

U.S. Department of
Homeland Security



United States
Coast Guard

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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.

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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.