( home, auto) , conversion of restaurant waste into diesel fuel, auto battery, nuclear power, the "Artificial Sun- Multi-Nation Project" , oil, advanced scrubber technology, ocean wave technology, geothermal are dispositive. Artificial Intelligence and expert systems may help decision-makers poll the relevant experts for input onto the knowledge base by the knowledge engineer.

The Secretary of Health, Education and Welfare is concerned about accomplishing a social service mission at an affordable cost given the current technological state of art.

The Patent Office in the USA and European Patent Office have the relevant technologies in the form of allowed patents and instrumentalities. Again, artificial intelligence systems can assist in polling a community of experts for input onto an "Advice Giving" database by the knowledge engineer. Health outcomes may be delineated on Advice Giving databases in order to provide patients with the most affordable and effective treatment modalities given clearly definable symptoms and symptomatology. Purchasing of medicines in pharmaceutical co-operatives may reduce costs significantly through numerous efficiencies in collective buying. Electronic medical records should reduce medical errors and facilitate information gathering for diagnostic purposes.

Education is mission-directed. The key statistic is graduates per program; In addition, educational encounters may be measured by learning transfer.

The Secretaries of Veterans are concerned with delivering a quality service for the dollars expended. Again, collective pharmaceutical purchasing, artificial intelligence "Advice Giving Systems" and telecommunications systems can be dispositive in processing a large amount of data and files.

Colleagues,

Thank you for the opportunity to critique the issuance put forward for public comment.

### SUMMARY:

The issuance seeks to accomplish reasonable judgmental estimates over historical costs due to non-existent record-keeping. There are instances where judgments are required because cost aggregation may not be practical. Nonetheless, there are ways to quantify judgments electronically. In addition, uniform metrics have been useful in establishing fair judgmental criteria. Lastly, standardized data protocols in electronic data processing may assist in providing a uniform naming standard for data aggregation purposes.

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments

Details follow:

(1) Modernization of record keeping may be accomplished via uniform naming standards for data identification and aggregation purposes. For instance, the name of the data set should be addressed consistently by reference to an electronic dictionary for the involved system application. The electronic dictionary of words would have global application for ALL users.

(2) The use of artificial intelligence in expert systems allows the knowledge engineer to poll a community of experts in order to arrive at an "advice giving" database.

The polling of a statistically significant group of experts will provide an unbiased assessment on the collective wisdom available for defining a problem by all known criteria given the input from a community of unbiased experts.

The knowledge engineer is responsible for polling the community of experts and incorporating their collective wisdom onto the "Advice Giving" system or database application.

(3) ACROSS THE CABINET

---

The Secretaries of State are interested in accomplishing specific missions and the effectiveness of incurred costs. Historical costs and market value costing have less significance in this mix.

In some instances, United Nations Forces and Peacekeeping provide opportunities for shared costs and burden-sharing.

The Secretaries of the Interior, Agriculture Commerce and Labor have a similar mission-based or goal-oriented interest. Artificial Intelligence and "Advice Giving" systems will have utility for these cabinet groups because input from a community of experts is necessary oftentimes.

The Secretaries of Treasuries are interested in GDP growth, moving averages, the VIX index,

General Price Level, market trends in inflation/deflation and the present value concepts in finance.

The Treasury Department is concerned that estimates are rational and that replication is effortless by the community of experts in the area of finance and government accounting.

The Secretaries of Defense are interested in accomplishing clearly definable missions within a reasonable range of relevant costs. Historical costs are indicators; however, these measurements don't disclose much useful information because judgments are

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

based on clearly definable present and future missions and not past missions or historical costs. Nonetheless, judgmental estimates must be made in key areas. For instance, the engineering Mean Time Between Failures provides a fair measurement of how long a piece of equipment will operate until an anticipated field breakdown or anticipatory preventive maintenance.

The next important question involves whether or not technology is up-to-date.

Facilities or equipment which is "dated" must be replaced or upgraded.

Here again, artificial intelligence provides a useful tool for polling a community of experts to update the knowledge data base by the knowledge engineer.

Functionality and ease of use are other important metrics which govern utilization in the field of operations. Equipment or processes which are exceeding complicated have a retarded or delayed throughout which interferes with optimal efficiency.

Therefore, historical cost alone will not provide the requisite information for strategic decision-makers.

The Secretary of Housing and Urban Development has a strategic interest in the effectiveness of program efforts. For instance, is the Section 8 program providing a definable benefit as against the various Mortgage Programs aimed at home ownership? Historical cost may be co-opted by inflation/deflation pressures.

There are other questions for the Secretary of HUD. Should the government purchase the land and lease it to homeowners in place of the standard mortgage which covers both the house and the land. A government purchase/lease of the land would remove banks from the portion of the mortgage dealing with land and focus on the house only.

This action would reduce risks to banks and make home ownership more affordable.

The Secretary of Transportation has a longer term view because new transportation facilities have a useful life of decades. Therefore, present value concepts in finance are dispositive and not necessarily historical costs. In addition, certain roads and bridges may be financed with tolls so that the outlay can be matched with future revenues on a present value basis.

The Secretary of Energy is concerned about promoting affordable energy for the current and future generations of Americans. Historical cost is less important.

The most important decision criteria is to select the optimal mix of energy sources both now and in future years. The state of technologies in solar energy, windmills, natural gas ( home, auto) , conversion of restaurant waste into diesel fuel, auto battery, nuclear power, the "Artificial Sun- Multi-Nation Project" , oil, advanced scrubber technology, ocean wave technology, geothermal are dispositive. Artificial Intelligence and expert systems may help decision-makers poll the relevant experts for input onto the knowledge base by the knowledge engineer.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

The Secretary of Health, Education and Welfare is concerned about accomplishing a social service mission at an affordable cost given the current technological state of art. The Patent Office in the USA and European Patent Office have the relevant technologies in the form of allowed patents and instrumentalities. Again, artificial intelligence systems can assist in polling a community of experts for input onto an "Advice Giving" database by the knowledge engineer. Health outcomes may be delineated on Advice Giving databases in order to provide patients with the most affordable and effective treatment modalities given clearly definable symptoms and symptomatology. Purchasing of medicines in pharmaceutical co-operatives may reduce costs significantly through numerous efficiencies in collective buying. Electronic medical records should reduce medical errors and facilitate information gathering for diagnostic purposes.

Education is mission-directed. The key statistic is graduates per program . In addition, educational encounters may be measured by learning transfer.

The Secretaries of Veterans are concerned with delivering a quality service for the dollars expended. Again, collective pharmaceutical purchasing, artificial intelligence "Advice Giving Systems" and telecommunications systems can be dispositive in processing a large amount of data and files.

### **#5 Bill Henderson, USDA – OIG**

No Comments.

### **#6 Wendy Calvin, DOT – MARAD**

No Comments.

### **#7 Jeffrey M. Bobich, Transportation Security Administration**

We take no exception to any of the changes proposed in the exposure draft. However, we recommend that FASAB expand the estimating proposal to include SFFAS 10, *Accounting for Internal Use Software*. SFFAS 6, paragraphs 27 and 28, imposed capitalization requirements for "internally-developed" software. SFFAS 6 was clarified by SFFAS 10, which in paragraph 15 states that "entities should capitalize the cost of software when such software meets the criteria for general property, plant, and equipment (PP&E)." Furthermore, the SFFAS 10 Executive Summary states that "[Internal Use] software serves the same purposes as other general PP&E and functions as a long-lived operating asset." Therefore, an indirect argument can be made that estimating the costs of acquiring or developing software already falls within the scope of the exposure draft. However, to prevent conflicts in interpretation we recommend that the board make it clear that the estimating procedures apply to SFFAS 10 as well as SFFAS 6.

In capitalizing the costs of internal use software, agencies face many of the same challenges associated with capitalizing physical property. In addition, these challenges

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

are compounded by the requirement to limit capitalization to the software development phase when the demarcation between phases may not always be readily distinguishable. Recognizing the acceptability of estimating techniques would provide agencies with a cost effective mechanism for complying with the standard.

### **#8 Daniel Fletcher, CFO Council**

i. In reference to the ED paragraph 2, we suggest that any use of estimates to determine historical cost of General PP&E should be disclosed in the financial statements especially for entities using such estimation methods.

ii. Clarification or elaboration should be provided to define the criteria necessary for the estimation of historical cost as opposed to bullet #3 under the suggested revision to SFFAS 6 paragraph 40, 'other reasonable methods.'

iii. One of the benefits of employing estimation methods on a continual basis is that it allows for an independent check on asset values being held on agencies' books. Many agencies have assets that have been on the books for a long time and may not have full documentation to support those values due to gaps in record retention and the aging of records. By utilizing estimation methods, agencies can continually validate the asset values thus allowing auditors and other oversight entities to review and/or validate those numbers.

### **#9 Daniel Kovlak, Greater Washington Society of CPAs – FISC**

- On page 9, the word "clarifies" is misspelled in the second sentence of paragraph 3.
- On page 10, we feel that the phrase "to ensure that any cost savings available are realized as soon as possible" is not necessary, and may not be the sole reason for immediate implementation
- By Federal agencies.
- On page 12, footnote 4A is not clear. We suggest this note be expanded to include the original narrative included in SFFAS No. 6.

### **#10 Regina Dougherty, Selective Service System**

No Comments.

### **#11 Daniel Fletcher, Department of Interior**

No Comments.

### **#12 Capt. Jack Niemiec, US Coast Guard**

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments

1. The Coast Guard applauds the Federal Accounting Standard Advisory Board's (FASAB) staff on their efforts to ease the agencies' burden of valuing General Property, Plant and Equipment (G-PP&E). The Coast Guard fully supports all of the recommendations in the exposure draft. In order to support the valuation of assets without historical documentation, the Coast Guard has provided our auditors with several different types of estimates. If allowed, for an extended period of time the additional valuation techniques described in the exposure draft will greatly assist the Coast Guard in producing GAAP compliant valuation of our G-PP&E. The enclosure provides detailed responses to FASAB's questions on the exposure draft.
2. The open-ended time frame to use these alternative methods will be of significant benefit to capital intensive entities like the Coast Guard. The Coast Guard needs several years to complete its real property inventory. This must be completed before the Coast Guard can complete valuing these assets using the alternative methods.

### #13 Mark C. Jenson, NASA – OIG

The Exposure Draft (ED) of the proposed Statement of Federal Financial Accounting Standards (SFFAS) entitled, *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*, proposes to clarify that reasonable estimates of historical cost may be used to value general property, plant, and equipment (G-PP&E). The Federal Accounting Standards Advisory Board (FASAB or the Board) posed six questions for respondents. In lieu of responding to the questions, we respectfully submit our comments to the ED for the FASAB's consideration.

We generally agree that reasonable estimates of historical cost may be used to value G-PP&E. However, the proposed standard should be revised to emphasize that using estimates should be the exception to the rule. The proposed standard should explicitly state that, except in limited circumstances, the basis for the valuation of G-PP&E should be historical cost (i.e., actual cost). Those limited circumstances are discussed below.

The proposed standard currently states, in revised paragraph 40 of SFFAS 6 and revised paragraph 12 of SFFAS 23, that reasonable estimates may be used to establish historical cost. Those paragraphs can be interpreted to allow any entity to estimate their G-PP&E, even those entities with processes and practices that capture transaction-based historical cost data. We recognize the following is contrary to the Board's basis for conclusions, however, we do not consider it prudent to permit the use of estimates without some criteria defining when estimates are acceptable. For example, if any entity has adequate systems and processes in place to capture transaction-based data to establish historical costs, then the entity should not have an option to choose whether its G-PP&E is valued based on the transaction-based data or an estimate. We believe that the proposed standard must include criteria to prevent entities from choosing one method (e.g., estimates) to establish historical cost of G-PP&E instead of choosing the

## ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments

other method (e.g., transaction-based historical cost data) although adequate systems exist to capture historical cost.

This proposed standard is intended to address the recording and reporting of G-PP&E at two types of entities. The first is an entity that has not previously reported G-PP&E in its financial reports or has not previously prepared financial reports. We agree, in this situation, that the use of reasonable estimates of the original historical cost and accumulated depreciation of G-PP&E would be appropriate, but only if the entity does not have sufficient systems or controls in place to determine historical cost. There are many instances where obtaining the original historical cost transaction data is not practical or cost-effective for items acquired many years prior to the date entities implement G-PP&E accounting for the first time in an environment in which the historical records were not required to be retained and may therefore be inadequate.

The second type of entity is one that has been reporting G-PP&E in its financial reports, but one that still does not have adequate systems and internal control practices in place to capture and sustain transaction-based data to meet G-PP&E historical costs valuation requirements. An example of such an entity is the Department of Defense. However, NASA and the Department of State may also be examples of such entities as the independent auditors of these agencies have reported material weaknesses surrounding the recording of property in the financial statements and have issued disclaimers of opinion as a result of the financial statement audits in recent years. We agree that these types of entities need to establish their property balances through a reasonable estimation method that would not materially misstate the property balances in the financial statements.

For both types of entities described above, we note that the proposed standard includes no incentives for those types of entities to implement systems and processes that can capture historical cost data. We acknowledge that paragraph 4 on page 9 of the Introduction of the ED and paragraph A16 of the appendix “encourages” those Federal entities that use estimates to establish such process and practices to capture historical cost information for future acquisitions; however, we feel that the word “encourages” is not strong enough. We recommend the Board insert stronger language and stipulations into the body of the proposed standard to incentivize those types of entities to implement adequate systems and internal control practices to capture and sustain transaction-based data to meet G-PP&E historical costs valuation requirements. One such stipulation may be that reasonable estimates may only be permitted so long as the entity is in the process of developing or implementing sufficient systems or controls to capture historical cost data. Stipulations would help prevent entities from using estimates to establish historical cost of G-PP&E indefinitely. As many aspects of accounting and auditing standards are subjective, the fact that the stipulations could not be measured against an objective standard should not be a deterrent from establishing them. Also, by incorporating stipulations, there would be a compromise between a purely open-ended timeframe and a date-certain timeframe. Such compromise would result in an entity not being held to an arbitrary established timeframe but at the same time would provide incentive for the entity to be pursue systems and controls that would capture historical costs.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

If the use of estimates is to be incorporated into the existing G-PP&E accounting standards, then we suggest that a discussion be included on documentation. The discussion should clearly and explicitly articulate the expectation that the entity must maintain sufficient documentation explaining the rationale for the estimation method chosen as well as the documentation supporting the estimate derived using the estimation method.

In addition to comments above, we submit, for your consideration, the following specific comments related to certain paragraphs of the ED.

- Page 9, Paragraph 3 – In the last sentence, the word ‘clarifies’ appears to be misspelled as ‘claries’.
- Page 9, Paragraph 4 – Should the word ‘and’ be inserted in the first sentence after G-PP&E?

### **#14 Melanie Cenci, USDA**

No Comments.

### **#15 Carolyn Davis, DOD – OIG**

The concept “reasonable estimate” is broad and subjective, and could be misleading in determining the asset value if there is no historical data to rely on. Additionally, this concept would make it very difficult for auditors to conduct an audit without a tremendous emphasis on guesswork. By allowing estimates, without establishing a definitive end date, organizations may take advantage and never provide factual data to support their numbers.

However, if the Board approves this concept, other accounting concepts such as consistency and conservatism should be considered to justify the reasonable estimation. These concepts should enhance asset value comparability in different accounting periods and minimize asset over estimation.

### **#16 Larry Ishol, Deloitte & Touche LLP**

No Comments.

### **#17 Gordon Alston, Department of Commerce**

No Comments.

### **#18 Kevin McHugh, American Appraisal**

No Comments.

### **#19 Bob Childree, AGA FMSB**

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

No Comments.

### **#20 Gerald Tucker, HUD**

No Comments.

### **#21 Lois Jessup, Department of Energy**

No Comments.

### **#22 Richard Powers, Aerospace Industries Association**

The Aerospace Industries Association represents the nation's leading manufacturers and suppliers of civil, military, and business aircraft, helicopters, unmanned aerial vehicles, space systems, aircraft engines, missiles, materiel, and related components, equipment, services, and information technology.

AIA and its Property Management Committee are in full agreement with the approach proposed by the Board on the Exposure Draft concerning estimating Historical Cost of General Property, Plant and Equipment. It is consistent with long standing accounting concepts of recognizing the constraints of Cost versus Benefits and Materiality in the reporting of financial information.

### **#23 David Smith, DOD**

No Comments.

### **#24 Terry Bowie, NASA**

As pointed out in the ED, in the past, Federal agencies generally did not systematically capture historical cost information on PP&E as contemplated in SFFAS 6 and 23. As a result, some agencies, including NASA, subsequently found themselves unable to provide the level of documentation needed to support G-PP&E balances. NASA has evolved to the point that it can address the current requirements of Standards 6 and 23 on new contracts for the purchase of new G-PP&E. However, the Agency will never be able to capture historical cost data for the older assets, most notably the International Space Station (ISS) and Space Shuttle (SS) because a need for that information was not contemplated at the time the acquisition contracts were established to acquire or build these assets. Further, the structure of these existing contracts will not allow NASA the ability to provide timely actual cost data to support the amounts capitalized as GPP&E as long as these contracts remain active. At this time, it is not cost effective for the Government to renegotiate these contracts.

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

We view the ED as trying to recognize these realities for organizations, such as NASA. The ED preserves the financial reporting requirements in SFFAS 6 and 23 while agencies work to address their G-PP&E challenges. SFFAS 6 and 23 recognize the use of estimates in certain circumstances, so the concept of using estimates for G-PP&E is not new. However, we anticipate that there may be significant differences in estimating practices and differing levels of support for estimates. This is especially true for older existing assets for which supporting documentation may not be available. This could pose a substantial implementation challenge if there is not a clear understanding across the Federal financial management and audit communities as to what is expected to meet the test of a “reasonable estimation method” in the proposed standard.

It will be most useful if the new standard recognizes and provides for flexibility in estimating practices, including differing levels of documentation supporting timely estimates. Otherwise, there is the risk that the same level of documentation on historical costs expected today to comply with SFFAS 6 and 23, such as original payment documents and invoices supporting historical PP&E costs, would be expected to support estimates under this new standard for older PP&E. If that happens, it could defeat what we view as the intent of the ED, which is to provide some necessary relief for agencies, such as NASA, that have G-PP&E that was not originally capitalized and for which it would either be cost prohibitive to accomplish or not achievable no matter how many resources were devoted to doing so. For NASA, other proxies for actual cost records, which could include budgets or contract reports, will most likely have to be used to derive estimates.

Also, in considering how much flexibility to allow for estimation methods, it is important to keep in mind that knowing the historical cost of assets purchased many years ago can be more useful where the entity is matching revenue to the costs incurred to produce that revenue. That is not the case for most Federal agencies, including NASA, which have material amounts of G-PP&E for which there is limited documentation to support costs for certain older assets. Other information may prove to be more useful in the Federal Government environment.

We support what we view as the underlying intent of the ED to provide a practical means for agencies to use estimates for existing G-PP&E for which capitalization was not originally contemplated, while protecting the underlying concepts in SFFAS 6 and 23.

### **#25 Wendy Marshall, Western Area Power Administration**

No Comments.

### **#26 Cynthia Simpson, Department of Labor**

No Comments

### **#27 Melinda Bers, DHS**

## **ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments**

No Comments.

### **#28 Resource Management Directorate, National Security Agency**

The draft was written 1) to allow the use of estimates for those federal agencies that have not previously reported G-PP&E on their entity financial reports, 2) to provide a response to the challenges face in establishing sound financial systems and controls. The Agency currently is using estimates processes to develop the value of certain real property assets and to a lesser extent equipment. The Agency's audit remediation plans are moving the Agency towards stronger and better internal controls, thus providing more reliable financial statements. Therefore, this proposed change should have a minimal effect on how the Agency does business.

Overall, the Board needs to strongly stress that the measurement basis for G-PP&E remains historical costs by placing this statement. Moving the fifth paragraph on page 4 to reinforce this statement might be helpful.

Page 11, SFFAS 6 comments. Please define other reasonable methods, Are all methods acceptable, are some not as reliable?

Page 12, SFFAS23, [12] comments. Include paid appraisers to determine value of asset.

### **#29 Katherine Reed, Office of the Director of National Intelligence**

No Comments.

### **#30 Stefan Silzer, EPA**

No Comments.

### **#31 James Lingeback**

No Comments.

## TAB G – ATTACHMENT 3: FULL TEXT OF COMMENT LETTERS

### Comment Letters on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

#### TABLE OF CONTENTS

Number	Respondent	Affiliation	Page Number
1	Mitch Laine	Individual	1
2	Mary Glenn-Croft	Social Security Administration	2
3	Kenneth Winter	Individual	5
4	Joseph Maresca	Individual	7
5	Bill Henderson	Department of Agriculture – OIG	13
6	Wendy Calvin	Department of Transportation – Maritime Administration	16
7	Jeffrey Bobich	Transportation Security Administration	20
8	Daniel Fletcher	Chief Financial Officers Council	21
9	Daniel Kovlak	Greater Washington Society of CPAs	27
10	Regina Dougherty	Selective Service System	30
11	Daniel Fletcher	Department of the Interior – OCFO	32
12	Capt. Jack Niemiec	Department of Homeland Security – US Coast Guard	36
13	Mark Jenson	National Aeronautics & Space Administration – OIG	41
14	Melanie Cenci	Department of Agriculture – OCFO	45
15	Carolyn Davis	Department of Defense – OIG	49
16	Larry Ishol	Deloitte	54
17	Gordon Alston	Department of Commerce – OCFO	58
18	Kevin McHugh	American Appraisal	66
19	Bob Childree	Association of Government Accountants	67
20	Gerald Tucker	Department of Housing and Urban Development – OCFO	69
21	Lois Jessup	Department of Energy – OCFO	75
22	Richard Powers	Aerospace Industries Association	78

## **TAB G – ATTACHMENT 3: FULL TEXT OF COMMENT LETTERS**

<b>Number</b>	<b>Respondent</b>	<b>Affiliation</b>	<b>Page Number</b>
23	David Smith	Department of Defense – OCFO	81
24	Terry Bowie	National Aeronautics & Space Administration – OCFO	87
25	Wendy Marshall	Western Area Power Administration	92
26	Cynthia Simpson	Department of Labor – OCFO	95
27	Melinda Bers	Department of Homeland Security – OCFO	98
28	Resources Management Directorate	National Security Agency	104
29	Katherine Reed	Office of the Director of National Intelligence	106
30	Stefan Silzer	Environmental Protection Agency	114
31	James Lingeback	Treasury	117

>>> On 12/16/2008 at 8:04 PM, <mitchlaine@comcast.net> wrote:

hi wendy - happy holidays

below is my comment to fasab regarding the ppe ed:

in response to the PPE ed, i think that fasab should rescind sffas 23 and acknowledge that it is not useful to spend a significant amount of time and effort to require national defense assets to be included on the balance sheet - an alternative treatment is to expense them and simply consider them the cost of defense readiness

capitalizing these assets provides no useful information to financial statement readers - what ever happened to the cost benefit test?

and i assume that the dept of defense tracks these assets for operating purposes and doesnt need to put them on the balance sheet to assure proper control (if they dont track them we really are in bad shape!)

the time and effort spent on capitalizing these assets should be used to clean up the real major accounting issues that preclude defense from getting out reliable statements

mitch laine

>>> On 12/18/2008 at 2:15 PM, <Mary.Glenn-Croft@ssa.gov> wrote:

FASAB:

Attached is SSA's response to the Exposure Draft *Estimating the Historical Cost of General Property, Plant and Equipment*. Staff questions can be addressed to Christina Lilly at [christina.lilly@ssa.gov](mailto:christina.lilly@ssa.gov) or 410-965-1263.

Thank you for the opportunity to comment.

Mary Glenn-Croft  
Chief Financial Officer  
Social Security Administration

Estimating the Historical Cost of General Property, Plant and EquipmentQuestions for Respondents

**1. Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of General PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PPE on their financial reports and for those that have not previously prepared financial reports but may be required or elect to do so in the future? [see para. 7 and A9].**

Yes, we agree that it is appropriate to make reasonable estimates of original historical cost and accumulated depreciation when the original data is not available. There are many instances where obtaining the original transaction data is neither practical nor cost-effective.

**2. Do you agree or disagree that initial capitalization of GPPE based on reasonable estimation methods as provided in SFFAS 23, as amended, is acceptable on a continuing basis? [See SFFAS 23 amended paragraphs 10-13A]**

Entities should use reasonable estimates in situations where it has been determined it is impractical to obtain the original transaction data or it is not available. In order to make historical data compliant with SFFAS 6 and SFFAS 23, the use of reasonable estimates would be appropriate, but not for future purchases of GPP&E. Allowing for the use of estimates on a continuing basis may deter agencies from developing new systems and processes to capture historical costs.

**3. Do you agree with the proposed amendments to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for GPPE? [See para. 7 and A10-A13A]**

Yes, we agree with the proposed amendment to SFFAS 6 found in paragraph 7 and paragraph A10-13A. The various approaches on how to make an estimate are clear and understandable. However, paragraph A12 states ‘...entities should use judgment regarding the decision to use estimated historical cost in lieu of original transaction based data.’ It seems this statement is encouraging the preparer to select one or the other. Obviously, if transaction data is available, estimates should not be used.

**4. Do you believe that the use of reasonable estimates to value GPPE should be permitted at any time (i.e.: an open ended option) or only permitted through a definitive end date (i.e.: a date certain option)? [See para. 7, A5, A14-15, A19-20]**

We believe a date certain option is the best approach. Establishing a specific date will encourage preparers to develop a system, or some other method, to capture historical costs. Keeping in mind the burden this may place on some agencies, FASAB should

establish a reasonable timeframe (i.e., 5 years) to develop systems and/or approaches to ensure the reporting of accurate data.

**5. Do you agree with the views expressed in the Alternative View in the Basis for Conclusions? [See para. A18-20]**

We do not agree with Mr. Patton's position that this ED would "...be ineffective in improving federal financial reporting for the foreseeable future." Mr. Patton raises some concerns about the use of estimates, stating that there would be no "...objective basis upon which to compare the estimates made by an agency." The use of estimates for financial reporting has been used successfully by federal agencies; there is no evidence that the use of estimates for historical costs would not be as effective. In addition, Mr. Patton's concerns that agencies will "...defer or delay the creation of systems for a considerable time period," could be addressed by establishing a "date certain option" as discussed in paragraphs A14-A15.

**6. Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of GPPE? Please explain what areas require additional clarification.**

No, we believe the information provided in this ED is clear and understandable.

**January 2009****Property, Plant and Equipment****Estimating the Historical Cost of General Property, Plant and Equipment (PP&E)  
(Amending Statements of Federal Accounting Standards 6 and 23)**

Thank you for the opportunity to comment on this important accounting matter. FASAB should issue the proposed November 14, 2008, PP&E amendments and allow and encourage entities to apply cost estimation techniques to estimate/establish PP&E values. FASAB should also support related non-traditional approaches to valuation documentation (such as related budget information). Such estimations and documentation should be allowed at any time and for any entity. Estimations support timely, reliable financial information objectives in a variety of other financial areas and should be allowed to support similar objectives in the PP&E area. Such objectives include demonstrating accountability and providing useful information, including information to improve government management.

FASAB should issue the noted amendment/clarification to existing standards. The clarification is required because some auditors (and preparers) continue to misinterpret prior guidance and insist upon, in certain circumstances, unachievable PP&E valuation and documentation concepts. Unfortunately, more reasonable interpretations of prior guidance have not been universally achievable. For example, during the late 1990's the National Aeronautics and Space Administration (NASA) and its auditors applied appropriate judgment and estimated and verified old legacy asset values based on available non-traditional documentation, such as budget information. Pursuant to then-Federal practice and document retention policies, traditional historical cost documentation either did not exist or could not be economically recreated for certain PP&E.

During the 1990's, NASA received consistent unqualified audit opinions. In more recent years, a new audit firm has insisted upon traditional documentation and consistently disclaimed opinions, in part, based on their noted inability to verify PP&E. The underlying systems, controls and PP&E practices were basically consistent. The primary difference was a different interpretation (misinterpretation) of the standards.

Unless corrected through the noted amendment, such continuing misinterpretations will likely cost the Federal government millions of dollars for remedial activities and/or result in continuing credibility issues for entities that continue to receive disclaimers of opinion, at least in part, because auditors continue to insist upon traditional payment receipt documentation for certain legacy (often old) PP&E. The costs of continuing misinterpretations and related government efforts to recreate traditional historical cost valuations and related documentation clearly outweigh the related benefits, particularly in this circumstance where a reasonable, cost efficient, alternative approach exists.

Entities should be allowed and encouraged to apply appropriate judgment and estimate the historical cost of PP&E through reasonable estimating techniques. Such techniques should include, but not be limited to, estimates based on the cost of similar assets, estimates based on discounting/"deflating" the current cost of similar assets and other reasonable estimates. Such estimates can also be based on non-traditional information, such as, but not limited to, budget information, appropriation information, engineering documents/information, contract information and other reports/information.

Reasonable estimates and PP&E value estimating techniques should be permitted at any time (on an ongoing basis) for any entity. The FASAB noted open-ended option is appropriate because: (1) estimates are used in a wide variety of other financial reporting matters and (2) estimates can efficiently and effectively support key underlying government information and reporting objectives. Such objectives include, full financial accountability, budgetary integrity, operating performance improvements and timely, reliable financial information for internal and external decision makers and oversight.

Estimation should be allowed for PP&E valuation and non-traditional documentation should be noted as fully acceptable. While historical cost and related traditional documentation may be preferred, reasonable estimates of historical costs and available related alternate documentation should be acceptable as an economic, efficient and effective alternative. Estimates can provide reliable and verifiable values that can support external and internal financial reporting objectives. Such estimates can support appropriate full reporting for all entities regardless of when the entities may have been required to begin required PP&E reporting. Such information and transparency are critical to optimum Federal government credibility, integrity and accountability.

Thank you for your continuing service in establishing and maintaining quality Federal accounting standards. Also, thank you for the opportunity to comment on these important financial matters. Please do not hesitate to contact me if you require additional information.

Respectfully,

Kenneth J. Winter

Federal Accounting Standards Board  
441 G St. NW Suite 6814  
Mail 6K 17V Washington DC 10548  
292-512- 7350  
Fasab @fasab.got

To : Wendy M. Payne- Executive Director  
Regarding: The Use of Judgmental Estimates in Place of Historical Costs  
Due January 30, 2009  
By : Dr. Joseph S. Maresca CPA, CISA January 10th, 2009

Colleagues,

Thank you for the opportunity to critique the issuance put forward for public comment.

#### SUMMARY:

The issuance seeks to accomplish reasonable judgmental estimates over historical costs due to non-existent record-keeping . There are instances where judgments are required because cost aggregation may not be practical. Nonetheless, there are ways to quantify judgments electronically. In addition, uniform metrics have been useful in establishing fair judgmental criteria. Lastly, standardized data protocols in electronic data processing may assist in providing a uniform naming standard for data aggregation purposes.

Details follow:

- (1) Modernization of record keeping may be accomplished via uniform naming standards for data identification and aggregation purposes. For instance, the name of the data set should be addressed consistently by reference to an electronic dictionary for the involved system application. The electronic dictionary of words would have global application for ALL users.
- (2) The use of artificial intelligence in expert systems allows the knowledge engineer to poll a community of experts in order to arrive at an "advice giving" database. The polling of a statistically significant group of experts will provide an unbiased assessment on the collective wisdom available for defining a problem by all known criteria given the input from a community of unbiased experts. The knowledge engineer is responsible for polling the community of experts and incorporating their collective wisdom onto the "Advice Giving" system or database application.

#### (3) ACROSS THE CABINET

The Secretaries of State are interested in accomplishing specific missions and the effectiveness of incurred costs. Historical costs and market value costing have less significance in this mix. In some instances, United Nations Forces and Peacekeeping provide opportunities for shared costs and burden-sharing.

The Secretaries of the Interior, Agriculture Commerce and Labor have a similar mission-based or goal-oriented interest. Artificial Intelligence and "Advice Giving" systems will have utility for these cabinet groups because input from a community of experts is necessary oftentimes.

The Secretaries of Treasuries are interested in GDP growth, moving averages, the VIX index, General Price Level, market trends in inflation/deflation and the present value concepts in finance. The Treasury Department is concerned that estimates are rational and that replication is effortless by the community of experts in the area of finance and government accounting.

The Secretaries of Defense are interested in accomplishing clearly definable missions within a reasonable range of relevant costs. Historical costs are indicators; however, these measurements don't disclose much useful information because judgments are based on clearly definable present and future missions and not past missions or historical costs. Nonetheless, judgmental estimates must be made in key areas. For instance, the engineering Mean Time Between Failures provides a fair measurement of how long a piece of equipment will operate until an anticipated field breakdown or anticipatory preventive maintenance.

The next important question involves whether or not technology is up-to-date. Facilities or equipment which is "dated" must be replaced or upgraded. Here again, artificial intelligence provides a useful tool for polling a community of experts to update the knowledge data base by the knowledge engineer.

Functionality and ease of use are other important metrics which govern utilization in the field of operations. Equipment or processes which are exceeding complicated have a retarded or delayed throughout which interferes with optimal efficiency. Therefore, historical cost alone will not provide the requisite information for strategic decision-makers.

The Secretary of Housing and Urban Development has a strategic interest in the effectiveness of program efforts. For instance, is the Section 8 program providing a definable benefit as against the various Mortgage Programs aimed at home ownership? Historical cost may be co-opted by inflation/deflation pressures.

There are other questions for the Secretary of HUD. Should the government purchase the land and lease it to homeowners in place of the standard mortgage which covers both the house and the land. A government purchase/lease of the land would remove banks from the portion of the mortgage dealing with land and focus on the house only. This action would reduce risks to banks and make home ownership more affordable.

The Secretary of Transportation has a longer term view because new transportation facilities have a useful life of decades. Therefore, present value concepts in finance are dispositive and not necessarily historical costs. In addition, certain roads and bridges may be financed with tolls so that the outlay can be matched with future revenues on a present value basis.

The Secretary of Energy is concerned about promoting affordable energy for the current and future generations of Americans. Historical cost is less important. The most important decision criteria is to select the optimal mix of energy sources both now and in future years. The state of technologies in solar energy, windmills, natural gas ( home, auto) , conversion of restaurant waste into diesel fuel, auto battery, nuclear power, the "Artificial Sun- Multi-Nation Project" , oil, advanced scrubber technology, ocean wave technology, geothermal are dispositive. Artificial Intelligence and expert systems may help decision-makers poll the relevant experts for input onto the knowledge base by the knowledge engineer.

The Secretary of Health, Education and Welfare is concerned about accomplishing a social service mission at an affordable cost given the current technological state of art. The Patent Office in the USA and European Patent Office have the relevant technologies in the form of allowed patents and instrumentalities. Again, artificial intelligence systems can assist in polling a community of experts for input onto an "Advice Giving" database by the knowledge engineer. Health outcomes may be delineated on Advice Giving databases in order to provide patients with the most affordable and effective treatment modalities given clearly definable symptoms and symptomatology. Purchasing of medicines in pharmaceutical co-operatives may reduce costs significantly through numerous efficiencies in collective buying. Electronic medical records should reduce medical errors and facilitate information gathering for diagnostic purposes. Education is mission-directed. The key statistic is graduates per program . In addition, educational encounters may be measured by learning transfer.

The Secretaries of Veterans are concerned with delivering a quality service for the dollars expended. Again, collective pharmaceutical purchasing, artificial intelligence "Advice Giving Systems" and telecommunications systems can be dispositive in processing a large amount of data and files.

Colleagues,

Thank you for the opportunity to critique the issuance put forward for public comment.

#### SUMMARY:

The issuance seeks to accomplish reasonable judgmental estimates over historical costs due to non-existent record-keeping . There are instances where judgments are required because cost aggregation may not be practical. Nonetheless, there are ways to quantify judgments electronically. In addition, uniform metrics have been useful in establishing fair judgmental criteria. Lastly, standardized data protocols in electronic data processing may assist in providing a uniform naming standard for data aggregation purposes.

Details follow:

(1) Modernization of record keeping may be accomplished via uniform naming standards

for data identification and aggregation purposes. For instance, the name of the data set should be addressed consistently by reference to an electronic dictionary for the involved system application. The electronic dictionary of words would have global application for ALL users.

- (2) The use of artificial intelligence in expert systems allows the knowledge engineer to poll a community of experts in order to arrive at an "advice giving" database. The polling of a statistically significant group of experts will provide an unbiased assessment on the collective wisdom available for defining a problem by all known criteria given the input from a community of unbiased experts. The knowledge engineer is responsible for polling the community of experts and incorporating their collective wisdom onto the "Advice Giving" system or database application.

(3) ACROSS THE CABINET

The Secretaries of State are interested in accomplishing specific missions and the effectiveness of incurred costs. Historical costs and market value costing have less significance in this mix. In some instances, United Nations Forces and Peacekeeping provide opportunities for shared costs and burden-sharing.

The Secretaries of the Interior, Agriculture Commerce and Labor have a similar mission-based or goal-oriented interest. Artificial Intelligence and "Advice Giving" systems will have utility for these cabinet groups because input from a community of experts is necessary oftentimes.

The Secretaries of Treasuries are interested in GDP growth, moving averages, the VIX index, General Price Level, market trends in inflation/deflation and the present value concepts in finance. The Treasury Department is concerned that estimates are rational and that replication is effortless by the community of experts in the area of finance and government accounting.

The Secretaries of Defense are interested in accomplishing clearly definable missions within a reasonable range of relevant costs. Historical costs are indicators; however, these measurements don't disclose much useful information because judgments are based on clearly definable present and future missions and not past missions or historical costs. Nonetheless, judgmental estimates must be made in key areas. For instance, the engineering Mean Time Between Failures provides a fair measurement of how long a piece of equipment will operate until an anticipated field breakdown or anticipatory preventive maintenance.

The next important question involves whether or not technology is up-to-date. Facilities or equipment which is "dated" must be replaced or upgraded. Here again, artificial intelligence provides a useful tool for polling a community of experts to update the knowledge data base by the knowledge engineer.

Functionality and ease of use are other important metrics which govern utilization in the field of operations. Equipment or processes which are exceeding complicated

have a retarded or delayed throughout which interferes with optimal efficiency. Therefore, historical cost alone will not provide the requisite information for strategic decision-makers.

The Secretary of Housing and Urban Development has a strategic interest in the effectiveness of program efforts. For instance, is the Section 8 program providing a definable benefit as against the various Mortgage Programs aimed at home ownership ? Historical cost may be co-opted by inflation/deflation pressures.

There are other questions for the Secretary of HUD. Should the government purchase the land and lease it to homeowners in place of the standard mortgage which covers both the house and the land. A government purchase/lease of the land would remove banks from the portion of the mortgage dealing with land and focus on the house only. This action would reduce risks to banks and make home ownership more affordable.

The Secretary of Transportation has a longer term view because new transportation facilities have a useful life of decades. Therefore, present value concepts in finance are dispositive and not necessarily historical costs. In addition, certain roads and bridges may be financed with tolls so that the outlay can be matched with future revenues on a present value basis.

The Secretary of Energy is concerned about promoting affordable energy for the current and future generations of Americans. Historical cost is less important. The most important decision criteria is to select the optimal mix of energy sources both now and in future years. The state of technologies in solar energy, windmills, natural gas ( home, auto) , conversion of restaurant waste into diesel fuel, auto battery, nuclear power, the "Artificial Sun- Multi-Nation Project" , oil, advanced scrubber technology, ocean wave technology, geothermal are dispositive. Artificial Intelligence and expert systems may help decision-makers poll the relevant experts for input onto the knowledge base by the knowledge engineer.

The Secretary of Health, Education and Welfare is concerned about accomplishing a social service mission at an affordable cost given the current technological state of art. The Patent Office in the USA and European Patent Office have the relevant technologies in the form of allowed patents and instrumentalities. Again, artificial intelligence systems can assist in polling a community of experts for input onto an "Advice Giving" database by the knowledge engineer. Health outcomes may be delineated on Advice Giving databases in order to provide patients with the most affordable and effective treatment modalities given clearly definable symptoms and symptomatology. Purchasing of medicines in pharmaceutical co-operatives may reduce costs significantly through numerous efficiencies in collective buying. Electronic medical records should reduce medical errors and facilitate information gathering for diagnostic purposes. Education is mission-directed. The key statistic is graduates per program . In addition, educational encounters may be measured by learning transfer.

The Secretaries of Veterans are concerned with delivering a quality service for the

dollars expended. Again, collective pharmaceutical purchasing, artificial intelligence "Advice Giving Systems" and telecommunications systems can be dispositive in processing a large amount of data and files.

>>> "WILLIAM Henderson" <[WJHENDERSON@oig.usda.gov](mailto:WJHENDERSON@oig.usda.gov)> 1/15/2009 11:33 AM  
>>>

Thank you for the opportunity to comment on the FASAB Exposure Draft:  
Estimating the Historical Cost of General Property, Plant, and Equipment  
-- Amending Statements of Federal Financial Accounting Standards 6 and  
23. Our response to the questions asked are attached.

Bill Henderson, CPA, CISA  
Program Manager  
USDA/Office of Inspector General - Administrative & Finance Division  
Room 446-E Whitten Building  
1400 Independence Ave., SW  
Washington DC 20250-2309

Request for Comments on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

All responses are requested by January 30, 2009

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**We agree that using reasonable estimates upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports for the first time.**

**Entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future may not have maintained historical cost data and reasonable estimates may be the only option available.**

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**We agree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis.**

**However, it should be stressed that this should be an exception to the rule that appropriate and sufficient documentation should be maintained and used to establish the historical cost of G-PP&E.**

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**We agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E.**

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5, A14, A15, A19, and A20

**We believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option). Financial statements are audited to ensure that the financial statements are reasonably accurate. The**

**entity should maintain sufficient and appropriate documentation to support their estimation methodology to enable an auditor to verify the balances. However, these instances should only be used when historical cost documentation (contracts, invoices, appraisals etc...) are not available or not cost effective to obtain. These instances should be rare especially for entities that have been preparing audited financial statements over the years.**

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**We do not agree with the views expressed in the Alternate View in the Basis for Conclusions.**

**The use of estimates has been accepted for years in the accounting and auditing communities as long as the methodology is reasonable and sufficient and appropriate supporting documentation is maintained. Financial statements audit opinions are based on the reasonable accuracy of the account balances. Further, it is expected that these historical cost estimates should be rare and the exception to the historical cost documentation rule.**

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**We do believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E. Implementation guidance would be helpful such as what are suggested methodologies, examples of appropriate and sufficient supporting documentation.**

>>> <[Wendy.Calvin@dot.gov](mailto:Wendy.Calvin@dot.gov)> 1/15/2009 9:58 AM >>>

Wendy Calvin

Department of Transportation

Office of the Secretary

## Department of Transportation

Request for Comments on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment (G-PP&E) -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

All responses are requested by January 30, 2009 to FASAB.

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

### Department of Transportation, Maritime Administration's (MARAD) Response:

**We agree and support this standard.**

**MARAD's vessels under the national defense reserve force (NDRF) program were treated as national defense PP&E according to the FASAB SFFAS No. 11 issued in December 1988. This PP&E was reported as expenses in the DOT's financial statement prior to FY 2003. However, SFFAS No. 23 issued by FASAB in May 2003, eliminated the national defense PP&E. MARAD started to report these NDRF vessels as G-PP&E depreciable assets on the DOT's financial statement in FY 2003.**

**In order to track and report the G-PP&E, agencies must determine whether the acquisitions are meeting G-PP&E criteria and must establish G-PP&E costs, life and depreciation methods, etc. As a result of the change of the standards from No. 11 to No. 23, MARAD had to retroactively reconstruct the historical cost information for these vessels as G-PP&E. MARAD had a difficult time substantiating the historical book values of many vessels associated with the original documents, multiple transactions occurred years before the standard (SFFAS No. 23 of May 2003) was issued; the documentation (e.g., purchase orders, invoices, book values) may no longer exist or; the records have been archived or disposed (as the retention period for documents has expired.) The costs of reconstructing historical financial information for G-PP&E would be enormous for G-PP&E acquired prior to the SFFAS No. 23 and there is little benefit to construct a perfect historical financial information for this type of G-PP&E because the book values of many of these properties are \$0 or almost depreciated. Therefore, estimating**

**the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate.**

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

**MARAD's Response: We agree that initial capitalization of G-PP&E based on reasonable estimation methods is acceptable on a continuing basis.**

**The vessels that Maritime Administration acquires for the Ready Reserve Force (RRF) are often older vessels (e.g., over ten years old). The majority of these vessels and PP&E equipment on the vessels (e.g., forklifts) were transferred from other agencies, foreign shipyards, etc. and the original documentation (e.g., purchase orders, invoices, book value) may no longer exist.**

The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

**MARAD's Response: We agree with the proposed amendment to SFFAS 6 because it allows for various methods to derive reasonable estimates and determine reasonable life of the related G-PP&E. We concur with the paragraph 12 and 13 that the estimates may be based on budget appropriation, engineering documents, contracts and other reports reflecting the amount to be expended and alternatively, current replacement costs of similar items. MARAD sometimes uses the independent appraised fair market value to determine the cost of the defaulted guaranteed ships. We propose the paragraph 12 includes the “ independent appraisal value”.**

The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted**

through a definitive end date (i.e., a date-certain option)? Please explain your preference.

**MARAD's Response:** We believe that the use of reasonable estimates to G-PP&E should be permitted at any time for certain types of G-PP&E, such as, the transfers or donation of old PP&E (e.g., vessels). For example, if the U.S. Navy were to transfer a seaworthy vessel to MARAD, it would be unwise and unreasonable of MARAD to reject this vessel simply because the G-PP&E documentation was not retained.

Q3. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

**MARAD's Response:** We do not agree with Mr. Patton for the reasons expressed in our responses to the questions 1 – 4.

Q4. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

**MARAD's Response:** FASAB could provide more guidance for the paragraph 12 and 13 by providing more reasonable options for estimating historical costs.

U.S. Department of Homeland Security

Office of Finance and Administration  
601 South 12<sup>th</sup> Street, TSA-14  
Arlington, Virginia 20598-6014

JAN 16 2009

**Transportation  
Security  
Administration**

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

Dear Ms. Payne:

Thank you for the opportunity to comment on the Exposure Draft titled "Estimating the Historical Cost of General Property, Plant, and Equipment."

We take no exception to any of the changes proposed in the exposure draft. However, we recommend that FASAB expand the estimating proposal to include SFFAS 10, *Accounting for Internal Use Software*. SFFAS 6, paragraphs 27 and 28, imposed capitalization requirements for "internally-developed" software. SFFAS 6 was clarified by SFFAS 10, which in paragraph 15 states that "entities should capitalize the cost of software when such software meets the criteria for general property, plant, and equipment (PP&E)." Furthermore, the SFFAS 10 Executive Summary states that "[Internal Use] software serves the same purposes as other general PP&E and functions as a long-lived operating asset." Therefore, an indirect argument can be made that estimating the costs of acquiring or developing software already falls within the scope of the exposure draft. However, to prevent conflicts in interpretation we recommend that the board make it clear that the estimating procedures apply to SFFAS 10 as well as SFFAS 6.

In capitalizing the costs of internal use software, agencies face many of the same challenges associated with capitalizing physical property. In addition, these challenges are compounded by the requirement to limit capitalization to the software development phase when the demarcation between phases may not always be readily distinguishable. Recognizing the acceptability of estimating techniques would provide agencies with a cost effective mechanism for complying with the standard.

We appreciate your consideration of our comments. Please feel free to call me at (571)-227-2118 if you would like to discuss further or need clarification on our particular financial reporting requirements.

Sincerely,

A handwritten signature in cursive script that reads "Jeffrey M. Bobich".

Jeffrey M. Bobich  
Director, Office of Financial Management  
Office of Finance and Administration



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

Dear Ms. Payne:

Subject: FASAB Exposure Draft, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*, dated November 14, 2008

The Chief Financial Officers Council, Standardization Committee, FASAB Response Group appreciates this opportunity to offer comments to the exposure draft proposing amendment to SFFAS 6 & 23, *Estimating the Historical Cost of General Property, Plant, and Equipment*, and to clarify that reasonable estimates of original transaction data historical cost may be used to value general property, plant, and equipment.

We express our support for the Board's guidance in considering how information should be categorized and believe this statement will facilitate the understandability, consistency, and comparability of federal financial reporting. It will also provide the conceptual framework needed to determine the display of emerging complex financial reporting issues.

Attached are the responses to questions Q1 through Q6 and comments on other aspects of the proposed Statement. We hope our comments will assist the Board in clarifying intent and enhancing readability of the statement.

Again, thank you for the opportunity to provide responses to the exposure draft. If you need any additional information, please contact me at (202) 208-4701.

Sincerely,

Daniel L. Fletcher  
CFOC Standardization Committee  
FASAB Response Group Representative

Attachment

- Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing General Property, Plant, and Equipment (PP&E) accounting for the first time. See paragraphs 7 and A9.

Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of General PP&E upon initial capitalization is appropriate for entities that have not previously reported General PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

- i. We agree that it is appropriate that reasonable estimating techniques could be used in place of historical cost records if such historical records are unavailable or development of such records would be cost prohibitive upon initial capitalization by entities that have not previously reported General PP&E on their entity financial reports and for those who have not previously prepared financial reports. First time implementers may need such approaches to prevent excessive cost being incurred that would have minimal financial reporting impact.
- ii. For example, Department of Transportation (DOT) Maritime Administration's (MARAD) vessels under the national defense reserve force (NDRF) program were treated as national defense PP&E according to the FASAB SFFAS No. 11, issued in December 1988. This PP&E was reported as expenses in the DOT's financial statement prior to FY 2003. However, SFFAS No. 23 issued by FASAB in May 2003, eliminated the national defense PP&E. MARAD started to report these NDRF vessels as General PP&E depreciable assets on the DOT's financial statement in FY 2003.

In order to track and report the General PP&E, agencies must determine whether the acquisitions are meeting General PP&E criteria and must establish General PP&E costs, life and depreciation methods, etc. As a result of the change of the standards from No. 11 to No. 23, MARAD had to retroactively reconstruct the historical cost information for these vessels as General PP&E. MARAD had a difficult time substantiating the historical book values based on the original documents due to the following reasons: multiple transactions supporting single assets occurred years before the standard (SFFAS No. 23 of May 2003) was issued; the documentation (e.g., purchase orders, invoices, book values) may no longer exist; or, the records have been archived or disposed (as the retention period for documents has expired). The costs of reconstructing historical financial information for General PP&E would be enormous for General PP&E acquired prior to SFFAS No. 23 and there is little benefit to construct perfect historical financial information for this type of General PP&E because the book values of many of these properties are \$0 or almost depreciated. Therefore, estimating the original transaction data historical cost and accumulated depreciation of General PP&E upon initial capitalization is appropriate.

- iii. Another example involved the National Science Foundation (NSF) which manages the U.S. Antarctica Program and many of the General PP&E from the program were transferred to NSF by Department of Defense (DoD) and some of these General PP&E were acquired or built long before they were transferred to NSF and some records were not available at the time of transfer. Additionally, NSF also gained General PP&E by inventory through the inventory process undertaken annually that is usually a result of these General PP&E 're-appearing' from being buried under snow and ice. Some of these posed problems to NSF in terms of being able to provide the historical financial information for capitalization purposes, especially if no other like asset is found on the books.

Q2. The Board proposes that initial capitalization of General PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

Do you agree or disagree that initial capitalization of General PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

- i. The response from this committee has two schools of thought. There is the one that understands the need to have estimating techniques available but is concerned that an open-ended approach may lead to delays in entities developing better systems and mechanisms to identify actual historical costs at the transaction level. It is believed that estimating techniques should remain an available option as long as estimated results are determined to be accurate enough to not cause material errors in General PP&E balances and overall financial statement presentation. Entities using estimating techniques need to address the lack of appropriate systems or data capturing methods for determining historical cost transactions as the basis for General PP&E and evaluate any associated control risks. Even though using alternative techniques may result in materially accurate financial statements, it also may increase the risk of potential errors, especially when dealing with significant dollar estimates. Therefore, the committee recommends that FASAB addresses this issue in this Exposure Draft. There is also the concern on the long-term continued usage of estimating techniques by any entity as a potential management issue that should be addressed from perspectives such as OMB scorecards, OMB Circular A-123 and A-127 requirements, as well as FFMA implementation guidance or other areas as noted in Exposure Draft paragraph A13.
- ii. On the other hand, there are agencies that support the estimation methods on a continuing basis where there are instances when the General PP&E were transferred from other agencies, abandonment, etc., and the original documentation (e.g., purchase orders, invoices, book value) may no longer

or does not exist, and it is not cost effective to determine the historical cost values.

Example: If an agency was to transfer an asset to another agency, it would be unwise and unreasonable of the receiving agency to reject this asset simply because the General PP&E documentation was not retained.

- Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for General PP&E. See paragraphs 7 and A10 – A13A.

Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for General PP&E? Please provide the rationale for your answer.

- i. Yes, we agree (as stated in the Q1 response). The proposed amendment to SFFAS 6 allows for various methods to derive reasonable estimates and determine reasonable life of the related General PP&E. We concur with SFFAS 6 paragraph 12 and 13 that the estimates may be based on information such as, but not limited to, budget appropriation, engineering documents, contracts, and other reports reflecting the amount to be expended and alternatively, current replacement costs of similar items.
- Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5, A14, A15, A19, and A20

Do you believe that the use of reasonable estimates to value General PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

- i. See response to Q2 above.
- Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18 through A20.

Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

- i. We do see potential risks to the use of estimating techniques, particularly for assets of significant dollar amounts. In many instances, estimating techniques can be used to produce reliable results that are appropriate for financial reporting. As noted in the responses to Q2 and Q6, management and auditors need to evaluate the potential risk of reporting errors that could result from significant and continued use of estimating techniques. These

evaluated risks should be factored into the determination of whether the Balance Sheet and other financial reporting related to General L PP&E are fairly stated.

- ii. While we see the risks involved and the 'chicken or egg' concept based on A20 of the Exposure Draft, we have to acknowledge the difficulties some agencies face to derive the historical costs for capitalization purposes when none exists to begin with. Perhaps the Board may want to define or look into defining certain criteria or frameworks for agencies to use reasonable estimates or allowable estimation methods that are not subject to a date-certain requirement on certain types of General PP&E, such as, the transfers or donation of old assets or recovery of assets through gain by inventory from conditions that are caused by extreme climate conditions or remote locations or abandonment.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of General PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

- i. We believe management should consider multiple estimating techniques to develop a range of reasonable estimates when significant dollar General PP&E estimates are used. The range of reasonable estimates and the techniques used should be disclosed in footnotes to the financial statements.
- ii. Various estimating techniques could produce significantly different results. In addition, today's assets may not be equivalent to similar assets 20 years ago due to advancements and technology improvements. This is why we suggest developing a range of reasonable estimates as well as options (see SFFAS 6 paragraph 12 and 13) for estimating historical costs. Selecting an estimate from the low range would be a conservative approach to minimize potential overstatement of asset values.

#### COMMENTS ON OTHER ASPECTS OF THE PROPOSED STATEMENT:

- i. In reference to the ED paragraph 2, we suggest that any use of estimates to determine historical cost of General PP&E should be disclosed in the financial statements especially for entities using such estimation methods.

- ii. Clarification or elaboration should be provided to define the criteria necessary for the estimation of historical cost as opposed to bullet #3 under the suggested revision to SFFAS 6 paragraph 40, 'other reasonable methods.'
- iii. One of the benefits of employing estimation methods on a continual basis is that it allows for an independent check on asset values being held on agencies' books. Many agencies have assets that have been on the books for a long time and may not have full documentation to support those values due to gaps in record retention and the aging of records. By utilizing estimation methods, agencies can continually validate the asset values thus allowing auditors and other oversight entities to review and/or validate those numbers.



## Greater Washington Society of CPAs and GWSCPA Educational Foundation

---

1455 Pennsylvania Ave. NW, Suite 400, Washington, DC 20036  
202-204-8014 (v) 202-204-8015 (f) [www.gwscpa.org](http://www.gwscpa.org) [info@gwscpa.org](mailto:info@gwscpa.org)

January 30, 2009

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

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) exposure draft of a proposed statement, *Estimating the Historical Cost of General Property, Plant, and Equipment (G-PP&E) – Amending Statements of Federal Financial Accounting Standards 6 and 23*.

FISC consists of 19 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members.

### **Following are our responses to the questions posed in the ED.**

- Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

- A1. Generally, we agree with allowing Federal agencies to use reasonable estimates upon initial capitalization of G-PP&E. Both inside and outside the Department of Defense community, our committee members have witnessed a substantial amount of effort being expended by Federal agencies to accumulate historical cost data when a reasonable estimate may have produced a similar, and substantially more efficient, amount to be recorded on the entity's books.

It is the position of several of our committee members that this ED is a long-awaited recognition that cost-benefit principles are necessary when tackling some of the urgent and

complex accounting matters facing the Department of Defense. Some of our committee members also feel that the time spent specifically by the Defense community on accumulating historical cost data for national defense PP&E has been particularly significant. Without an alternative treatment to expense national defense PP&E as a cost of defense readiness, the implementation of SFFAS No. 23 has led to a number of Federal agencies spending time attempting to locate auditable cost information. By allowing Federal agencies to use reasonable estimates in perpetuity for the initial capitalization of G-PP&E, this ED provides some welcome relief to those financial statement preparers.

- Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

- A2. We agree with the Board's proposal to allow that reasonable estimation methods be used on a continuing basis.
- Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

- A3. We agree with the Board's proposal to apply reasonable estimates to the historical cost information and accumulated depreciation. We, however, recommend that paragraph 13A be removed. It is our opinion that the explicit reference to the mid-point of a range is too specific, and contradicts past practices of the Board in providing principles-based standards for the Federal accounting community.
- Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19., and A20.

Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

- A4. We agree with the Board's proposal to allow that reasonable estimation methods be used on an open-ended basis. We feel that the open-ended option would provide the greatest amount of flexibility for management to make its own cost-benefit decision when initially capitalizing G-PP&E.
- Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

A5. We certainly appreciate Mr. Patton's views. We agree with his statement that "some federal agencies will defer and delay the creation of systems for a considerable period of time, perhaps until another measurement approach is adopted for federal financial reporting." However, we believe that it is up to the Federal agency personnel to devise a reliable and consistent methodology that can be supported when reviewed by external auditors.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

A6. We do not believe that additional clarifications are needed.

**We also are providing the following additional comments:**

- On page 9, the word "clarifies" is misspelled in the second sentence of paragraph 3.
- On page 10, we feel that the phrase "to ensure that any cost savings available are realized as soon as possible" is not necessary, and may not be the sole reason for immediate implementation by Federal agencies.
- On page 12, footnote 4A is not clear. We suggest this note be expanded to include the original narrative included in SFFAS No. 6.

\*\*\*\*\*

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Daniel L. Kovlak  
FISC Chair

Name Regina Dougherty

Title/Organization Accounting Officer, Selective Service System

Contact information [regina.dougherty@sss.gov](mailto:regina.dougherty@sss.gov), 703-605-4018

Date 1/30/09

Estimating the Historical Cost of General Property, Plant, and Equipment

Questions for Respondents

- 1. Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future?**

Yes, I agree that it is appropriate to make reasonable estimates of original historical cost if the historical records are unavailable or development of such records would be cost prohibitive.

- 2. Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

Using reasonable estimates to make historical data compliant with SFFAS 6 and SFFAS 23 is appropriate where the original transaction data is not available or cost prohibitive to reconstruct. However, some measure should be instituted to ensure agencies are making progress on implementing a system to capture historical cost data on current purchases rather than continuing to use estimates.

- 3. Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

Yes, I agree with the proposed amendment. Paragraphs 12 and 13 provide guidance on estimation methods.

- 4. Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

I believe that an open-ended option with a measurement of the agencies progress on implementing a system to capture cost of current purchases would be appropriate. The open-ended option without some measurement of the agencies progress does not provide sufficient motivation to implement a system. A date-certain option does not take into consideration the difficulties some agencies would encounter in implementing a system.

**5. Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

See answer to Q#4 above.

**6. Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

No, I believe the information provided in ED is clear and understandable.



## United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

JAN 29 2009

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

RE: FASAB Exposure Draft, *Estimating the Historical Cost of General Property, Plant, and Equipment* -- Amending Statements of Federal Financial Accounting Standards 6 and 23, dated November 14, 2008.

Dear Ms. Payne:

The U.S. Department of the Interior appreciates this opportunity to comment on the exposure draft, *Estimating the Historical Cost of General Property, Plant, and Equipment*.

Attached are the responses to questions Questions 1 through 6.

If you have any questions or concerns please contact David Horn at 202-208-5542.

Sincerely,

Daniel L. Fletcher  
Director  
Office of Financial Management

Attachment

Department of the Interior  
Office of Financial Management  
Response to FASAB Exposure Draft  
Estimating the Historical Cost of General PP&E

**Question #1** – Do you agree that reasonably estimating the original transaction data historical cost and accumulated depreciation of General-Property, Plant, and Equipment (PP& E) upon initial capitalization is appropriate for entities that have not previously reported General-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

**Response #1** – The Department of the Interior (Interior) agrees that it is appropriate to use estimates to establish original historical cost and accumulated depreciation for previously unreported PP&E. Estimates are a longstanding component of accounting practice and improve accountability in the absence of actual data. For some entities that have not previously reported PP&E, reliance upon an estimate may be the only option available. When calculated using a reasonable methodology, estimates are appropriate for providing data for initial asset capitalization.

**Question #2** – Do you agree or disagree the initial capitalization of General-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis?

**Response #2** – Interior agrees that it is acceptable, on a continuing basis, to rely on reasonable estimation methods for initial capitalization of General-PP&E as provided in SFFAS 23, as amended. SFFAS 23 provides several fair and reasonable methods for estimation and does not restrict entities from using additional methods of estimation that may be more suitable for the specific asset being capitalized. This flexibility will allow entities to provide the estimating methodology which is most appropriate for the asset being capitalized.

**Question #3** – Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for General-PP&E?

**Response #3** – Yes, Interior agrees with the proposed amendment to SFFAS 6, which allows the use of reasonable estimates of original transaction data historical cost and accumulated depreciation for General -PP&E. Estimates will allow entities that are required to report General-PP&E for the first time to provide meaningful information in the absence of “actual” data. Reasonable estimates are and always have been an integral part of financial statement preparation and serve to improve their completeness and accuracy.

**Question #4** – Do you believe that the use of reasonable estimates to value General-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)?

Department of the Interior  
Office of Financial Management  
Response to FASAB Exposure Draft  
Estimating the Historical Cost of General PP&E

**Response #4** – Interior believes that reasonable estimates should be available for entities to use anytime. Entities should not be restricted by any cut-off date, because it is impossible to predict when the need to utilize an estimate may arise or when reliance upon estimates is no longer necessary. The option to use estimates must remain available to federal entities that may have no other avenue for asset valuation. It is unreasonable to put any expiration date on a methodology that is a longstanding, widely accepted, and integral component of responsible financial reporting.

**Question #5** – Do you agree with the views expressed in the Alternative View in the Basis for Conclusions?

**Response #5** – No, Interior does not agree with the Alternative View, which prefers a limited or date certain period for the use of estimates. The Alternative View references paragraph A16, which encourages Federal entities using estimates of historical cost values of General-PP&E to do the following;

*...establish processes and practices (i.e., adequate systems and internal control practices) for future acquisitions that will capture and sustain transaction based data that meet the General-PP&E historical cost valuation requirements.*

Also, the Alternative View suggests, in paragraph A20, that the open-ended timeframe for the use of estimates, as provided by the Exposure Draft, runs counter to the intent of A16 and will allow some federal agencies to;

*...defer and delay the creation of systems for a considerable period of time, perhaps until another measurement approach is adopted for federal financial reporting.*

While the need for, and usefulness of, such systems is undeniable, that need is an issue that should remain independent of any requirements for estimating historical cost. It does not follow that entities using estimates for PP&E will automatically forego all attempts at developing efficient cost capturing systems. Delayed creation of these systems is more attributable to budgetary restrictions than to an open ended approach to the use of estimates.

Further, The Alternative View asserts that if an entity does not have a system;

*...to capture the actual historical acquisition cost of assets means that there would appear to be no objective basis upon which to compare the estimates made by an agency. Thus, any standard based on the criteria in the ED is likely to be ineffective in improving federal financial reporting for the foreseeable future.*

Department of the Interior  
Office of Financial Management  
Response to FASAB Exposure Draft  
Estimating the Historical Cost of General PP&E

The lack of a system to capture historical cost does not necessarily compromise comparability of estimates. The criteria in the ED provides for the use of *reasonable* estimates. The methodologies which provide these *reasonable* estimates, many of which are rooted in management's detailed knowledge of the intricacies of a specific asset, will serve as the objective basis for comparability.

Limiting the timeframe during which agencies can use estimates does more to impede improved federal financial reporting than does not having a comprehensive cost capturing system in place. Agencies that have not or, in many cases, cannot implement such systems should not be penalized by a restricted ability to use reasonable estimates. Therefore, Interior believes the use of reasonable estimates does indeed represent an improvement in federal financial reporting.

**Question #6** – Do you believe that additional clarification is needed on the use of reasonable estimates when valuing the historical cost of General-PP&E?

**Response #6** – No, Interior believes that the ED clearly communicates the circumstances under which the use of estimates is appropriate. However, it would be beneficial if FASAB could provide meaningful direction on what constitutes a "reasonable method" and include some illustrative examples.

U.S. Department of  
Homeland Security

United States  
Coast Guard



Commandant  
United States Coast Guard

Staff Symbol: CG-842  
Phone: 202-372-3636  
Fax: 202-372-3946  
Email: warren.j.cottingham@uscg.mil

7000

## MEMORANDUM

From: J. W. NIEMIEC, CAPT  
COMDT (CG-84)

Reply to: CG-842  
Attn of: Warren Cottingham  
(202) 372-3636

To: Mr. Larry Bedkers  
Director, Office of Financial Management  
Department of Homeland Security

Subj: COMMENTS ON FASAB EXPOSURE DRAFT, ESTIMATING THE HISTORICAL  
COST OF GENERAL PROPERTY, PLANT, AND EQUIPMENT

Ref: (a) FASAB Exposure Draft, Estimating the Historical Cost of General Property, Plant,  
and Equipment, dtd November 14, 2008

1. The Coast Guard applauds the Federal Accounting Standard Advisory Board's (FASAB) staff on their efforts to ease the agencies' burden of valuing General Property, Plant and Equipment (G-PP&E). The Coast Guard fully supports all of the recommendations in the exposure draft. In order to support the valuation of assets without historical documentation, the Coast Guard has provided our auditors with several different types of estimates. If allowed, for an extended period of time the additional valuation techniques described in the exposure draft will greatly assist the Coast Guard in producing GAAP compliant valuation of our G-PP&E. The enclosure provides detailed responses to FASAB's questions on the exposure draft.

2. The open-ended time frame to use these alternative methods will be of significant benefit to capital intensive entities like the Coast Guard. The Coast Guard needs several years to complete its real property inventory. This must be completed before the Coast Guard can complete valuing these assets using the alternative methods.

3. The Coast Guard appreciates the opportunity to comment on the exposure draft. If you have any questions about our comments, please contact Mr. Chris Buckmaster at (202) 372-3638 or Mr. Warren Cottingham at (202) 372-3636.

#

Enclosure: (1) Coast Guard Response to FASAB Questions about the Exposure Draft on  
General Property, Plant and Equipment

Copy: FASAB

**Coast Guard Response to FASAB Questions about the  
Exposure Draft on General Property, Plant and Equipment**

**Question 1:** The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing General Property, Plant and Equipment (G-PP&E) accounting for the first time. See paragraphs 7 and A9. Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

**Coast Guard Response:** The Coast Guard agrees with this provision because agencies may not have supporting documentation for older legacy or discovered assets. Many entities that have not had to produce audit ready support will find that the documentation they have available may not be complete enough to satisfy audit requirements. For example, the Coast Guard was missing a significant amount of historical documentation when we initially valued many of our real property assets, and we had to use a discounted plant replacement value to value many buildings and structures for which no invoices or contract documents exist.

**Question 2:** The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs 10 – 13A. Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

**Coast Guard Response:** The Coast Guard agrees that initial capitalization of G-PP&E based on reasonable estimation methods should be acceptable on a continuing basis when acceptable historical documentation (i.e., invoices and contracts) are not available. It is not cost effective to appraise all assets or to continue to search for supporting documents beyond a reasonable time. The Coast Guard has successfully used all of these methods and found them to be very helpful and fully auditable.

Capital intensive federal entities have significant difficulties in gathering, maintaining and controlling historical support for the G-PP&E that they acquire, especially for items that are constructed (i.e., vessels, aircraft, buildings) rather than purchased off the shelf (i.e., fork lifts). Many of these types of constructed assets are in construction-in-process for several years before they are available for use, and many have complex overhead costs that must be applied in order to conform to the full historical cost basis required by SFFAS No. 6.

Even for those federal entities that are actively pursuing the goal of valuing G-PP&E via historical cost, it often requires several iterations of policy, process and systems before they can satisfy the audit requirements necessary to support these G-PP&E assets on a historical basis. Allowing the use of reasonable estimating methods on a continuing basis will allow these entities to provide reasonable estimates of value without expending substantial resources to reconstruct

historical documents that in many cases will not meet the auditor's requirements. In this way, the federal entity can work through the policy, process and system issues required to satisfy historical cost requirements while at the same time providing reasonable estimates of G-PP&E values. If reasonable estimates are not permitted on an on-going basis, then the federal entities will be forced to expend resources on system and process developments in addition to the costs associated with reconstructing historical costs. If the reconstructed historical costs are not supportable from an auditor's perspective, then this attempt to reconstruct costs from inadequate or non-existent accounting records is potentially a waste of tax payer money. During the time frame that a federal entity is attempting to develop auditable policies, processes and systems to support historical costs, the backlog of unaudited and/or non-recognized G-PP&E assets continues to build unless there is an acceptable estimating methodology to value and recognize these assets that are not fully supported with historical costs.

**Question 3:** The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A. Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

**Coast Guard Response:** The Coast Guard agrees with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. The Coast Guard must ensure, however, that auditors are fully cognizant and agreeable to a reasonable approach with respect to the application of these standards. If allowed by auditors, the recommended alternative techniques will save agencies much time and money to search for invoices and contracts that may no longer exist. The standard calls for the use of reasonable estimates of historical cost and accumulated depreciation.

Allowing reasonable estimates while Federal entities are working towards the implementation of the policies, processes and systems to support auditable historical costs improves the quality and consistency of the G-PP&E data on the financial statements. Currently, many of the G-PP&E assets are either not reported or at least not auditable because they are not supportable from a historical cost basis. Allowing the use of estimates with adequate disclosure will improve the quality of the financial statement information.

**Question 4:** The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20. Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

**Coast Guard Response:** The Coast Guard supports the open-ended option. To value real property, the Coast Guard will need to first conduct a complete wall to wall inventory, gather all supporting documentation available and analyze the results. The Coast Guard started what was to be a 3 year effort in 2005. Funding constraints have caused a temporary cessation of this

work. Consequently, this work will not be completed in the original time estimate. In addition, the Coast Guard is finding that from an audit perspective there are significant information gaps that will raise valuation issues into the future.

In theory, the creation of a date-certain approach would force federal entities to change their G-PP&E policies, processes and systems in order to become compliant. The reality as stated in the GAO report on the Federal FY 09 Financial Statements is that "the size and complexity of the federal government and the long-standing nature of its financial management systems weaknesses continue to present a formidable management challenge in providing accountability to the nation's taxpayers." GAO also pointed out that "FFMIA requires auditors, as part of the 24 CFO Act agencies' financial statement audits, to report whether those agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's Standard General Ledger at the transaction level. For fiscal years 2008 and 2007, auditors for 14 and 13 of the 24 CFO Act agencies, respectively, reported that the agencies' financial management systems did not substantially comply with one or more of these three FFMIA requirements." GAO stated that "according to many of the agency auditors' reports, serious problems remain for the financial management systems. As a result, federal agencies' financial management systems are unable to routinely produce reliable, useful, and timely financial information, which hampers the federal government's ability to effectively administer and oversee its major programs. While agencies anticipate that the new systems will provide reliable, useful, and timely data to support managerial decision making, our work and that of others has shown that has often not been the case."

Although many of these system issues have prevented the federal government from supporting historical costs for G-PP&E, the results of management and audit efforts have improved the overall accountability of G-PP&E within the federal government. For example, the Coast Guard has successfully used a variety of "reasonable estimates" to satisfy audit and financial reporting requirements where specific historical supporting documentation was not available. However, the Coast Guard still has and will have for the foreseeable future many financial system related issues that impede our ability to adequately support G-PP&E transactions with historical transactions. In addition, many of the larger and more complex G-PP&E assets, such as aircraft, vessels, buildings and structures take years to complete and, if not properly set up and monitored during their construction, provide incomplete historical documentation that does not comply with audit requirements to support valuation. Often, these discrepancies are not identified until years after the project is initiated and the creation of adequate documentary support is not always possible. Allowing federal entities the ability to apply alternate means until they have auditable policies, processes and systems will continue to improve the quality of federal financial information.

The Coast Guard also believes that it would be very helpful if FASAB would develop standards for the useful lives of assets. Currently, each department/agency develops their own useful lives for their assets. We suggest that standards are needed to ensure consistency among similar classes of assets across the federal government. We believe this would improve the

Consolidated Financial Statements of the U.S. Government and result in greater consistency among audits of different federal agencies.

**Question 5:** As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20. Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

**Coast Guard Response:** The Coast Guard generally agrees with the ED as written with an open ended completion date. If the standard is implemented as written, the Coast Guard will implement period discipline to use estimates only so long as needed to value assets where adequate supporting documentation may not exist. The Coast Guard will apply our own discipline to prevent the situation that Mr. Patton describes from occurring, i.e., so open ended that appropriate values are not determined nor effected in the financial system.

**Question 6:** The Board has proposed clarifications regarding when reasonable estimates are permitted. Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

**Coast Guard Response:** The Coast Guard believes that the provision on page 9, paragraph 2, last sentence, is sufficient. This sentence states that “In addition, these amendments also apply in those cases where entities have decided to use estimates to determine the historical cost values of general property, plant, and equipment (G-PP&E).” This will cover agencies like the Coast Guard that already prepare financial statements but still need to use estimates to value their assets because original documentation is not available.

Please find attached our comments on the Exposure Draft of the proposed Statement of Federal Financial Accounting Standards entitled, *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*. If you have any questions or comments for us, please do not hesitate to contact me.

Thanks!

*Mark C. Jenson, CPA, CGFM*  
Director, Financial Statement Audits  
NASA OIG  
Washington, DC

**NASA OFFICE OF INSPECTOR GENERAL****COMMENTS ON EXPOSURE DRAFT****“Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23”**

The Exposure Draft (ED) of the proposed Statement of Federal Financial Accounting Standards (SFFAS) entitled, *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*, proposes to clarify that reasonable estimates of historical cost may be used to value general property, plant, and equipment (G-PP&E). The Federal Accounting Standards Advisory Board (FASAB or the Board) posed six questions for respondents. In lieu of responding to the questions, we respectfully submit our comments to the ED for the FASAB's consideration.

We generally agree that reasonable estimates of historical cost may be used to value G-PP&E. However, the proposed standard should be revised to emphasize that using estimates should be the exception to the rule. The proposed standard should explicitly state that, except in limited circumstances, the basis for the valuation of G-PP&E should be historical cost (i.e., actual cost). Those limited circumstances are discussed below.

The proposed standard currently states, in revised paragraph 40 of SFFAS 6 and revised paragraph 12 of SFFAS 23, that reasonable estimates may be used to establish historical cost. Those paragraphs can be interpreted to allow any entity to estimate their G-PP&E, even those entities with processes and practices that capture transaction-based historical cost data. We recognize the following is contrary to the Board's basis for conclusions, however, we do not consider it prudent to permit the use of estimates without some criteria defining when estimates are acceptable. For example, if any entity has adequate systems and processes in place to capture transaction-based data to establish historical costs, then the entity should not have an option to choose whether its G-PP&E is valued based on the transaction-based data or an estimate. We believe that the proposed standard must include criteria to prevent entities from choosing one method (e.g., estimates) to establish historical cost of G-PP&E instead of choosing the other method (e.g., transaction-based historical cost data) although adequate systems exist to capture historical cost.

This proposed standard is intended to address the recording and reporting of G-PP&E at two types of entities. The first is an entity that has not previously reported G-PP&E in its financial reports or has not previously prepared financial reports. We agree, in this situation, that the use of reasonable estimates of the original historical cost and accumulated depreciation of G-PP&E would be appropriate, but only if the entity does not have sufficient systems or controls in place to determine historical cost. There are many instances where obtaining the original historical cost transaction data is not practical or cost-effective for items acquired many years prior to the date entities implement G-PP&E accounting for the first time in an environment in which the historical records were not required to be retained and may therefore be inadequate.

The second type of entity is one that has been reporting G-PP&E in its financial reports, but one that still does not have adequate systems and internal control practices in place to capture and sustain transaction-based data to meet G-PP&E historical costs

**NASA OFFICE OF INSPECTOR GENERAL****COMMENTS ON EXPOSURE DRAFT****“Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23”**

valuation requirements. An example of such an entity is the Department of Defense. However, NASA and the Department of State may also be examples of such entities as the independent auditors of these agencies have reported material weaknesses surrounding the recording of property in the financial statements and have issued disclaimers of opinion as a result of the financial statement audits in recent years. We agree that these types of entities need to establish their property balances through a reasonable estimation method that would not materially misstate the property balances in the financial statements.

For both types of entities described above, we note that the proposed standard includes no incentives for those types of entities to implement systems and processes that can capture historical cost data. We acknowledge that paragraph 4 on page 9 of the Introduction of the ED and paragraph A16 of the appendix “encourages” those Federal entities that use estimates to establish such process and practices to capture historical cost information for future acquisitions; however, we feel that the word “encourages” is not strong enough. We recommend the Board insert stronger language and stipulations into the body of the proposed standard to incentivize those types of entities to implement adequate systems and internal control practices to capture and sustain transaction-based data to meet G-PP&E historical costs valuation requirements. One such stipulation may be that reasonable estimates may only be permitted so long as the entity is in the process of developing or implementing sufficient systems or controls to capture historical cost data. Stipulations would help prevent entities from using estimates to establish historical cost of G-PP&E indefinitely. As many aspects of accounting and auditing standards are subjective, the fact that the stipulations could not be measured against an objective standard should not be a deterrent from establishing them. Also, by incorporating stipulations, there would be a compromise between a purely open-ended timeframe and a date-certain timeframe. Such compromise would result in an entity not being held to an arbitrary established timeframe but at the same time would provide incentive for the entity to be pursue systems and controls that would capture historical costs.

If the use of estimates is to be incorporated into the existing G-PP&E accounting standards, then we suggest that a discussion be included on documentation. The discussion should clearly and explicitly articulate the expectation that the entity must maintain sufficient documentation explaining the rationale for the estimation method chosen as well as the documentation supporting the estimate derived using the estimation method.

In addition to comments above, we submit, for your consideration, the following specific comments related to certain paragraphs of the ED.

- Page 9, Paragraph 3 – In the last sentence, the word ‘clarifies’ appears to be misspelled as ‘claries’.

**NASA OFFICE OF INSPECTOR GENERAL****COMMENTS ON EXPOSURE DRAFT****“Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending  
Statements of Federal Financial Accounting Standards 6 and 23”**

- Page 9, Paragraph 4 – Should the word ‘and’ be inserted in the first sentence after G-PP&E?

On behalf of The US Department of Agriculture, attached are comments on exposure draft , “ The Hierarchy of Generally Accepted Accounting Principles, Including the Application on Standards Issued by the Financial Accounting Standards Board ”.

Melanie R. Cenci  
Office of the Chief Financial Officer  
US Dept. of Agriculture

Request for Comments on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

All responses are requested by January 30, 2009

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

Agree. The use of reasonable estimates may be more cost effective than reconstructing actual historical amounts based on inadequate or non-existent accounting records.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

Agree. Use of reasonable estimates to value G-PP&E should be permitted at any time when reconstructing actual historical amounts is not cost effective because of inadequate or non-existent accounting records. However, using estimates in lieu of systems to capture the actual acquisition costs of assets should be an exception rather than standard operating procedure.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

See response to Q1 above.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

See response to Q2 above.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

Disagree. Use of estimates may be necessary in the preparation of financial statements when relevant data concerning events that have already occurred cannot be accumulated on a timely cost-effective basis.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

Additional clarification on using estimates to value G-PP&E may be helpful.

On behalf of Carolyn Davis, Assistant Inspector General for Audit Policy and Oversight, attached are the DoD Office of Inspector General comments on the FASAB Exposure Draft "Estimating the Historical Cost of General property, Plant, and Equipment, Amending Statements of Federal Financial Accounting Standards 6 and 23". Thank you for the opportunity to comment on the Exposure Draft. Any questions please contact Carolyn Davis at (703) 604-8877.

Robert Kienitz  
Office of the Inspector General  
Department of Defense  
Audit Policy and Oversight

**DOD Office of Inspector General Comments on FASAB Exposure Draft  
“Estimating Historical Cost of General Property, Plant, and Equipment,  
Amending SFFAS 6 & 23”**

Overall Comment

The concept “reasonable estimate” is broad and subjective, and could be misleading in determining the asset value if there is no historical data to rely on. Additionally, this concept would make it very difficult for auditors to conduct an audit without a tremendous emphasis on guesswork. By allowing estimates, without establishing a definitive end date, organizations may take advantage and never provide factual data to support their numbers.

However, if the Board approves this concept, other accounting concepts such as consistency and conservatism should be considered to justify the reasonable estimation. These concepts should enhance asset value comparability in different accounting periods and minimize asset over estimation.

Answers to Request for Comments on Specific Topics

**Q1. Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

**Answer** – We agree with allowing estimates of costs and depreciation of G-PP&E upon initial capitalization for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but may be required to in the future. We believe this will be a benefit to the entity because if an entity was not required to keep track of G-PP&E, most likely they will not have accurate historical information. Lacking historical records makes verifying historical costs difficult which questions the reliability of the information. Currently, entities are expending resources to generate historical cost data for G-PP&E based on inadequate accounting data. By letting the entity estimate the initial capitalization of G-PP&E, they have time to implement the new procedures and be prepared to report the following year. The use of estimates is a cost effective approach to getting historical costs. Using other information reflecting amounts expended or deriving from current replacement costs will help these entities reach a reasonable historical cost.

**Q2. Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

**Answer** – We do not agree with the use of reasonable estimates on a continuing basis. The use of estimates should not replace historical cost supported by original transactional data. Allowing Federal entities to estimate the historical costs of their G-PP&E on a continuing basis gives them an incentive to discard historical records instead of using these documents as support for the historical cost of the assets. The National Archives and Records Administration has published guidance addressing the retention of Federal records, thus Federal entities are required to retain their records in accordance with specific schedules. As a result, Federal entities should comply with the retention schedules the National Archives and Records Administration has published and retain supporting documents to support the historical cost of its assets. Furthermore allowing Federal entities to revise the historical cost of its assets on a continuing basis defies the point of using the historical costs to report an entity's assets. Constantly revising the estimate of the historical cost of assets will cause the Federal entities to constantly restate their financial statements.

**Q3. Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

**Answer** – We neither agree nor disagree with the question. On the one hand, with the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E should be used only under specific circumstances. Because if estimates can be used when the entity deems it "impractical" to use historical data, the entity would not have motivation to improve their systems to make obtaining accurate historical data possible. On the other hand, we agree with the proposed amendment to SFFAS No. 6. We think entities should be able to use estimation methods, especially if lacking documentation. While historical cost is preferable, estimates are necessary in some cases. Using estimation methods will probably provide more timely historical costs than manually generating it.

Federal entities that have not previously reported G-PP&E on their entity financial reports and for the entities who have not previously prepared financial reports, but who may be required or elect to do so in the future should be allowed to use

reasonable estimates to report the historical cost of their assets upon initial capitalization of the G-PP&E. Once the entity either starts preparing financial statements or determines that it may have to do so, the entity should retain documentation that supports the cost of its assets and use that information to report the historical cost of the asset. Allowing Federal entities to revise their estimates of the historical cost of assets contradicts the purpose of using historical costs in the first place and puts into question the reliability of the financial statements.

**Q4. Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

**Answer** – We believe the use of reasonable estimates should be permitted only through a definitive end date. Given that G-PP&E be reported at historical costs, based on supporting documentation, entities should be working towards creating systems, processes, and internal controls to be able to do that. The use of estimates should be used only on G-PP&E items that do not have historical costs supported by original transactional data. Entities should keep all supporting documentation and original transactional data for new G-PP&E purchased in accordance with SFFAS No. 23. As G-PP&E items with estimated historical costs retire, the G-PP&E items remaining will be those with historical costs based on original transactional data, which is how G-PP&E should be reported on the financial statements.

Additionally, Statement of Federal Financial Accounting Concepts 1: *Objectives of Federal Financial Reporting*, states that the recommendation of accounting standards “necessarily involve[s] judgments about the costs and benefits of producing more information or of reporting it differently” [para. 151, 4<sup>th</sup> sentence]. SFFAC 1 continues by stating that accounting standards can have many different effects. Those effects include “the activities of agency accountants and the auditors who review reports prepared by those accountants” and an “influence [on] which physical assets are under accounting control and the extent of work the auditor does to provide assurance about those assets” [para. 152, 1<sup>st</sup>-3<sup>rd</sup> sentences]. An accounting standard that allows the continuing use of estimates, however reasonable, could result in some federal agencies continuing the use of estimates for an indefinite length of time [para. A20, 1<sup>st</sup> sentence].

Further, the exposure draft indicates that “initial application of this standard by an entity previously reporting G-PP&E should be treated as a correction of an error” [para. 16, 1<sup>st</sup> sentence]. According to SFFAS 21: *Reporting Correction of Errors and Changes in Accounting Principles*, “errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were

prepared” [para. 10, 1<sup>st</sup> sentence]. Presumably, the exposure draft is considering the reporting of G-PP&E as correcting an oversight of facts in existence when the financial statements were prepared. Allowing the continuing use of estimates, especially if it would result in some federal agencies not transitioning to actual G-PP&E historical cost, would continue to overlook facts in existence when preparing financial statements.

**Q5. Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

**Answer –** We agree with the view expressed in the Alternate View in the Basis for Conclusions. When cost information was not maintained the use of estimates would be an appropriate necessity to report G-PP&E acquired. Additionally, the use of a date-certain option would prevent agencies from continuing to use estimates indefinitely. Without an actual deadline of when to setup systems to capture actual acquisition costs, some entities will push off this responsibility. Granted, some reporting entities will still delay implementing this requirement; however, an actual timeline should lessen the number that does push off this necessity. Perhaps, it would be appropriate to address entities with a large volume of G-PP&E on a case-by-case basis to grant them additional time to implement the system.

**Q6. Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

**Answer –** Yes, additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E. Paragraph A10- A13 is unclear about when estimates can be used. The way the paragraph reads, is that the agency gets to interpret what they consider impractical. We believe that the Board should consider identifying more requirements that are specific.

Furthermore, the Board should consider explaining those estimates developed using the estimating methods outlined in SFFAS 23 as reasonable. The standard should state that Federal entities could only use reasonable estimates

for historical cost of G-PP&E upon initial capitalization if they have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but may be required to in the future. In addition, the standard should state that once the entity starts preparing financial statements or determines that it may have to do so, it should report the historical cost its G-PP&E assets and retain transaction records that support the historical cost of the asset. If the Board does not add clarification to the standards, each Federal entity will implement the standards in a different way. This will make it difficult to prepare comparative and /or consolidated financial statements for the Federal government. Additionally, this will present a challenge to the audit community in determining if the entities are reporting assets in accordance with Generally Accepted Accounting Principles thus making it difficult to express an opinion on the financial statements.



Deloitte & Touche LLP  
Suite 900  
1001 G Street NW  
Washington, DC 20001  
USA

Tel: +1 202 378 5100  
Fax: +1 202 378 5123  
www.deloitte.com

January 30, 2009

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

**Exposure Draft of Proposed FASAB Statement, *Estimating the Historical Cost of General Property, Plant, and Equipment - Amending Statements of Federal Financial Accounting Standards 6 and 23***

Dear Ms. Payne:

Deloitte & Touche LLP is pleased to comment on the Federal Accounting Standards Advisory Board (FASAB or "Board") Exposure Draft (ED), *Estimating the Historical Cost of General Property, Plant, and Equipment - Amending Statements of Federal Financial Accounting Standards 6 and 23*.

**Questions for Respondents**

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

We agree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate.

However, we believe that a deployed asset (i.e., deployed in War, Space, etc.) in which there is a strong likelihood that the asset will not return to the entity, may need a different accounting treatment other than estimating the historical cost and accumulated depreciation. We feel that the Accounting and Auditing Policy Committee would be an ideal vehicle for addressing the accounting treatment of these assets.

In addition, we recommend that the FASAB clarify, "previously prepared financial reports" as to whether this applies to both audited and unaudited financial reports that an entity prepares. Entities report assets on their audited and unaudited financial statements using estimating techniques that may not be considered appropriate or reasonable under SFFAS 6 and 23. We believe that this situation would not be included under "initial capitalization", but under the "initial **application**" of the standards. Therefore, FASAB should also include "initial application" since it is addressed in Paragraph 16 of the ED (under SFFAS 23), *Adjustment to Cumulative Results of Operations*. Under "initial capitalization," the FASAB includes agencies which have not been audited. We recommend that the FASAB clarify whether this also includes agencies that have failed audit due to their inability to establish a PP&E baseline.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

Deloitte recommends that the reasonable estimation method be permitted for a limited period of time until a specified date established by an agency's independent action plan or, at the latest, an effective date stipulated by FASAB. We believe that the entity should have a commitment to a final transition date and provide regular status updates to their Inspector General, and possibly OMB.

We believe it is acceptable to allow the use of the reasonable estimation method to determine historical valuation of assets until an agency can put in place the appropriate policies, processes and systems to enable an agency to capture actual cost. A date certain, established by FASAB or the agency itself, provides a sense of urgency and minimizes indefinite deferral of the required investment. See response to Q4.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

We agree with the proposed amendment to SFFAS 6. We believe that it is important to note that whether the valuation assertion is satisfied by historical cost or reasonable estimation methods, financial statement assertions relating to existence of the underlying asset must be verifiable. Also, the FASAB should specify whether there is a hierarchy to the ordering of the new bulleted items specified in SFFAS 6, paragraph 40.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

We recommend a date certain should be stipulated by the FASAB so that federal entities have a commitment to a final transition date. Otherwise, we believe that entities may not have a sense of urgency to implement processes and systems for timely capturing of historical cost. In establishing a date-certain, we also believe that FASAB should consider the burden placed on some entities to develop an approach and/or systems that captures historical costs.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

We disagree with the Alternative View in the Basis of Conclusions of the ED. We believe that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E can be accomplished and audited. Also, we believe that if there is a date-certain established it is likely that agencies will be deterred from delaying, for a considerable period of time, the creation of systems that are designed to capture historical costs based on transaction data. We believe that a date-certain approach will address some of the primary concerns raised in the Alternative View.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

We recommend that the FASAB discuss how an entity would support and document reasonableness through the use of examples of reasonable documentation that is adequate to support financial statement assertions.

If you have any questions concerning our comments, please contact Mr. Larry Ishol at (202) 378-5100.

Yours truly,

*Deloitte & Touche LLP*

Deloitte & Touche LLP

cc: Mark Crowley



**UNITED STATES DEPARTMENT OF COMMERCE**  
**Chief Financial Officer**  
**Assistant Secretary for Administration**  
Washington, D.C. 20230

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
Washington, D.C.

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*.

Please find attached answers to the six questions that were asked of exposure draft respondents. If you have any questions, please contact me at (202) 482-1207 or [galston@doc.gov](mailto:galston@doc.gov), or Bruce Henshel at (202) 482-0646 or [bhenshel@doc.gov](mailto:bhenshel@doc.gov).

Sincerely,



Gordon T. Alston  
Deputy Director for Financial Management

Attachment

cc: Lisa Casias  
Diane Marston  
Tony Akande  
Bruce Henshel

**Department of Commerce Response****Exposure Draft Regarding: Estimating the Historical Cost of General Property, Plant, and Equipment Amending Statements of Federal Financial Accounting Standards 6 and 23****Prepared by: Department of Commerce, Office of Financial Management****Date Prepared: January 30, 2009****Questions and Answers**

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

**Department of Commerce Response:**

**A1. The Department agrees that, in the absence of transaction-based information, the use of estimates to establish initial capitalization of historical cost and accumulated depreciation data for G-PP&E is appropriate, as long as the estimates are done on a systematic and rational basis and can withstand audit scrutiny.**

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

**Department of Commerce Response:**

**A2. The Department agrees that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis. In a changing environment within government, entities may arise during reorganizations, for example, and find that records predating their existence may no longer be available. In this case and in similar cases, we believe that such entities should be permitted to use estimation methods to establish historical cost and accumulated depreciation of G-PP&E.**

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

**Department of Commerce Response:**

**A3. The Department agrees with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E, for the same reasons given in answers 1 and 2. Also, the amendment should provide a hierarchy for valuing G-PP&E, beginning with the most accurate and objective basis (transaction-based historical cost) and ending with the most subjective estimation basis. The choice of valuation basis should take into consideration the feasibility, cost effectiveness, and reliability of the valuation.**

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19., and A20.

Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

**Department of Commerce Response:**

**A4. The Department agrees that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) if the original transactional data is no longer available. As previously stated in answer 2, in a changing environment within government, entities may arise during reorganizations, for example, and find that records predating their existence may no longer be available. In this case and in similar cases, we believe that such entities should be permitted to use estimation methods to establish historical cost and accumulated depreciation of G-PP&E.**

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

**Department of Commerce Response:**

**A5. The Department disagrees with the Alternate View in that we believe that a lack of defined due dates for estimating valuations is not likely to be a primary cause for entities to defer implementing Federal Financial Management Improvement Act (FFMIA)-compliant systems. We believe that implementing FFMIA-compliant systems is mainly contingent on many other factors, in addition to the ability to use estimated asset valuations. We do, however, agree with the Alternate View that transaction-based historical cost should be used as a valuation basis rather than estimates, whenever possible, and as soon as feasible.**

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

**Department of Commerce Response:**

**A6. The Department does not believe additional clarification is needed at this time, as it is clearly stated in paragraph 8 [40], *Estimation of Historical Cost* (page 11), that the measurement basis remains historical cost, and that reasonable estimates may be used to establish historical cost.**

American Appraisal Associates, Inc.  
1667 K Street NW, Washington, DC 20006  
tel 202 628 8800 / fax 202 572 0558

Leading / Thinking / Performing



January 30, 2009

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

Dear Ms. Payne:

I am pleased to provide our response to the Exposure Draft for “Estimating the Historical Cost of General Property, Plant and Equipment,” dated November 14, 2008.

My responses are as follows:

**Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.**

Response: I believe that if the entity maintains a fixed asset record/reporting system while it may not report supportable Historical Cost, it probably maintains an asset description, model, manufacturer, serial number and date of acquisition. If so, an estimated Original Cost may be generated via a “normal costing” methodology. This methodology is the “backtrending” of the assets current Replacement Cost to the reported or Estimated Date of Acquisition, via reverse inflation indices by asset type, or classification code. It is important to note that these indices are available by classification code and are more accurate then employing a backtrending methodology based upon a general CPI factor, which is very broad based and general and not asset class specific. Backtrending by asset class would generate a more accurate Estimated Original Cost.

The entity should perform an “existence and completeness” check of the asset inventory prior to the aforementioned exercise to ensure that the inventory reasonably represents the assets reported that are physically present at the entity’s physical location.

The entity should then be required to report the actual Historical Cost for newly acquired assets on a “go forward” basis.

The aforementioned costing methodology is consistent with GAAP.



Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

Response: I agree that the “base unit” and its components should be capitalized at the date of acquisition. However, any subsequent additions/modifications to the equipment should be a separate line entry, and perhaps a suffix to the base asset, and its cost reported separately to allow for proper depreciation calculations and subsequent asset transactions such as asset retirements, or transfers to another entity.

In many instances, via a “Standard Costing” methodology, which is a comparison method to like assets that do have an accurate acquisition date and cost basis, would be more acceptable than a random selection. If the entity has an electronic fixed asset system, then this effort can be accomplished with minimal resource effort via a electronic sorting capabilities.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

Response: I agree, however, as mentioned in Q1 above, the reverse inflation indices should be based upon asset classification and not a general CPI. Reverse inflation indices by classcode are more accurate in that they are reflective of technology changes and overall product market conditions.

Guidance should be extended to the entity relative to substituting “latest” Acquisition Cost for “current” Replacement Cost in terms the age of the “latest” Acquisition Cost, as if aged, this methodology may not be applicable.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20.

Response: The Board may want to consider an approach similar to that which the Governmental Accounting Standards Board (GASB) utilized for Statement No. 34. The GASB implemented a “phase in” approach that various sized governments could use, specifically:

- Governments with annual revenues of >\$100 million – June 15, 2001
- Governments with annual revenues of \$10 million to \$100 million – June 15, 2002
- Governments with annual revenues of <\$10 million – June 15, 2003



This “phase in” approach would require the larger entity to comply first as presumably it should have systematic and personnel resources to respond more timely than the medium and similar entities. By having a set implementation date, it would highlight the importance of the standard from an accountability and stewardship point of view.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

Response: I agree with the concerns expressed in paragraph A20 from the perspective that there needs to be a consistent reporting and estimating methodology and there needs to be a reporting date requirement for compliance. If these basic two principals do not exist, compliance with the Standard will not be taken seriously. Given the current financial crisis, timely reporting and financial accountability is of paramount importance.

I would suggest that the Board review the implementation guidance associated with GASB 34 and Executive Order 13327 for Real Property in that certain asset management system requirements and data elements are set forth, as well as “phase in” compliance dates for mandatory compliance.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Response: Yes, I do believe that additional guidance is/will be necessary for implementation such as:

- Cost Estimation
- Acquisition Date Estimation
- Asset Lifting
- Consistent Classification Coding
- Basic Fixed Asset Reporting Data Elements
- Dates for Compliance
- Implementation Guide Preparation for use by the reporting entity

January 30, 2009  
Ms. Wendy M. Payne  
Page 4

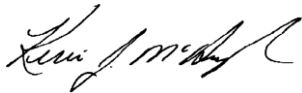


I have attached a listing of costing and valuation definitions for your review.

Ms. Payne, thank you for the opportunity in which to respond. If I may be of any further assistance, or if my response requires any additional clarification, please do not hesitate to contact me.

Respectively submitted,

Sincerely,



Kevin J. McHugh  
Senior Vice President  
National Managing Director – Higher Education  
and Federal Government Services

KJM/mj

Attachment



## COSTING AND VALUATION DEFINITIONS

**Cost of Reproduction New** - The amount required to reproduce a duplicate or a replica of the entire property at one time in like kind and materials in accordance with current market prices for materials, labor, and manufactured equipment, contractors' overhead and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for material or equipment. In insurance industry terminology, cost of reproduction new, as defined above, is synonymous with the insurance industry phrase, "replacement cost."

**Historical Cost** - The actual cost of a property to the present owner - the cost as of the date the property was first constructed or originally installed. When historical cost is provided in a usable format, it will be included. When this information is not readily available, American Appraisal will estimate the original cost by applying reverse inflation indices to the cost of reproduction new.

**Estimated Original Cost** - The estimated original cost of the property in accordance with costs as of the actual or estimated date the property was first constructed, originally installed, or purchased.

**Direct Costing** - Additional research into the historical cost documented as provided by the Client in a readily available and useable format, in the Client's property records for the original construction, improvements and betterments.

**Normal Costing** - Estimated cost based on the cost of reproduction new indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date.

**Acquisition Date** - When readily available, we will use the actual acquisition date of the property. In the absence of readily available information, the acquisition date will be estimated based upon American Appraisal's knowledge of the property type and its condition.

**Estimated Life** - An estimate will be made of the useful life of each unit-controlled asset and each group-controlled asset. The matter of historical lifing practice versus estimated actual lives will be discussed during the planning meeting and an acceptable approach will be developed.

**Accumulated Depreciation** - Will be based on the asset's cost, acquisition date and the estimated useful life utilizing the straight-line basis of depreciation. Useful lives will be based on information provided by the Client or industry standards.

**Insurable Value** - Cost of reproduction new (replacement cost) as of the appraisal date will be used as a basis for insurable values for all controlled property.

January 30, 2009

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

Advancing  
Government  
Accountability

2208 Mount Vernon Ave  
Alexandria, VA 22301

(703) 684-6931  
(703) 548-9367 (fax)

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB or the board) on its exposure draft of the proposed statement on *Estimating the Historical Cost of General Property, Plant and Equipment*. The FMSB, comprising 23 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has the following responses to the questions posed in the exposure draft.

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing General Property, Plant and Equipment (G-PP&E) accounting for the first time. Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

Yes, we agree that developing a sound and reasonable estimate for the original transaction cost and accumulated depreciation is a viable means for agencies that do not have an easy or cost effective way (based upon manhours and lack of documentation) of obtaining historical records to determine such costs. Obtaining records from inception of the G-PP&E may not be possible based upon records retention for the entity (e.g., six years for the federal government) and/or lack of adequate documentation. So we believe that estimates are appropriate. In the private sector, the cost of assets that are depreciated can have a major impact on profitability, and so use of estimates can raise significant concerns. However, in the public sector, performance of mission is paramount and accounting for the costs of mission performance is only secondary.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

Yes, but by “continuing basis”, we assume that what is meant is whenever an entity has to start reporting G-PP&E asset values for the first time (as opposed to allowing agencies to continue to estimate historical costs after they begin reporting asset values). It would be nice if all entities captured this information, even if they were not required to report it, but we have to be practical. We do believe that, at some point, say ten years after inception, all federal entities should have adequate systems and financial reporting in place so that estimation would no longer be required. In fact, we want to emphasize that, in our opinion, each federal entity should have systems in place as soon as possible (and far sooner than ten years) to track new or additions to G-PP&E, whether or not they are currently required to include such information on the financial statements. Further, systems should be in place to record and track the costs of all PP&E.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

Yes, for the same reasons expressed in the answer to Q1 and because the issue here is how an entity that did not capture this information originally can manage to recreate it. Each situation will be unique based on what information is available to the entity, so it makes sense to simply require the basis be reasonable rather than specify what the only valid methods are.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

We prefer the open-ended option, see Q2 above. It is impractical to require entities not currently required to report certain information to track it in case they suddenly meet the requirements to report it. As stated in Q2 above, we think that a set time frame (starting from when the entity is first required to report on G-PP&E) is logical based upon requirements to prepare financial statements, implementation of sound property systems and gradual recording of all G-PP&E. Ten years seems a reasonable time frame as an entity should be able to implement any number of off-the-shelf property systems.

Q5. As noted above, one member has expressed views different from the majority view regarding this proposal. Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

No, we believe there are other factors involved. An entity that is subject to audit, is rated on an OMB rating tool, or subject to other oversight, will feel pressure to build transaction-based systems capable of capturing historical cost of assets, regardless of what FASAB allows. We believe most federal entities have already begun moving to complete reporting of all G-PP&E and do not have to be dictated to have sound financial and inventory systems in place before implementing such. As budgets continue to shrink, it is in a federal entity’s best interest to properly record and maintain property due to limited funding to purchase new property or equipment without adequate support.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted. Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

Yes, the modification to SFFAS 23 explicitly states the estimates are to be used when assets are first subject to reporting, but SFFAS 6 does not explicitly state this (perhaps because SFFAS 23 amends 6). We would like to see similar language put into SFFAS 6.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions concerning the letter, please contact Anna D. Gowans Miller, CPA, AGA's director of research and staff liaison for the FMSB, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or 703.684.6931 ext. 313.

Sincerely,



Robert L. Childree, Chair,  
AGA Financial Management Standards Board

cc: Samuel T. Mok, CGFM, CIA, CICA  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2008 – June 2009**

Robert L. Childree, Chair  
Katherine J. Anderson  
Eric S. Berman  
Irwin T. David  
Don Geiger  
Michael H. Granof  
Jeffrey W. Green  
David C. Horn  
David R. Hancox  
Albert A. Hrabak  
Drummond E. Kahn  
Simcha Kuritzky  
Valerie A. Lindsey  
Jeffrey A. Long  
Edward J. Mazur  
Dianne Mitchell McKay  
Craig M. Murray  
Suesan R. Patton  
Leslie I. Tanaka  
Clarence L. Taylor, Jr.  
Roger Von Elm  
Stephen B. Watson  
Andrew C. West

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)  
Anna D. Gowans Miller, Technical Manager, AGA, Staff Liaison

Thank you for the opportunity to comment on the above Exposure Draft.

Attached are the Department of Housing and Urban Development's comments and responses to the questions in the above Exposure Draft.

Please direct any questions concerning our response to me at the number listed below.

Thanks!

*Jerry Tucker*

*Director*

*Financial Policies and Procedures Division*

*Office of the Chief Financial Officer for Financial Management*

The US Department of Housing and Urban Development (HUD), Office of the Chief Financial Officer (OCFO) has reviewed the subject Exposure Draft concerning *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23* and below are the responses to the questions noted in the Draft.

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

Agree. For those entities where original transaction historical cost data is not available, estimation is a viable solution to accurately reflecting the G-PP&E and Accumulated Depreciation account balances without incurring substantial expense to obtain the historical information. HUD is of the opinion that a revaluation model should be used for all properties and a cost model or fair value model should be employed for plant and equipment. Because the fair value model is market-based, the market approach should be utilized as the primary or assenting approach. If the market approach is not apparent, then the income model should be considered.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

Agree. DOD works under “special circumstances and thus should be allowed to use reasonable estimation methods on a continuing basis in accordance with SFFAS 23.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

Agree. HUD believes that the use of reasonable estimates is a prudent business decision in this time of limited resources. However, the addition of “other reasonable estimation methods”, as noted in paragraph 7, would require further explanation and the Agency should also seek the guidance from the Agency’s auditors prior to employing such methods.

Additionally, the estimate of accumulated depreciation should take into account the systemic basis of the G-PP&E useful life, thereby reflecting the pattern in which the asset’s past and future economic benefits are consumed by the entity.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

HUD believes that the use of reasonable estimates to value G-PP&E should be available at anytime to allow for any “new” reporting entities to use reasonable estimation methods.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

The Department agrees that the views expressed by Mr. Patton have merit, however limited resources may not permit entities with the opportunity to build systems to track acquisition/development costs.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

Yes. An example is the third bullet under item 40 on page 11 of the exposure draft that allows “other reasonable methods” to be used for estimation. Other examples include item 12 on page 12 where estimates are based on documentation, but no time frame is defined.

Reasonable estimates should contain quantitative, qualitative, and time factors, as applicable. HUD believes that reasonable estimation methods should be identified when the historical data is not available, as the current definition is vague. Valuation methods

should be identified for G-PP&E, to provide for reasonable estimate methods and guidelines as approved by senior management and discussed with the Agency's auditors prior to final execution.

Good Day,

On behalf of the Department of Energy, attached please find responses to questions from the exposure drafts titled "The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards issued by the Financial Accounting Standards Board" and "Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23." DOE appreciates the opportunity provided by the Federal Accounting Standards Advisory Board to respond to the exposure drafts.

If you have any questions or need additional information, please contact me at 202-586-3959.

Lois Jessup  
Acting Director,  
Office of Financial Policy  
Office of the Chief Financial Officer  
Department of Energy

Department of Energy's Response to FASAB Exposure Draft: Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23

All responses are requested by January 30, 2009

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

The Department of Energy agrees with reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PPE upon initial capitalization is appropriate for entities that have not previously reported G-PPE. Occasionally, the Department has had assets, older than 20 years, where paperwork simply no longer exists.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

The Department of Energy believes that the initial capitalization for G-PPE based on reasonable estimation methods as provided in SFFAS 23 are acceptable on a continuing basis.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

The Department agrees with the proposed amendment of SFFAS-6 that would allow the use of reasonable estimates of the original transaction data historical costs and accumulated depreciation for G-PPE. While we agree with the proposed amendment, maintaining original documentation is the ideal accounting preference.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5 , A14., A15., A19. and A20

Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

No Comment.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

No Comment.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

No Comment.



January 30, 2009

Ms. Wendy M. Payne  
Federal Accounting Standards Advisory Board (FASAB)  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20546

Re: FASAB Exposure Draft, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*, dated November 14, 2008

Dear Ms. Payne:

The Aerospace Industries Association (AIA) is pleased to respond to the FASAB Exposure Draft proposing to amend SFFAS 6 & 23, *Estimating the Historical Cost of General Property, Plant, and Equipment*, regarding allowing the use of reasonable estimates of original transaction data historical cost to value general property, plant, and equipment.

The Aerospace Industries Association represents the nation's leading manufacturers and suppliers of civil, military, and business aircraft, helicopters, unmanned aerial vehicles, space systems, aircraft engines, missiles, materiel, and related components, equipment, services, and information technology.

AIA and its Property Management Committee are in full agreement with the approach proposed by the Board on the Exposure Draft concerning estimating Historical Cost of General Property, Plant and Equipment. It is consistent with long standing accounting concepts of recognizing the constraints of Cost versus Benefits and Materiality in the reporting of financial information.

To further assist the Board in finalizing its amendments to Standards 6 & 23, we have attached our responses to questions 1 through 6 included in the Exposure Draft.

We appreciate this opportunity to provide AIA comments on the Exposure Draft. If you need any additional information, please contact me at 703 358-1042.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Richard J. Powers', is written over a horizontal line.

Richard J. Powers  
Director, Financial Administration  
Procurement and Finance

Attachment

## Attachment

AIA's comments in response to Questions 1 through 6 in FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

Q1.The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

***Comment: Agree. From a Government contractor's perspective, for the Government property held at the Contractor's sites, reasonable estimates should be used as actuals are not obtainable without an unreasonable amount of effort and expense. Government property at contractors may be G-PP&E based upon FASAB 6. Historical costs are commingled with overall contract cost, which in accordance with today's standards, are Government overhead or G-PP&E.***

Q2.The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

***Comment: Agree. Providing estimates is a much more economical and efficient way to arrive at cost – particularly for componentization purposes. For example: If a contract has one line item to produce a deliverable—the total direct cost of the item may include high cost special test equipment, as well as the deliverable. The special test equipment remains at the contractor's site for future government contracts and the deliverable is sent to a government site. Providing a reasonable estimate after the fact is much more efficient than trying to separate commingled contract cost. Separating actual cost, after the fact, would require extensive research and investigation for thousands of line items for labor and material cost and still may result in an estimate or educated guess due to the age and complexity of the transaction.***

Q3.The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

**Comment: Agree. Accumulated depreciation by definition is an estimate whether actual costs or estimated costs are used.**

Q4.The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19., and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

**Comment: Permitted at any time. Requiring a definitive end date will generate less useful information that can be reported to the public and decision makers. Reasonable estimates are used now on transactions such as partial retirements. Ultimately, precision in cost data requires an investment in infrastructure, processes and administrative cost. The cost to implement the requirement for actuals would rarely provide sufficient benefits and would divert resources from the primary objectives.**

Q5.As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

**Comment: No. See the comments provided in Question 4. G-PP&E line item cost is generally rolled up by classification into G-PP&E totals, as finite details in financial reports are not considered useful for decision makers. Currently most financial systems do have the capability to produce actuals if at inception there is an agreed upon accounting treatment. Frequently it is uneconomical and unreasonable to require and do exact accounting – for example in the self construction of five like kind items, it is more economical to treat the transaction as a lot then divide the total cost by five to arrive at the capitalized costs of the individual items. The cost variations between individual items are immaterial.**

Q6.The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

**Comment: The proposed guidance is easily understood and comprehensive.**



## OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

JAN 30 2009

COMPTROLLER

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

Dear Ms. Payne:

The Department of Defense's (DoD) comments on the Exposure Draft, *Estimating the Historical Cost of General Property, Plant, and Equipment, Amending Statements of Federal Financial Accounting Standards 6 and 23* are attached. Overall, we agree with the exposure draft. We believe the proposed changes will permit reasonable estimates of historical cost now and in the future that will improve financial information reported to the public.

My point of contact is Ms. Donjette L. Gilmore. She can be reached at (703) 697-0537.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Smith".

David P. Smith  
Acting, Deputy Chief Financial Officer

Attachment  
As stated

U.S. Department of Defense

Response to Request for Comments

FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*.

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

A1. DoD agrees with this proposal. This is a practical response to the challenges faced by some agencies as they work to establish sound financial systems and controls. The use of estimates is a more cost effective means of implementing new requirements than reconstructing actual historical amounts based on inadequate or non-existent accounting records. DoD has one general comment. The Executive Summary clearly presents the guidance intentions, therefore, we suggest this guidance be included in the Standards section along with the proposed paragraph revisions in SFFAS 6 and 23.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

A2. DoD agrees that capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis.

Additional guidance is needed to confirm that estimates are allowed for those entities that have been reporting General Property, Plant, and Equipment (G-PP&E) assets in financial reports but are unable to validate the historical acquisition cost of those capitalized assets due to the lack of historical documentation and system deficiencies. In these cases, estimations of the historical cost of property already capitalized may be necessary.

This would be the case when existing property has been recognized in the financial statements, but the historical cost records are not reliable, resulting in a qualification or disclaimer. It appears that the intent of this document is to permit use of estimates for this type of existing property. However, selected statements in the document imply that use of estimations for historical cost applies only when initially capitalizing the underlying property. For example, the proposed revision to SFFAS 23, paragraph 12, states, “When *establishing* the historical cost of G-PP&E....” Additional clarification of this point would be helpful.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

A3. DoD agrees with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. However, the DoD requests specific language be added to the standard to communicate that there is no preference among the three methodologies to prevent the interpretation that the estimates have to be based on a hierarchy of the methodologies provided in the standard. This could be accomplished by adding "or" after each methodology in paragraph 40 of SFFAS 6 or by inclusion of a sentence that the options are presented in no particular order. The additional language would resolve any confusion between agency and auditors in their review/audit of financial statements for the purpose of rendering an opinion.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

A4. DoD agrees that reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended opinion). DoD believes that this will enable Federal agencies to focus accounting resources on long-term, system based solutions. There is wide acknowledgement of both the value and the long-term cost-effectiveness of capturing financial data at the transaction level. The ongoing availability of the use of estimates supports the goal of establishing reliable and cost-effective financial systems.

Agencies should be encouraged to move towards systems that will support transaction based valuation of assets since the ability to link specific transaction values with individual assets demonstrates that an Agency has effective internal controls in place to support financial reporting. However, reporting accurate financial information to the public is also important and should be facilitated while transaction-based systems are developed.

Further, DoD believes that this guidance should be placed as an amendment to SFFAS No. 6 rather than as an amendment to SFFAS No. 23, since the guidance applies to all G-PP&E, not just that property formerly classified as National Defense PP&E.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18 through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

A5. DoD **does not** agree with the Alternative View. As noted in response to Question 4, cost estimations and other cost finding techniques are more costly over time than effective financial systems that capture real-time transaction data. The ability to estimate historical cost data when necessary will not detract from the long-term goal. Rather, this flexibility will enable agencies to focus accounting resources on long-term solutions.

The Board's position is that reasonable estimates should be open-ended. The alternative view sets a time limit which is inconsistent with the Board's view. Further, the alternative view states concerns that without substantial constraints some federal agencies will defer and delay the creation of systems for a considerable period of time. DoD places a high priority on establishing and maintaining high-quality financial management systems.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

A6. DoD believes that clarification would be helpful in the following areas.

First, as noted in DoD's response to Question 4, the location of the guidance may create confusion. The estimation instructions, including guidance for estimating the in-service date, are currently proposed as amendments to SFFAS 23, *Eliminating the Category*

*National Defense Property, Plant, and Equipment.* However, since this guidance applies to all G-PP&E we suggest that the guidance be placed as an amendment to SFFAS 6.

Second, as discussed in DoD's response to Question 2, estimations of historical cost for property already capitalized may be necessary. This should be expressly permitted.

Third, DoD believes that additional clarification of "other reasonable methods" is needed. The amendments to SFFAS No. 23 indicate that estimates of historical cost may be based on information such as, but not limited to, budget, appropriation, engineering documents, contracts, or other reports reflecting amounts to be expensed. DoD suggests that one or more bullets be added to SFFAS 6 to specifically permit these sources of information.

In addition, guidance on how to determine whether an estimate is reasonable should be added either in the Standards or the Basis for Conclusions. This is likely an area where disagreements between auditors and Agencies will arise. For example, the guidance could state that the estimated value of an asset might vary depending on whether it was established using budgets (the original estimate submitted to Congress), appropriations (the amount provided by Congress in response to the budget request), contracts (the amount obligated for the items), or other reports reflecting amounts to be expensed (or reflecting amounts expensed). These alternate methods would not be expected to result in identical estimated values. The FASAB exposure draft indicates that for Federal financial reporting purposes all of the referenced types of information would be acceptable for establishing asset values. This point should be emphasized.

Fourth, to improve consistent application of the Standards, the Department of Defense recommends that the Board include examples in the Basis for Conclusion. The examples might specify that estimating values based on the Congressional appropriation provided to acquire a group of assets or estimating the values using reports that track expenditures against these appropriations would meet the "reasonableness" criteria included in the standard and would be acceptable. DoD provides the following examples of information that could be presented in the Basis for Conclusions.

The estimated value of an asset might vary depending on whether it was established using budgets (the original estimate submitted to Congress), appropriations (the amount provided by Congress in response to the budget request), contracts (the amount obligated for the items), or other reports reflecting amounts to be expensed (or reflecting amounts expensed). For Federal financial reporting purposes, any of these sources of information would be acceptable for establishing asset values.

Federal entities evolved a detailed process for developing budgets, tracking appropriated funds, recognizing obligations and tracking expenditures against appropriations. Throughout this process various internal and external reviews are

performed to ensure that the amounts requested and ultimately appropriated are reasonable. Further, all Federal Agencies provide reports to Congress on the status of expenditures by appropriation line. This control ensures that Agency expenditures do not exceed the related appropriations and this level of oversight and continuing reporting is somewhat unique to the Federal reporting environment. This control process supports FASAB's decision to accept budget and appropriation data for establishing the historical cost of assets.

A problem that Agencies frequently must address when using accounting system data is systems may not associate program expenditures with individual assets. In this situation, estimates must be applied to program level total cost to determine what should be reported for individual assets. As long as these estimated allocations are based on data included in budgets, appropriations, or contracts, the associated estimates should be deemed reasonable.

Additional considerations when determining the reasonableness of an estimate might include:

- Ensuring the total amount capitalized does not exceed the amount appropriated,
- Determining the extent to which the estimates and related financial reporting meet the needs of internal and external users, and,
- Ensuring the efforts required to value the assets are commensurate with the usefulness of the related financial data.

Fifth, the Department of Defense recommends that additional guidance be added to the Basis for Conclusions indicating that use of estimates should be considered as a secondary approach, used if historical cost data cannot be obtained and maintained cost effectively. Establishing information systems, internal controls, and business practices for obtaining actual transaction value costs for accounting and reporting of G-PP&E should be encouraged.

National Aeronautics and Space Administration

Headquarters

Washington, DC 20546-0001



January 30, 2009

Reply to Attn of: Office of the Chief Financial Officer

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

Dear Ms. Payne:

A handwritten signature in cursive script, appearing to read "Wendy", written over the printed name "Wendy" in the salutation.

The National Aeronautics and Space Administration (NASA) is pleased to comment on the Federal Accounting Standards Advisory Board (FASAB) Exposure Draft (ED), *Estimating the Historical Cost of General Property, Plant, and Equipment*, dated November 14, 2008, which will amend Statements of Federal Accounting Standards (SFFAS) 6 and 23. As the ED points out, accounting for general property, plant, and equipment (G-PP&E) continues to be a challenge for some Federal agencies and an impediment to their ability to receive an opinion on their financial statements. We agree there is a need for practical solutions that balance cost, utility, and adherence to the intent of SFFAS 6 and 23 until such time that agencies are able to reliably, timely, and cost effectively capture and record costs to capitalize G-PP&E.

Before responding to the six questions in the ED, we will provide some overall observations about the ED and the direction FASAB is taking. As pointed out in the ED, in the past, Federal agencies generally did not systematically capture historical cost information on PP&E as contemplated in SFFAS 6 and 23. As a result, some agencies, including NASA, subsequently found themselves unable to provide the level of documentation needed to support G-PP&E balances. NASA has evolved to the point that it can address the current requirements of Standards 6 and 23 on new contracts for the purchase of new G-PP&E. However, the Agency will never be able to capture historical cost data for the older assets, most notably the International Space Station (ISS) and Space Shuttle (SS) because a need for that information was not contemplated at the time the acquisition contracts were established to acquire or build these assets. Further, the structure of these existing contracts will not allow NASA the ability to provide timely actual cost data to support the amounts capitalized as GPP&E as long as these contracts remain active. At this time, it is not cost effective for the Government to renegotiate these contracts.

We view the ED as trying to recognize these realities for organizations, such as NASA. The ED preserves the financial reporting requirements in SFFAS 6 and 23 while agencies

work to address their G-PP&E challenges. SFFAS 6 and 23 recognize the use of estimates in certain circumstances, so the concept of using estimates for G-PP&E is not new. However, we anticipate that there may be significant differences in estimating practices and differing levels of support for estimates. This is especially true for older existing assets for which supporting documentation may not be available. This could pose a substantial implementation challenge if there is not a clear understanding across the Federal financial management and audit communities as to what is expected to meet the test of a "reasonable estimation method" in the proposed standard.

It will be most useful if the new standard recognizes and provides for flexibility in estimating practices, including differing levels of documentation supporting timely estimates. Otherwise, there is the risk that the same level of documentation on historical costs expected today to comply with SFFAS 6 and 23, such as original payment documents and invoices supporting historical PP&E costs, would be expected to support estimates under this new standard for older PP&E. If that happens, it could defeat what we view as the intent of the ED, which is to provide some necessary relief for agencies, such as NASA, that have G-PP&E that was not originally capitalized and for which it would either be cost prohibitive to accomplish or not achievable no matter how many resources were devoted to doing so. For NASA, other proxies for actual cost records, which could include budgets or contract reports, will most likely have to be used to derive estimates.

Also, in considering how much flexibility to allow for estimation methods, it is important to keep in mind that knowing the historical cost of assets purchased many years ago can be more useful where the entity is matching revenue to the costs incurred to produce that revenue. That is not the case for most Federal agencies, including NASA, which have material amounts of G-PP&E for which there is limited documentation to support costs for certain older assets. Other information may prove to be more useful in the Federal Government environment.

Again, NASA appreciates the opportunity to respond to the ED. We support what we view as the underlying intent of the ED to provide a practical means for agencies to use estimates for existing G-PP&E for which capitalization was not originally contemplated, while protecting the underlying concepts in SFFAS 6 and 23. NASA's responses to the specific questions in the ED are enclosed.

Sincerely,

A handwritten signature in black ink that reads "Terry Bowie". The signature is written in a cursive, flowing style.

Terry Bowie  
Deputy Chief Financial Officer

Enclosure

Responses to Questions to Respondents -- FASAB Exposure Draft, *Estimating the Historical Cost of General Property, Plant, and Equipment*

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9 **Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

A1. Agree. The important thing is for agencies to capture this information going forward in a manner that is cost effective and useful to managing the entity, which is NASA's approach. Where the Agency has not previously capitalized its assets and/or maintained historical information on the cost of these assets that can be readily assessed, NASA found that there was not a positive cost/benefit of going back and doing so retrospectively. In any event, it proved impossible to do so for the ISS and the SS no matter how much money was spent. Reasonable estimates would provide an adequate basis for making fair representations of balances on the financial statements, while enabling agencies to continue to enhance their G-PP&E cost accumulation and reporting practices. Agencies, like NASA, have struggled with this very thing for many years. The ED proposal makes good common and business sense. If the cost of the assets (depreciation) is being used to set prices or recover costs, greater precision may be needed. But when that is not the case, the ISS and SS being prime examples, estimates can provide a fair representation of the value of those assets. The focus should be on the development of effective practices for capturing this information and capitalizing asset acquisitions.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS amended paragraphs [10.] – [13A.]

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide a rationale for your answer.**

A2. Agree. The ultimate goal should be to effectively and efficiently capitalize assets using historical costs at the time of acquisition. Until such time that an agency is in a position to do so, reasonable estimation methods should be acceptable. It should be expected that the estimation methods would evolve over time as agencies make improvements to provide for the use of actual costs to determine capitalized values.

Enclosure

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A-10 - A-13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

A3. Agree. We agree largely for the reasons stated in our answers to questions 1 and 2. This is a reasonable alternative that balances cost and utility to what has been a difficult problem. However, we caution that to avoid implementation problems there will have to be a consistent understanding as to the definition and application of a "reasonable estimation method." This is especially important for older PP&E for which historical data may be lacking. For instance, how does "reasonable" in the context of an estimate differ from "reasonable assurance" as defined in Government Auditing Standards? It will be important for the preparer and the auditor to work closely together toward a common understanding as to the application of the standard. Doing so will help to ensure a fair presentation of the financial statements through the use of reasonable estimates.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19., and A20.

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

A4. Yes. We support the open-ended option as long as a reasonable estimation method has been established. As stated in answer to Q2, we would expect the estimation method to evolve over time, with a higher bar set as agencies that previously could not capture the costs required to capitalize assets improve their capabilities to do so. We understand the position of the FASAB member regarding the use of an open-ended time period for the use of estimates. The end goal for all agencies should be to effectively and efficiently report the actual costs required to capitalize G-PP&E. At the same time, a reasonable estimation method can provide the information needed to fairly present the financial position of the agency. For some agencies, it may be years before they can put in place actual G-PP&E cost reporting. Therefore, it is difficult to place a date certain on the use of estimates. Our view is that the use of estimates is a viable means of financial reporting. To place a date certain on this could be viewed as arbitrary, since the challenges faced by agencies differ greatly, and would seem to be inconsistent with the thrust of the ED, that reasonable estimation methods which are already used to support the fair presentation of other financial statement line items are acceptable for G-PP&E.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18 through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

A5. No. While we support the majority view of the Board, the alternative view has some merit. It is certainly possible that an agency could continue to prepare estimates without modernizing its financial management systems. At the same time, the Agency's auditor would be reporting continuing problems in internal control and/or non-compliance of the financial management system with the Federal Financial Management Improvement Act. It would also be inefficient to have to continually estimate the value of G-PP&E. In addition, having modernized financial management systems is a priority across the Federal Government, and agencies are already required to have property accounting systems that meet Federal requirements apart from the accounting standards and financial reporting requirements issued by FASAB. Actions to improve accounting systems are being taken across Government because it makes good business sense to do so. We support SSFAS 6 and 23 and plan to comply through a well designed and operating financial management system. For some agencies, this may take some time to accomplish. The reason for permitting estimates is to recognize that while improvement are underway, they will not impact certain G-PP&E for which agencies must include values in their financial statements.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

A6. Yes. We believe that the proposed amendment and the examples contained in it provide adequate guidance for the preparer and its auditor to determine and agree upon the "reasonable estimation method(s)" to be employed in the fair presentation of an agency's financial statements. Agencies already have experience in making the necessary and reasonable estimates for many of their financial statement line items that are required to provide a fair presentation of their financial position. While it is management's responsibility for the fair presentation of the financial statements, it is important and necessary for their auditors to work closely with them.

However, we also believe it would be helpful if FASAB made it explicitly clear that reasonable estimation methods can be, as appropriate, applied to legacy G-PP&E already acquired, legacy G-PP&E still being acquired, and G-PP&E to be acquired in the future.

>>> "Wendy Marshall" <[WMarshall@wapa.gov](mailto:WMarshall@wapa.gov)> 1/30/2009 4:21 PM >>>

Here are our comments on the Historical Cost of General PP&E exposure draft, for Western Area Power Administration.

Thanks Wendy

Wendy Marshall  
Western Area Power Administration  
CSO - Financial Reporting Manager

Request for Comments on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

All responses are requested by January 30, 2009

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

**Agree, it isn't cost effective for an entity to go back & determine the historical cost of PP&E assets if they haven't already done so.**

The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

**Agree, I would think there would be many cases where historical information of long lived assets just isn't available or isn't available in an auditable fashion.**

Q2. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

**Yes.**

Q3. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

**The use of estimates should be open ended to allow for the transfer of assets between agencies. When an asset moves between two agencies one agency may have a need to account for the asset at a lower level of detail than the transferring agency. In that case the receiving agency may use estimates to arrive at the cost by the proper unit of accounting in their agency.**

Q4. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

**No.**

Q5. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

>>> "Albayrak, Yoko - OCFO" <[albayrak.yoko@dol.gov](mailto:albayrak.yoko@dol.gov)> 1/30/2009 5:16 PM >>>  
Our responses to the questions from the Exposure Draft follow below.

## Responses

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

The Department of Labor (DOL) agrees that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future. However, recognition of G-PP&E is appropriate if the asset (1) will be held for use by a Federal entity for a number of years (e.g., a period of at least two or more years) and (2) is still depreciable.

In the event that the entity recognizes the asset, but has the ability and intent to dispose of the asset within a short time frame (e.g., in less than two years), then the recognition and disposal of the asset within such a short time span puts the entity in no different net position than if it had not recognized the asset.

Furthermore, we believe that the use of estimates for valuing G-PP&E may also be appropriate for entities that have previously prepared financial reports, particularly for non-recurring types of transactions. For example, recognition of G-PP&E by a reporting entity in circumstances involving (1) reorganizations (e.g., where a reporting entity and non-reporting may have to report as a single entity), (2) assets acquired through reversionary interests, and (3) changes in Federal lands or territories, either acquired, disposed, or re-characterized (e.g., pursuant to new legislation, treaties, or other arrangements that may involve other Federal entities, nations, U.S. States or municipalities, or other entities). The use of estimates may also assist reporting entities in recognizing costs related to G-PP&E for activities that occur between two entities, including imputed costs and parent/child reporting.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] - [13A.].

Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

DOL agrees that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis. The proposed standard provides adequate flexibility in estimation methods to be used by management.

Furthermore, we believe the use of reasonable estimation methods should also be allowed in recognition of G-PP&E by entities that have previously prepared financial reports, particularly for non-recurring types of transactions. Please refer to the discussion in our response to Q1.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 - A13A.

Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

DOL agrees with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. The proposed amendment provides adequate flexibility for the use of reasonable estimates by management.

Furthermore, we believe that the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E should also be allowed in recognition of G-PP&E by entities that have previously prepared financial reports, particularly for non-recurring types of transactions. Please refer to the discussion in our response for Q1.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

DOL believes that the use of reasonable estimates to value G-PP&E should be permitted at any time so as to provide maximum flexibility by management. Furthermore, we believe that the open-ended option should also be allowed in

recognition of G-PP&E by entities that have previously prepared financial reports, particularly for non-recurring types of transactions. Please refer to the discussion in our response to Q1.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

DOL does not agree with the views expressed in the Alternate View in the Basis for Conclusions because the standards should provide maximum flexibility to management in the use of estimates and estimation methods. Please refer to the discussions in our responses to Q1. and Q4.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

DOL believes that additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E, especially in dealing with non-recurring transactions and unusual circumstances. The clarification does not need to be specific; a statement which allows reporting entities to use reasonable estimates and estimation methods in dealing with non-recurring or unique transactions is sufficient.

Thank you for the opportunity to comment on the Exposure Draft. Any questions or comments may be addressed to Ms. Cynthia D. Simpson, Accountant, Division of Financial Policy and Analysis, Office of Fiscal Integrity, Office of the Chief Financial Officer, U.S. Department of Labor, at [simpson.cynthia@dol.gov](mailto:simpson.cynthia@dol.gov) or (202) 693-6807.

>>> "Bers, Melinda" <[melinda.bers@dhs.gov](mailto:melinda.bers@dhs.gov)> 2/2/2009 4:48 PM >>>  
Attached are the Department of Homeland Security comments on the following two exposure drafts:

Estimating the Historical Cost of General Property, Plant, and Equipment  
-- Amending Statements of Federal Financial Accounting Standards 6 and 23

Per discussion with Terri Pinkney on 2/30/2009, the PP&E comments will be accepted today.

Thank you for the opportunity to comment on these issues.

Melinda Bers, CFE  
Financial Policy  
Office of Financial Management, OCFO

Request for Comments on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

This response is provided by The Department of Homeland Security.

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

Agree, with reservations. Agencies should be authorized to estimate after reasonable efforts to determine historical data have been completed.

This would be helpful for agencies that may not have supporting documentation for older legacy or discovered assets. Certain entities that have not had to produce audit ready support will find that the documentation they have available may not be complete enough to satisfy audit requirements. For example, the Coast Guard was missing a significant amount of historical documentation when they initially valued many of their real property assets, and had to use a discounted plant replacement value to value many buildings and structures for which no invoices or contract documents exist.

In addition, an estimate is a prudent use of government resources. These numbers provide a baseline for comparison and future internal control improvements. For agencies that struggle with the identification of capitalized assets, it can be a challenge to just get these assets reflected on the books. Certain agencies have assets throughout the world that are deployed in war zones and remote locations. For them, the people on site must first accomplish the mission relating to their deployment, focusing on safety first. Accurate records and accountability is expected, but not necessarily at a level of precision that ignores costs and reasonableness.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

DHS agrees that initial capitalization of G-PP&E based on reasonable estimation methods should be acceptable on a continuing basis when acceptable historical documentation (i.e., invoices and contracts) are not available. It is not cost effective to appraise all assets or to continue to search for supporting documents beyond a reasonable time. Within DHS, The Coast Guard has successfully used all of these methods and found them to be very helpful and fully auditable.

Capital intensive federal entities have significant difficulties in gathering, maintaining and controlling historical support for the G-PP&E that they acquire, especially for items that are constructed (i.e., vessels, aircraft, buildings) rather than purchased off the shelf (i.e., fork lifts). Many of these types of constructed assets are in construction-in-process for several years before they are available for use, and many have complex overhead costs that must be applied in order to conform to the full historical cost basis required by SFFAS No. 6.

Even for those federal entities that are actively pursuing the goal of valuing G-PP&E via historical cost, it often requires several iterations of policy, process and systems before they can satisfy the audit requirements necessary to support these G-PP&E assets on a historical basis. Allowing the use of reasonable estimating methods on a continuing basis will allow these entities to provide reasonable estimates of value without expending substantial resources to reconstruct historical documents that in many cases will not meet the auditor's requirements. In this way, the federal entity can work through the policy, process and system issues required to satisfy historical cost requirements while at the same time providing reasonable estimates of G-PP&E values. If reasonable estimates are not permitted on an on-going basis, then the federal entities will be forced to expend resources on system and process developments in addition to the costs associated with reconstructing historical costs. If the reconstructed historical costs are not supportable from an auditor's perspective, then this attempt to reconstruct costs from inadequate or non-existent accounting records is potentially a waste of tax payer money. During the time frame that a federal entity is attempting to develop auditable policies, processes and systems to support historical costs, the backlog of unaudited and/or non-recognized G-PP&E assets continues to build unless there is an acceptable estimating methodology to value and recognize these assets that are not fully supported with historical costs.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

Agree, with reservations. While base cost data may not be available, the cost of follow-on significant modifications may be available. Where such historical data is available, it should be utilized

We must ensure, however, that auditors are fully cognizant and agreeable to a reasonable approach with respect to the application of these standards. In that case, the recommended alternative techniques will save agencies much time and money avoiding the search for invoices and contracts that may no longer exist.

Allowing reasonable estimates while Federal entities are working towards the implementation of the policies, processes and systems to support auditable historical costs improves the quality and consistency of the G-PP&E data on the financial statements. Currently, certain G-PP&E assets are either not reported or at least not auditable because they are not supportable from a historical cost basis. Allowing the use of estimates with adequate disclosure will improve the quality of the financial statement information.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

Agree, reluctantly. Until such time as all agencies are required to develop financial reports, placing a date certain option on the standard only opens the Board to having to re-issue the standard at some point in the future.

Also, justifying the rationale behind the estimate is the responsibility of the agency that uses this method. Likewise, they are responsible for providing justification sufficient to prove that their estimate is reasonable. With this responsibility, agencies should still strive for process improvements because they are not “off the hook.” It is easier to provide a precise answer than to provide justification for an estimate, so it is likely that agencies will move in this direction.

The following comments apply specifically to the Coast Guard.

To value real property, the Coast Guard will need to first conduct a complete wall to wall inventory, gather all supporting documentation available and analyze the results. The Coast Guard started what was to be a 3 year effort in 2005. Funding constraints have caused a temporary cessation of this work. Consequently, this work will not be completed in the original time estimate. In addition, the Coast Guard is finding that from an audit perspective there are significant information gaps that will raise valuation issues into the future.

In theory, the creation of a date-certain approach would force federal entities to change their G-PP&E policies, processes and systems in order to become compliant. The reality as stated in the GAO report on the Federal FY 09 Financial Statements is that "the size and complexity of the federal government and the long-standing nature of its financial management systems weaknesses continue to present a formidable management challenge in providing accountability to the nation's taxpayers." GAO also pointed out that "FFMIA requires auditors, as part of the 24 CFO Act agencies' financial statement audits, to report whether those agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's Standard General Ledger at the transaction level. For fiscal years 2008 and 2007, auditors for 14 and 13 of the 24 CFO Act agencies, respectively, reported that the agencies' financial management systems did not substantially comply with one or more of these three FFMIA requirements." GAO stated that "according to many of the agency auditors' reports, serious problems remain for the financial management systems. As a result, federal agencies' financial management systems are unable to routinely produce reliable, useful, and timely financial information, which hampers the federal government's ability to effectively administer and oversee its major programs. While agencies anticipate that the new systems will provide reliable, useful, and timely data to support managerial decision making, our work and that of others has shown that has often not been the case."

Although many of these system issues have prevented the federal government from supporting historical costs for G-PP&E, the results of management and audit efforts have improved the overall accountability of G-PP&E within the federal government. For example, the Coast Guard has successfully used a variety of "reasonable estimates" to satisfy audit and financial reporting requirements where specific historical supporting documentation was not available. However, the Coast Guard still has and will have for the foreseeable future many financial system related issues that impede our ability to adequately support G-PP&E transactions with historical transactions. In addition, many of the larger and more complex G-PP&E assets, such as aircraft, vessels, buildings and structures take years to complete and, if not properly set up and monitored during their construction, provide incomplete historical documentation that does not comply with audit requirements to support valuation. Often, these discrepancies are not identified until years after the project is initiated and the creation of adequate documentary support is not always possible. Allowing federal entities the ability to apply alternate means until they have auditable policies, processes and systems will continue to improve the quality of federal financial information.

The Coast Guard also believes that it would be very helpful if FASAB would develop standards for the useful lives of assets. Currently, each department/agency develops their own useful lives for their assets. We The Coast Guard suggests that standards are needed to ensure consistency among similar classes of assets across the federal government. We believe this would improve

the Consolidated Financial Statements of the U.S. Government and result in greater consistency among audits of different federal agencies.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

No. We do not fully agree with Mr. Patton's view. For the same reasons that he wants a date-certain option, we think it is unreasonable to propose one. The ability of an agency to implement these rules comes down to funding and priorities. Insisting upon a date-certain does not guarantee implementation.

If the standard is implemented as written, the affected DHS components will implement period discipline to use estimates only so long as needed to value assets where adequate supporting documentation may not exist. Internal discipline will be established to prevent the situation that Mr. Patton describes from occurring, i.e., so open ended that appropriate values are not determined nor affected in the financial system.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

No. The "reasonable" standard is sufficiently clear, so long as agencies are required to document the methodology employed and the methodology is consistent across all such estimating actions. This allows for flexibility in deriving a reasonable estimate, in a cost effective manner.

The provision on page 9, paragraph 2, last sentence, is quite clear. It states that "In addition, these amendments also apply in those cases where entities have decided to use estimates to determine the historical cost values of general property, plant, and equipment (G-PP&E)." This will cover agencies that already prepare financial statements but still need to use estimates to value their assets because original documentation is not available.

# **FAX Cover Sheet**

Resources Management Directorate  
National Security Agency  
Suite 6200  
9800 Savage Rd.  
Ft. Meade, MD 20755

Feb. 4, 2009

**Fax To: Federal Accounting Standards Advisory Board**

**FAX #: 202-512-7366**

**Sent From: NSA**

**Fax#: 443-479-0276**

Comments regarding FASAB ED for Estimating the Historical cost of General Property, Plant and Equipment are attached. Thank you.

**UNCLASSIFIED//FOR OFFICIAL USE ONLY**

NSA comments regarding FASAB ED for Estimating the historical Cost of General Property, Plant and Equipment.

The draft was written 1) to allow the use of estimates for those federal agencies that have not previously reported G-PP&E on their entity financial reports, 2) to provide a response to the challenges face in establishing sound financial systems and controls. The Agency currently is using estimates processes to develop the value of certain real property assets and to a lesser extent equipment. The Agency's audit remediation plans are moving the Agency towards stronger and better internal controls, thus providing more reliable financial statements. Therefore, this proposed change should have a minimal effect on how the Agency does business.

Comments on the details of the draft.

Overall, the Board needs to strongly stress that the measurement basis for G-PP&E remains historical costs by placing this statement. Moving the fifth paragraph on page 4 to reinforce this statement might be helpful.

Page 7, Q1. Need to spend a reasonable amount of time researching for original documents (contracts, invoices, budget requests, etc), before using an estimation process to determine value,

Page 8, Q3 & Q4. Agree that the use of reasonable estimates be use for value, given that a reasonable amount of time and energy has been expended to locate historical documents. Agree with Mr. Patton's view that the reasonable estimations should be used one-time, to determine historical costs for all un-valued assets that are determined to be older than the current budget process or older than five (5) years from the date of FASAB implementation date. Assets purchased within the current budget process or those acquired within the past five years should have some form of paperwork available with costs.

Page 11, SFFAS 6 comments. Please define other reasonable methods, Are all methods acceptable, are some not as reliable?

Page 12, SFFAS23, [12] comments. Include paid appraisers to determine value of asset.

**UNCLASSIFIED//FOR OFFICIAL USE ONLY**

>>> Katherine Reed <[katherine.reed@ugov.gov](mailto:katherine.reed@ugov.gov)> 2/4/2009 12:06 PM >>>  
Attached for your consideration are the Intelligence Community comments to the subject FASAB Exposure Draft. Please feel free to contact me on 703-275-3224 if you have any questions.

Katherine Reed  
Chief of Audit  
Financial Improvement Group  
Office of the Director of National Intelligence

**The Office of the Director of National Intelligence (ODNI)  
Response to the FASAB Exposure Draft “Estimating the Historical Cost of  
General Property, Plant, and Equipment**

**General Comments**

The following Intelligence Community (IC) consolidated response includes the following agencies:

- a. Central Intelligence Agency (CIA)
- b. Defense Intelligence Agency (DIA)
- c. National Geospatial-Intelligence Agency (NGA)
- d. National Reconnaissance Office, (NRO)
- e. National Security Agency, (NSA)
- f. ODNI

The ODNI is in the process of implementing standard internal control processes and business systems for the IC. The IC goal is to ensure that internal controls, business processes, and general and subsidiary balances are valid prior to implementation of these accounting and business systems to obtain clean audits. The IC issued guidance and employed the use of estimates to accomplish these goals. Overall, the IC supports the ED but requests additional provisions be included as follows:

1. For those agencies that still need to develop their systems to accomplish the requirements of SFFAS 6 & 23, the standard should specifically state how it applies to federal entities with the following characteristics.

- a. Previously attempted to fully implement SFFAS 6 & 23 in accordance with effective dates;
- b. Previously established a General Property, Plant, and Equipment (G-PP&E) historical cost baseline pursuant to SFFAS 23;
- c. Maintain work-in-process (WIP) accounts and have on-going additions, deletions/retirements, and depreciation to the G-PP&E historical cost baseline established under SFFAS 23; and
- d. Produce quarterly and annual financial statements in accordance with updated regulatory guidance.
- e. Based upon the above scenario, if an entity has not yet been able to satisfy the requirements of the current SFFAS 6 & 23, does the ED allow the entity to apply the new requirements to achieve initial compliance with SFFAS 6 and 23? Assuming it does, are adjustments to apply the initial capitalization guidance treated in the same manner as corrections of errors in accordance with SFFAS 21? Also, does the same hold true for footnote disclosures?

2. The standard includes a section that addresses reconciliation and reporting of estimated costs and actual costs once an entity has established controls and systems to support the use of original transaction cost data to value G-PP&E. The IC recommends that the FASAB include language that supports combining estimates with actuals under certain circumstances to include WIP accounts. For example, what if an entity begins accumulating costs in a WIP account using a “non-traditional documentation”, as allowed by the proposed standard, and then controls are put in place and actual costs are available for the account in subsequent periods? How should entities reconcile and report system valuations for G-PP&E under this scenario?

The IC is currently developing an internal control business process model for internal use software (IUS). There are a variant number of models that can be use for the development of software. One type that is commonly used is spiral development. Of particular concern with this type of development is while it yields efficient development results, the costs are extremely difficult to capture, yet this particular type of development is not covered in this new Standard. The IC categorizes IUS as G-PP&E. The speed with which the spiral development is completed makes is virtually impossible to determine when the development cycle begins, when it ends and when another development cycle begins again. The use of estimates would be ideal for this type of G-PP&E. Recommend that SFFAS 10, IUS be included for use of estimates along with SFFAS 6 and 23.

**The IC's responses follow the questions below.**

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9. **Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.**

A1. Yes, the IC agrees with estimating historical cost and accumulated depreciation upon both initial capitalizations and to correct previously capitalized G-PP&E. As indicated in the General Comments section, the IC has already adopted estimation policies for IC G-PP&E which have passed audit scrutiny. The IC firmly believes that historical cost documentation should serve as the basis for recording the acquisition cost of an asset. However, the IC experience has been, determining the historical cost posed significant challenges, proving to be time consuming and costly. This is due to a lack of supporting documentation, inconsistent business processes and inadequate systems to support reliable historical cost valuations. In addition, the IC can not sustain accurate and timely data updates to historical information. The IC's CFO offices have focused their limited FTEs and resources toward developing internal controls, processes and systems that will ultimately yield better methods of gathering the actual costs of G-PP&E assets rather than wasting resources searching for old documents that may never be located.

The IC recommends that paragraph A9 be revised to remove language that states estimation techniques are only “*available to reporting entities that have not previously prepared financial reports but who may be required or elect to do so in the future and do not yet have adequate controls or systems to capture these costs.*” The current FASAB standard focuses on the CFO and GMRA Act agencies, however, the IC has agencies that fall under other Acts, such as the Accountability of Tax Dollars Act (ATDA) of 2002, but do not accurately capitalize and sustain the balances for all categories of G-PP&E. The language as written suggests that entities already preparing reports and capitalizing property cannot take advantage of the proposed changes to the use of reasonable estimates. Lack of documentation and inability to find the information has resulted in G-PP&E values being understated on IC financial statements. Where the source documentation is no longer available to determine the accurate valuation of a previously capitalized asset, estimation techniques are a cost beneficial means for improving IC financial reporting. For the IC, estimation techniques are the best way to fill gaps in *capitalized property records* and for any agency required to produce audited financial statements under ATDA.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.]. **Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.**

A2. While the IC agrees that use of estimation methodologies is appropriate and generally accepted for use where necessary, we do not agree that continuously estimating the historical cost of PP&E is appropriate. The IC recommends that the FASAB include additional guidance in the ED that agencies are allowed to use estimates on a continuing basis to capture all costs of G-PP&E until acceptable internal controls, processes, and core accounting and feeder systems are implemented to support capturing the historical cost.

The IC does not believe that the FASAB can establish a specific date for the estimation methodology to expire. Our basis for this opinion concerns the time and effort it would take for FASAB to establish a date given that each agency is at different states of implementation of internal controls, business process, core financial and feeder systems and corrective action plans.

Each agency within the Federal Government has unique business processes driven by their respective missions and subsequently, are at different maturity levels across the agencies. For example, some agencies have developed and implemented comprehensive business processes and integrated financial management systems which support timely and accurate data. While other agencies, like the Department of Defense, rely on decentralized business processes and systems that require manual updates and inadequate data. Further, many federal agencies fund federal and state agencies to procure PP&E on behalf of the federal agencies. These types of intragovernmental transactions represent a large percentage of IC’s PP&E transactions. However, given the diverse and multiple numbers of processes and

systems that are encountered to collect documentation on these transactions, it is virtually impossible to gather and maintain historical data much less, to go back and find it after long periods of time have transpired.

This standard is very much needed by the IC and other agencies. We believe that a “one size fits all” or “hard date” and FASAB’s search to come up with either of these would only delay the release of these standards.. We recommend that leaving it in the hands of the agencies to develop internal plan for implementation of capturing G-PP&E historical costs with FASAB guidance is the best approach.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A. **Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.**

The IC agrees with the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. Accounting for G-PP&E is a significant challenge for the IC who expends significant resources to acquire complex technological assets with an acquisition life-cycle spanning several years. Additionally, some components of the full acquisition life-cycle cost for high technological assets are not always considered a capital cost, unlike assets procured off-the-shelf using firm-fixed priced contracting. As a result, the IC’s attempts to identify and support the historical cost of items such as past “non-capital” costs have proven to be very time consuming and in some cases impossible, as discussed in Q1 above.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20 **Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

A4. The IC agrees that reasonable estimates be permitted at any time; however, we do not believe that there should be an open-ended time period for use of the estimates. The IC does not support a date certain approach. In addition to the reasons provided in A2 for why the FASAB would have difficulties establishing a date certain the following additional comments are provided.

The IC believes that allowing the use of estimates to value G-PP&E assets should be subject to the Agency CFO management’s discretion. Use of estimation methods require the development and execution of detailed implementation plans to design and implement auditable processes, controls, and systems to support the future accumulation of actual costs in lieu of estimates. Progress should be monitored by the agency CFO with advice by agency

IGs. OMB oversight requirements such as the PMA Scorecard, A-11, and other circulars would provide sufficient opportunities to report the implementation of estimates and historical costs of G-PP&E.

In addition, the IC has grave concerns that instituting a date certain would have negative impacts on the IC's multitude of multiyear acquisitions. The IC would be presented with significant challenges to implement if an early date implementation date is selected. The IC believes that the date certain approach would require clear implementation guidance to avoid confusion between agency management and independent auditors.

If a date certain option is chosen by the Board, the IC believes the Board should explicitly state in the Standard that the expectation is, as of the date certain, historical operational G-PP&E may be valued using reasonable estimates. Likewise, WIP as of the date certain may be valued using reasonable estimates. As a result, when the WIP at the date certain is completed and put into use, the value of that WIP should either be based on reasonable estimates (because it was under construction as of the date certain), or on the reasonable estimate established at the date certain, plus additional historical costs captured after the date certain until the asset is completed. In essence, WIP existing as of the date certain will be valued in a "hybrid" fashion – part reasonable estimate, part historical cost. All new GPP&E acquired after the date certain would then be valued using historical cost.

However if an approach is implemented by the Board, the IC encourages the Board to consider the need for precise implementation instructions as suggested in our answer to question #4. IC believes "hybrid" valuations should be acceptable for assets under construction as of the date certain under a multiyear acquisition lifecycle for agencies similar to the IC.

If a date certain approach is not chosen, the Board should understand that the "to be" processes, systems and controls to capture historical cost data on a transaction basis will need to be implemented for a significant period of time before the intended results of utilizing original transaction detail to value assets under construction at the date certain and completed after the date certain can be realized. As a result the implementation of a date certain approach for implementing processes, systems and controls would yield auditable results based on estimates for a given year, but the multiyear original transaction data could not produce auditable evidential matter in the subsequent year under this scenario.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18 through A20. **Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

A5. The IC does not agree with Mr. James Patton, the IC appreciates that the use of estimation techniques could potentially have unintended consequence of deferring and delaying the implementation of systems, processes, and controls to capture historical costs. It's possible that the CFO's programs could continue on its current path of being the last in line

for system and FTE resources, while mission offices continue to obtain the largest resources. However, coupled with robust existence and completeness testing, statistical estimation techniques do provide for reasonable valuation estimates, fair presentation, and comparability of G-PP&E on the financial statements. The Alternate View's concern over the absence of substantial constraints on the use of estimates could be addressed through more robust disclosure requirements than those at paragraph 45 requiring disclosing *use and general basis of any estimates used*. In addition, agency financial statements must pass audit scrutiny, which includes obtaining and evaluating sufficient competent evidential matter to support those estimates. To implement the revised standards and apply estimating techniques, agency management must consider and develop subjective and objective factors, as well as make assumptions about conditions that existed in the Agency's past, current, and future G-PP&E environment.

In addition, the IC's experience has proven that the design and implementation of processes, systems, controls, and documentation to support the successful audit of G-PP&E is a complex undertaking that requires the coordination and transformation of many integrated business processes (i.e. Finance, Contracting, and Budgeting). Based on the nature and complexity of the operations of each individual agency, some agencies will be able to implement adequate processes, systems, and controls more quickly than others.

In addition, the IC believes each agency should determine and develop their own policies that determine a timeline for converting from estimates to historical costs for G-PP&E. The Agency should work with their auditor to determine the timeline that works best for their individual situations. The IC has developed several business processes that have proven that the design and implementation of processes, systems, controls, and documentation to support the successful audit of G-PP&E is a complex undertaking that requires the coordination and transformation of many integrated business processes (i.e. Finance, Contracting, and Budgeting). Based on the nature and complexity of the operations of each individual agency, some agencies will be able to implement adequate processes, systems, and controls more quickly than others. It would be virtually impossible for FASAB to determine where each agency is and then select a date that would satisfy each Federal agency.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted. **Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

A6. The proposed accounting standard proposes using estimates of original transaction data, presumably at the level of discrete individual items or assets. For additional clarification, the IC believes that the revised standard should include other examples of estimation techniques such as statistical extrapolation methods that allow for the development of population estimates that capture balances for classes of property, for initial capitalization, or "base lining" purposes. The statistical baseline could then be maintained at an item level using estimates of original transaction data for assets.

The IC recommends that a disclosure should be added to the financial statements. The disclosure should require a description of the estimation method used and the rationale for using that particular method/estimate.

The IC believes additional clarification is needed for Agencies who have already received cleaned opinions on G-PP&E under the provisions of SFFAS 23 and 6 prior to this new standard. These Agencies require assurance that auditors won't go back and rescind opinions made on the former standard are not affected by audit interpretations made based on this of new provision.

>>> <[Gillam.Constance@epamail.epa.gov](mailto:Gillam.Constance@epamail.epa.gov)> 2/4/2009 10:18 AM >>>

Constance Gillam  
Special Assistant to the Director  
U.S. EPA Office of Financial Management  
1200 Pennsylvania Avenue  
81188 RRB  
(202) 564-6972  
Washington, D.C. 20460

----- Forwarded by Constance Gillam/DC/USEPA/US on 02/04/2009 10:17 AM

-----

From: Constance Gillam/DC/USEPA/US

To: [fasab.gov/exposure.html](http://fasab.gov/exposure.html)

Cc: OCFO-OFM-LDRS, Raffael Stein/DC/USEPA/US@EPA, Melvin  
Visnick/DC/USEPA/US@EPA, Valerie Green/DC/USEPA/US@EPA, Gene  
Pontillo/DC/USEPA/US@EPA

Date: 02/04/2009 10:06 AM

Subject: EPA Response to FASAB Exposure Drafts

Thank you for the opportunity to review the following Exposure Drafts:

Estimating the Historical Cost of General Property, Plant, and  
Equipment Amending Statements of Federal Financial Accounting Standards  
6 and 23.

EPA's comments on the first two Exposure Drafts are provided below. EPA  
has no comments on the Exposure Draft entitled: "Social Insurance  
Accounting, Revised."

(See attached file: Estimating the Historical Cost of GPP&E  
02022009.doc)

Constance Gillam  
Special Assistant to the Director  
U.S. EPA Office of Financial Management  
1200 Pennsylvania Avenue

***The Environmental Protection Agency's Response to FASAB Exposure Draft  
"Estimating the Historical Cost of General Property, Plant, and Equipment"  
11/14/2008***

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

**Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for *your answer*.**

*Response: Yes, EPA agrees. "Reasonably estimating" is, however, a broad standard. On page 11, we suggest deleting the last bullet under Estimation of Historical Cost (SFFAS 6), [40.], which is: "other reasonable methods," and replacing it with "a certified appraisal by someone who is licensed, board certified or otherwise acknowledged as technically competent to appraise Federal assets."*

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

**Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for *your answer*.**

*Response: We agree that a reasonable estimate that includes any major improvements or betterments can be used. But if that estimate cannot be supported by cost of a similar asset at time of acquisition or current cost of a similar asset discounted for inflation since the time of acquisition per "Estimation of Historical Cost" (SFFAS 6), a valuation of the asset should be made by a certified appraiser.*

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

**Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for *your answer*.**

*Response: We agree that a reasonable estimate makes sense in circumstances where documentation may be incomplete or missing. A reasonable estimate would be the*

*fastest and most cost effective approach to accounting for the property as long as an effort was made to make them as accurate as possible. However, if the estimate cannot be supported by cost of a similar asset at time of acquisition or current cost of a similar asset discounted for inflation since the time of acquisition per "Estimation of Historical Cost" (SFFAS 6), a valuation of the asset should be made by a certified appraiser.*

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

**Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.**

*Response: EPA supports the open-ended option because we believe the definitive end date approach is too constricting. The open-ended approach allows agencies more time and flexibility in exploring various methodologies and selecting the one that works best for their purposes. There are a variety of factors that come into play in valuing an asset that wasn't previously valued for reporting purposes. Therefore, flexibility in the standard is critical.*

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

**Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.**

*Response: EPA disagrees with the Alternate View. We concede that some agencies may defer or delay systems development, but do not believe that practice would be widespread enough to justify abandoning the "reasonable estimate" approach. Consequently, the advantages of the approach proposed by FASAB far outweigh this particular potential disadvantage.*

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

**Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.**

*Response: With the exception of the clarification noted in our response to Q1 above, EPA believes that the Exposure Draft is clear about the use of reasonable estimates.*



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220  
January 30, 2009

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

Dear Ms. Payne:

Thank you for the opportunity to provide comments on the November 14, 2008 Exposure Draft titled "*Estimating the Historical Cost of General Property, Plant, and Equipment – Amending Statements of Federal Financial Accounting Standards 6 and 23.*" Our comments, in response to the questions on pages seven and eight of the Exposure Draft, are as follows:

Question 1: Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

Response: Agree. Allowing for the use of reasonable estimates of transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is a logical and appropriate approach to encourage and support entities that are electing to, or are being required to, prepare financial reports with G-PP&E for the first time. The utilization of estimates efficiently accounts for previously expensed historical G-PP&E data, allowing entities to focus on the development and implementation of compliant G-PP&E business practices.

The process of estimating asset costs for initial capitalization worked very well for Treasury, especially at our largest bureau, the Internal Revenue Service where G-PP&E assets are located at hundreds of locations throughout the country. During FY 99 (the first year IRS was required to report G-PP&E) they sampled a number of IRS office sites and worked closely with the Government Accountability Office (GAO) during the process to ensure that the final results would meet the requirements in SFFAS 6. Using estimates allowed IRS and other bureaus to implement SFFAS 6 on time at a reasonable cost.

Question 2: Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

Response: Agree. The initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, should be considered acceptable on a continuing basis.

Because entities that have not established adequate systems are expending resources on both system development and manual generation of historical cost data for G-PP&E, we believe that allowing the use of estimation methods on a continuing basis is a more cost effective means of implementing new requirements.

However, as systems and processes are put into place and operating effectively, the need for using estimates should decline over time. On occasion, through normal reviews, entities may discover G-PP&E items purchased in earlier accounting periods that were erroneously not capitalized. In those cases, if source documentation is not readily available, it may not be cost effective to conduct lengthy manual searches.

Question 3: Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

Response: Agree. The use of estimates to establish the original transaction data historical costs and accumulated depreciation can save agencies money and time in implementing requirements of SFFAS 6. The process for agencies in researching back several years to find the historical cost of each asset and verifying that the asset is still in use by the agency can be very time consuming, costly and in cases where assets were purchased several years ago, the detail may no longer exist on site or at all.

Additionally, the net book value of assets is an estimate, since assets are depreciated or amortized over their estimated useful lives. If estimates are appropriately used, then the asset values presented should be reasonably stated. Please refer to our response to question 2 for additional information which is also relative to this question.

Question 4: Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

Response: Use of reasonable estimates to value G-PP&E should be permitted at any time. A definitive end date for the use of estimates could result in the loss of significant amount of estimation work when a large agency that is working to implement SFFAS 6 is not able to implement within a mandated timeframe. That agency would have to start back over using actual historical cost. An open ended time period would allow a large agency to comply with the standards in stages for different types of assets, if they are unable to implement a process for all asset types at once.

Several of our bureaus did, however, raise concern that without specified limits to encourage compliance, some entities will likely postpone efforts to improve methods of capturing and reporting G-PP&E data. The Board could address some of their concerns regarding the assignment of a definitive end date by applying a flexible/tiered approach grouped by volume or complexity of data.

Question 5: Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

Response: Disagree. While the delay of developing a system to capture historical costs based on transactional data is a possible outcome, it is not a likely outcome.

When an agency knows that it needs to capture current costs of assets on an ongoing basis, that agency should be able to establish a process to capture those costs. The process does not have to be a highly technical one. Agencies will find that once a process is set up to capture historical costs based on transactional data, the ongoing maintenance of that process is easier than continually trying to re-establish estimates, and revalidate the assumptions that are incorporated into the estimates based on new economic conditions.

Several of our bureaus did, however, share Mr. Patton's concern that although the Exposure Draft encourages federal entities to develop systems to capture historical costs based on transaction data, the time period allowed for the use of reasonable estimates is open-ended. This open-ended option may result in the prolonged use of estimates when not appropriate because the ability to use estimates appears to be without substantial constraints. One bureau believes that the Exposure Draft lacks sufficient language to effectively encourage full entity compliance with G-PP&E standards and that the Board needs to define baseline requirements for reasonable estimates, develop expectations for system development and process improvements, and assign a definitive timeline for compliance.

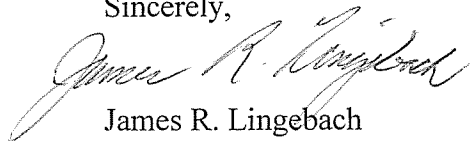
Question 6: Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

Response: Yes. We believe additional clarification is needed. Further defining what constitutes an estimate, and including some concrete steps that must be followed prior to making the decision to use estimates would be beneficial. Expanding the disclosure requirement for including the use and general basis of any estimates used to include describing the process used to determine the estimates would be encouraged. Additionally, current guidance is somewhat vague and lacks proper limitations. The use of the word "reasonable" is used throughout the Exposure Draft and needs to be further defined to provide a baseline expectation/requirement.

In addition, to prevent continued use of estimates after a practical timeframe, the Board may want to consider adding that continued use of estimates after a certain period of time by an agency requires 1) re-validating the assumptions incorporated into the estimates, 2) providing a justification to auditors as to why the agency is continuing to use estimates.

Again, we appreciate the opportunity to comment on this Exposure Draft. If we can be of further assistance, please contact me on (202) 622-0818, Don Geiger on (202) 622-0934 or Bob Faber on (202) 622-6421.

Sincerely,



James R. Lingeback  
Director, Office of Accounting  
and Internal Control



**February 11, 2009**

Memorandum

To: Members of the Board

From: Monica R. Valentine, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: ***Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23: Staff Analysis of Comment Letters – TAB G - 4<sup>1</sup>***

## **MEETING OBJECTIVES**

Members are asked to review comment letters received as well as the staff analysis and recommendations. The objective for this session is to decide whether to hold a public hearing and identify major issues requiring further research.

## **STAFF ANALYSIS**

### **Overall Summary**

- A majority of respondents (25 of 31) **agree** with the Board's proposal that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future.
- A majority of respondents (18 of 31) **agree** with the Board's proposal that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis.

---

<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

---

- A majority of respondents (24 of 31) **agree** with the Board's proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E.
- A majority of respondents (16 of 31) **believe** that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option).
- A majority of respondents (17 of 31) did not **agree** with the Mr. Patton's alternative views.
- A majority of respondents (17 of 31) **believe** additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E.

## Issues Raised -- Staff Analysis and Recommendations

**Broad Issue 1:** The capitalization requirements for developed software as outlined in SFFAS 10 should be included in the scope of this proposed standard.

**Staff Analysis:** One respondent noted that certain capitalized internally developed software meets the criteria of G-PP&E as outlined in SFFAS 6 and may require the use of reasonable estimation methods. The proposed standard amends SFFAS 6 and 23 to provide for reasonably estimating the historical cost and accumulated depreciation of G-PP&E. If developed software meet the definition of G-PP&E it should also be included within the scope of this proposed standard. Including developed software would require the amendment of certain paragraphs of SFFAS 10. In addition, the use of estimates would have to comply with the prospective application required in SFFAS 10.

**Staff Recommendation:** Developed software that meets the definition of G-PP&E should be included in the scope of this proposed standard.

**Broad Issue 2:** The standard does not clearly state if G-PP&E that is currently valued at historical cost (but no original transaction cost source documentation or other data is available) can be revalued using reasonable estimates as outlined in the proposed standard.

**Staff Analysis:** The proposed standard is intentionally broad to adequately address the needs of all federal entities applying the standard. The statement in paragraph [40] of the standard, *"Although the measurement basis for valuing G-PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of G-PP&E"* broadly address this situation, however language can be added to the standard to clarify the Board's intent or this situation could be addressed in the AAPC guidance on estimating the historical cost of G-PP&E. In addition, the revaluation of G-PP&E costs (historical cost or estimated cost), when documentation is available, should be strongly discouraged.

**Staff Recommendation:** The language in the standard should remain broad and the specific issue can be addressed in the AAPC guidance.

**Broad Issue 3:** The standard should include more detail on acceptable reasonable estimation methods and those methods should be ranked in a hierarchy.

**Staff Analysis:** The proposed standard does maintain the language from SFFAS 23 paragraph [13] that identifies several reasonable approaches for estimating historical cost. It would be difficult for the standard to list all possible acceptable estimation methods for any situation that a federal entity would face currently or in the future. Anything other than a fully comprehensive list could eliminate an entity's possibility of using another reasonable estimation method that is not included in the list. Additional acceptable estimation methods could be added to paragraph [13] or acceptable estimation methods could be addressed in the AAPC guidance.

Some respondents are looking for a ranked listing of acceptable estimation methods to follow when estimating G-PP&E. A ranking of acceptable estimation methods in the standards interferes with an entity's use of its own judgment when determining which estimation method works best for their given situation. A method that can be applied by one entity may not be an appropriate method for another entity.

**Staff Recommendation:** Several examples of acceptable estimation methods can be addressed in the AAPC guidance being developed and there would be no ranking of those methods.

**Broad Issue 4:** Broad qualifiers should be added to the standard to identify when the use of estimates is acceptable (i.e., criteria defining when estimates are acceptable).

**Staff Analysis:** Although a majority of the respondents agreed that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E is appropriate, several respondents qualified their agreement with specific situations when estimating is appropriate. Some of those situations included:

- ...where it has been determined it is impractical to obtain the original transaction data (respondent #1);
- ... this should be an exception to the rule (respondent #5);
- ... if such historical records are unavailable or development of such records would be cost prohibitive (respondent # 8); and
- ... records predating their existence may no longer be available (respondent # 17).

In paragraph A6 of the proposed standard the Board address this issue with the following, "The Board initially included "cost effectiveness" and "practical" as the basic criteria to be met before the use of reasonable estimates when valuing G-PP&E in accordance with the asset recognition and measurement provisions of SFFAS 6, as amended, would be permitted. The Board later decided against including the above

basic criteria. Such criteria are open to interpretation and likely to lead to subjective and inconsistent application.”

***Staff Recommendation:*** The Board should reconsider whether to include qualifiers to address when it is appropriate for an entity to reasonably estimate the original transaction data historical cost and accumulated depreciation of G-PP&E.