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~~: Wendy

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,

Terry Bowie

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 its 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.