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Attached are the Department of Homeland Security comments on the following two exposure drafts:

Estimating the Historical Cost of General Property, Plant, and Equipment  
-- Amending Statements of Federal Financial Accounting Standards 6 and  
23

Per discussion with Terri Pinkney on 2/30/2009, the PP&E comments will be accepted today.

Thank you for the opportunity to comment on these issues.

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Request for Comments on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

This response is provided by The Department of Homeland Security.

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.**

Agree, with reservations. Agencies should be authorized to estimate after reasonable efforts to determine historical data have been completed.

This would be helpful for agencies that may not have supporting documentation for older legacy or discovered assets. Certain 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 they initially valued many of their real property assets, and had to use a discounted plant replacement value to value many buildings and structures for which no invoices or contract documents exist.

In addition, an estimate is a prudent use of government resources. These numbers provide a baseline for comparison and future internal control improvements. For agencies that struggle with the identification of capitalized assets, it can be a challenge to just get these assets reflected on the books. Certain agencies have assets throughout the world that are deployed in war zones and remote locations. For them, the people on site must first accomplish the mission relating to their deployment, focusing on safety first. Accurate records and accountability is expected, but not necessarily at a level of precision that ignores costs and reasonableness.

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. 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.**

DHS 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. Within DHS, 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.

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 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.**

Agree, with reservations. While base cost data may not be available, the cost of follow-on significant modifications may be available. Where such historical data is available, it should be utilized

We must ensure, however, that auditors are fully cognizant and agreeable to a reasonable approach with respect to the application of these standards. In that case, the recommended alternative techniques will save agencies much time and money avoiding the search for invoices and contracts that may no longer exist.

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, certain 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.

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.**

Agree, reluctantly. Until such time as all agencies are required to develop financial reports, placing a date certain option on the standard only opens the Board to having to re-issue the standard at some point in the future.

Also, justifying the rationale behind the estimate is the responsibility of the agency that uses this method. Likewise, they are responsible for providing justification sufficient to prove that their estimate is reasonable. With this responsibility, agencies should still strive for process improvements because they are not “off the hook.” It is easier to provide a precise answer than to provide justification for an estimate, so it is likely that agencies will move in this direction.

The following comments apply specifically to the Coast Guard.

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 The Coast Guard suggests 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.

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.**

No. We do not fully agree with Mr. Patton's view. For the same reasons that he wants a date-certain option, we think it is unreasonable to propose one. The ability of an agency to implement these rules comes down to funding and priorities. Insisting upon a date-certain does not guarantee implementation.

If the standard is implemented as written, the affected DHS components will implement period discipline to use estimates only so long as needed to value assets where adequate supporting documentation may not exist. Internal discipline will be established to prevent the situation that Mr. Patton describes from occurring, i.e., so open ended that appropriate values are not determined nor affected in the financial system.

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.**

No. The "reasonable" standard is sufficiently clear, so long as agencies are required to document the methodology employed and the methodology is consistent across all such estimating actions. This allows for flexibility in deriving a reasonable estimate, in a cost effective manner.

The provision on page 9, paragraph 2, last sentence, is quite clear. It 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 that already prepare financial statements but still need to use estimates to value their assets because original documentation is not available.