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----- Forwarded by Constance Gillam/DC/USEPA/US on 02/04/2009 10:17 AM

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Date: 02/04/2009 10:06 AM

Subject: EPA Response to FASAB Exposure Drafts

Thank you for the opportunity to review the following Exposure Drafts:

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

EPA's comments on the first two Exposure Drafts are provided below. EPA has no comments on the Exposure Draft entitled: "Social Insurance Accounting, Revised."

(See attached file: Estimating the Historical Cost of GPP&E 02022009.doc)

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***The Environmental Protection Agency's Response to FASAB Exposure Draft
"Estimating the Historical Cost of General Property, Plant, and Equipment"
11/14/2008***

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*.

Response: Yes, EPA agrees. "Reasonably estimating" is, however, a broad standard. On page 11, we suggest deleting the last bullet under Estimation of Historical Cost (SFFAS 6), [40.], which is: "other reasonable methods," and replacing it with "a certified appraisal by someone who is licensed, board certified or otherwise acknowledged as technically competent to appraise Federal assets."

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*.

Response: We agree that a reasonable estimate that includes any major improvements or betterments can be used. But if that estimate cannot be supported by cost of a similar asset at time of acquisition or current cost of a similar asset discounted for inflation since the time of acquisition per "Estimation of Historical Cost" (SFFAS 6), a valuation of the asset should be made by a certified appraiser.

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*.

Response: We agree that a reasonable estimate makes sense in circumstances where documentation may be incomplete or missing. A reasonable estimate would be the

fastest and most cost effective approach to accounting for the property as long as an effort was made to make them as accurate as possible. However, if the estimate cannot be supported by cost of a similar asset at time of acquisition or current cost of a similar asset discounted for inflation since the time of acquisition per "Estimation of Historical Cost" (SFFAS 6), a valuation of the asset should be made by a certified appraiser.

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.

Response: EPA supports the open-ended option because we believe the definitive end date approach is too constricting. The open-ended approach allows agencies more time and flexibility in exploring various methodologies and selecting the one that works best for their purposes. There are a variety of factors that come into play in valuing an asset that wasn't previously valued for reporting purposes. Therefore, flexibility in the standard is critical.

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.

Response: EPA disagrees with the Alternate View. We concede that some agencies may defer or delay systems development, but do not believe that practice would be widespread enough to justify abandoning the "reasonable estimate" approach. Consequently, the advantages of the approach proposed by FASAB far outweigh this particular potential disadvantage.

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.

Response: With the exception of the clarification noted in our response to Q1 above, EPA believes that the Exposure Draft is clear about the use of reasonable estimates.