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United States Department of the Interior

OFFICE OF THE SECRETARY
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TAKE PRIDE IN AMERICA

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)?

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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.*

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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.