

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!

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**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

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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’.

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- Page 9, Paragraph 4 – Should the word ‘and’ be inserted in the first sentence after G-PP&E?