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Attached for your consideration are the Intelligence Community comments to the subject FASAB Exposure Draft. Please feel free to contact me on 703-275-3224 if you have any questions.

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**The Office of the Director of National Intelligence (ODNI)
Response to the FASAB Exposure Draft “Estimating the Historical Cost of
General Property, Plant, and Equipment**

General Comments

The following Intelligence Community (IC) consolidated response includes the following agencies:

- a. Central Intelligence Agency (CIA)
- b. Defense Intelligence Agency (DIA)
- c. National Geospatial-Intelligence Agency (NGA)
- d. National Reconnaissance Office, (NRO)
- e. National Security Agency, (NSA)
- f. ODNI

The ODNI is in the process of implementing standard internal control processes and business systems for the IC. The IC goal is to ensure that internal controls, business processes, and general and subsidiary balances are valid prior to implementation of these accounting and business systems to obtain clean audits. The IC issued guidance and employed the use of estimates to accomplish these goals. Overall, the IC supports the ED but requests additional provisions be included as follows:

1. For those agencies that still need to develop their systems to accomplish the requirements of SFFAS 6 & 23, the standard should specifically state how it applies to federal entities with the following characteristics.
 - a. Previously attempted to fully implement SFFAS 6 & 23 in accordance with effective dates;
 - b. Previously established a General Property, Plant, and Equipment (G-PP&E) historical cost baseline pursuant to SFFAS 23;
 - c. Maintain work-in-process (WIP) accounts and have on-going additions, deletions/retirements, and depreciation to the G-PP&E historical cost baseline established under SFFAS 23; and
 - d. Produce quarterly and annual financial statements in accordance with updated regulatory guidance.
 - e. Based upon the above scenario, if an entity has not yet been able to satisfy the requirements of the current SFFAS 6 & 23, does the ED allow the entity to apply the new requirements to achieve initial compliance with SFFAS 6 and 23? Assuming it does, are adjustments to apply the initial capitalization guidance treated in the same manner as corrections of errors in accordance with SFFAS 21? Also, does the same hold true for footnote disclosures?

2. The standard includes a section that addresses reconciliation and reporting of estimated costs and actual costs once an entity has established controls and systems to support the use of original transaction cost data to value G-PP&E. The IC recommends that the FASAB include language that supports combining estimates with actuals under certain circumstances to include WIP accounts. For example, what if an entity begins accumulating costs in a WIP account using a “non-traditional documentation”, as allowed by the proposed standard, and then controls are put in place and actual costs are available for the account in subsequent periods? How should entities reconcile and report system valuations for G-PP&E under this scenario?

The IC is currently developing an internal control business process model for internal use software (IUS). There are a variant number of models that can be use for the development of software. One type that is commonly used is spiral development. Of particular concern with this type of development is while it yields efficient development results, the costs are extremely difficult to capture, yet this particular type of development is not covered in this new Standard. The IC categorizes IUS as G-PP&E. The speed with which the spiral development is completed makes is virtually impossible to determine when the development cycle begins, when it ends and when another development cycle begins again. The use of estimates would be ideal for this type of G-PP&E. Recommend that SFFAS 10, IUS be included for use of estimates along with SFFAS 6 and 23.

The IC’s responses follow the questions below.

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. Yes, the IC agrees with estimating historical cost and accumulated depreciation upon both initial capitalizations and to correct previously capitalized G-PP&E. As indicated in the General Comments section, the IC has already adopted estimation policies for IC G-PP&E which have passed audit scrutiny. The IC firmly believes that historical cost documentation should serve as the basis for recording the acquisition cost of an asset. However, the IC experience has been, determining the historical cost posed significant challenges, proving to be time consuming and costly. This is due to a lack of supporting documentation, inconsistent business processes and inadequate systems to support reliable historical cost valuations. In addition, the IC can not sustain accurate and timely data updates to historical information. The IC’s CFO offices have focused their limited FTEs and resources toward developing internal controls, processes and systems that will ultimately yield better methods of gathering the actual costs of G-PP&E assets rather than wasting resources searching for old documents that may never be located.

The IC recommends that paragraph A9 be revised to remove language that states estimation techniques are only “*available to reporting entities that have not previously prepared financial reports but who may be required or elect to do so in the future and do not yet have adequate controls or systems to capture these costs.*” The current FASAB standard focuses on the CFO and GMRA Act agencies, however, the IC has agencies that fall under other Acts, such as the Accountability of Tax Dollars Act (ATDA) of 2002, but do not accurately capitalize and sustain the balances for all categories of G-PP&E. The language as written suggests that entities already preparing reports and capitalizing property cannot take advantage of the proposed changes to the use of reasonable estimates. Lack of documentation and inability to find the information has resulted in G-PP&E values being understated on IC financial statements. Where the source documentation is no longer available to determine the accurate valuation of a previously capitalized asset, estimation techniques are a cost beneficial means for improving IC financial reporting. For the IC, estimation techniques are the best way to fill gaps in *capitalized property records* and for any agency required to produce audited financial statements under ATDA.

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.**

A2. While the IC agrees that use of estimation methodologies is appropriate and generally accepted for use where necessary, we do not agree that continuously estimating the historical cost of PP&E is appropriate. The IC recommends that the FASAB include additional guidance in the ED that agencies are allowed to use estimates on a continuing basis to capture all costs of G-PP&E until acceptable internal controls, processes, and core accounting and feeder systems are implemented to support capturing the historical cost.

The IC does not believe that the FASAB can establish a specific date for the estimation methodology to expire. Our basis for this opinion concerns the time and effort it would take for FASAB to establish a date given that each agency is at different states of implementation of internal controls, business process, core financial and feeder systems and corrective action plans.

Each agency within the Federal Government has unique business processes driven by their respective missions and subsequently, are at different maturity levels across the agencies. For example, some agencies have developed and implemented comprehensive business processes and integrated financial management systems which support timely and accurate data. While other agencies, like the Department of Defense, rely on decentralized business processes and systems that require manual updates and inadequate data. Further, many federal agencies fund federal and state agencies to procure PP&E on behalf of the federal agencies. These types of intragovernmental transactions represent a large percentage of IC’s PP&E transactions. However, given the diverse and multiple numbers of processes and

systems that are encountered to collect documentation on these transactions, it is virtually impossible to gather and maintain historical data much less, to go back and find it after long periods of time have transpired.

This standard is very much needed by the IC and other agencies. We believe that a “one size fits all” or “hard date” and FASAB’s search to come up with either of these would only delay the release of these standards.. We recommend that leaving it in the hands of the agencies to develop internal plan for implementation of capturing G-PP&E historical costs with FASAB guidance is the best approach.

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.**

The IC agrees with the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. Accounting for G-PP&E is a significant challenge for the IC who expends significant resources to acquire complex technological assets with an acquisition life-cycle spanning several years. Additionally, some components of the full acquisition life-cycle cost for high technological assets are not always considered a capital cost, unlike assets procured off-the-shelf using firm-fixed priced contracting. As a result, the IC’s attempts to identify and support the historical cost of items such as past “non-capital” costs have proven to be very time consuming and in some cases impossible, as discussed in Q1 above.

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. The IC agrees that reasonable estimates be permitted at any time; however, we do not believe that there should be an open-ended time period for use of the estimates. The IC does not support a date certain approach. In addition to the reasons provided in A2 for why the FASAB would have difficulties establishing a date certain the following additional comments are provided.

The IC believes that allowing the use of estimates to value G-PP&E assets should be subject to the Agency CFO management’s discretion. Use of estimation methods require the development and execution of detailed implementation plans to design and implement auditable processes, controls, and systems to support the future accumulation of actual costs in lieu of estimates. Progress should be monitored by the agency CFO with advice by agency

IGs. OMB oversight requirements such as the PMA Scorecard, A-11, and other circulars would provide sufficient opportunities to report the implementation of estimates and historical costs of G-PP&E.

In addition, the IC has grave concerns that instituting a date certain would have negative impacts on the IC's multitude of multiyear acquisitions. The IC would be presented with significant challenges to implement if an early date implementation date is selected. The IC believes that the date certain approach would require clear implementation guidance to avoid confusion between agency management and independent auditors.

If a date certain option is chosen by the Board, the IC believes the Board should explicitly state in the Standard that the expectation is, as of the date certain, historical operational G-PP&E may be valued using reasonable estimates. Likewise, WIP as of the date certain may be valued using reasonable estimates. As a result, when the WIP at the date certain is completed and put into use, the value of that WIP should either be based on reasonable estimates (because it was under construction as of the date certain), or on the reasonable estimate established at the date certain, plus additional historical costs captured after the date certain until the asset is completed. In essence, WIP existing as of the date certain will be valued in a "hybrid" fashion – part reasonable estimate, part historical cost. All new GPP&E acquired after the date certain would then be valued using historical cost.

However if an approach is implemented by the Board, the IC encourages the Board to consider the need for precise implementation instructions as suggested in our answer to question #4. IC believes "hybrid" valuations should be acceptable for assets under construction as of the date certain under a multiyear acquisition lifecycle for agencies similar to the IC.

If a date certain approach is not chosen, the Board should understand that the "to be" processes, systems and controls to capture historical cost data on a transaction basis will need to be implemented for a significant period of time before the intended results of utilizing original transaction detail to value assets under construction at the date certain and completed after the date certain can be realized. As a result the implementation of a date certain approach for implementing processes, systems and controls would yield auditable results based on estimates for a given year, but the multiyear original transaction data could not produce auditable evidential matter in the subsequent year under this scenario.

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. The IC does not agree with Mr. James Patton, the IC appreciates that the use of estimation techniques could potentially have unintended consequence of deferring and delaying the implementation of systems, processes, and controls to capture historical costs. It's possible that the CFO's programs could continue on its current path of being the last in line

for system and FTE resources, while mission offices continue to obtain the largest resources. However, coupled with robust existence and completeness testing, statistical estimation techniques do provide for reasonable valuation estimates, fair presentation, and comparability of G-PP&E on the financial statements. The Alternate View's concern over the absence of substantial constraints on the use of estimates could be addressed through more robust disclosure requirements than those at paragraph 45 requiring disclosing *use and general basis of any estimates used*. In addition, agency financial statements must pass audit scrutiny, which includes obtaining and evaluating sufficient competent evidential matter to support those estimates. To implement the revised standards and apply estimating techniques, agency management must consider and develop subjective and objective factors, as well as make assumptions about conditions that existed in the Agency's past, current, and future G-PP&E environment.

In addition, the IC's experience has proven that the design and implementation of processes, systems, controls, and documentation to support the successful audit of G-PP&E is a complex undertaking that requires the coordination and transformation of many integrated business processes (i.e. Finance, Contracting, and Budgeting). Based on the nature and complexity of the operations of each individual agency, some agencies will be able to implement adequate processes, systems, and controls more quickly than others.

In addition, the IC believes each agency should determine and develop their own policies that determine a timeline for converting from estimates to historical costs for G-PP&E. The Agency should work with their auditor to determine the timeline that works best for their individual situations. The IC has developed several business processes that have proven that the design and implementation of processes, systems, controls, and documentation to support the successful audit of G-PP&E is a complex undertaking that requires the coordination and transformation of many integrated business processes (i.e. Finance, Contracting, and Budgeting). Based on the nature and complexity of the operations of each individual agency, some agencies will be able to implement adequate processes, systems, and controls more quickly than others. It would be virtually impossible for FASAB to determine where each agency is and then select a date that would satisfy each Federal agency.

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. The proposed accounting standard proposes using estimates of original transaction data, presumably at the level of discrete individual items or assets. For additional clarification, the IC believes that the revised standard should include other examples of estimation techniques such as statistical extrapolation methods that allow for the development of population estimates that capture balances for classes of property, for initial capitalization, or "base lining" purposes. The statistical baseline could then be maintained at an item level using estimates of original transaction data for assets.

The IC recommends that a disclosure should be added to the financial statements. The disclosure should require a description of the estimation method used and the rationale for using that particular method/estimate.

The IC believes additional clarification is needed for Agencies who have already received cleaned opinions on G-PP&E under the provisions of SFFAS 23 and 6 prior to this new standard. These Agencies require assurance that auditors won't go back and rescind opinions made on the former standard are not affected by audit interpretations made based on this of new provision.