

January 30, 2009

Ms. Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
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Washington, DC 20548

Advancing  
Government  
Accountability

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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

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Financial Management Standards Board**

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