



OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

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COMPTROLLER

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail Stop 6K17V
Washington, DC 20548

Dear Ms. Payne:

The Department of Defense (DoD) appreciates the opportunity to provide input on the Federal Accounting Standards Advisory Board (FASAB) Three-Year Plan and Annual Report. The DoD proposes six projects for FASAB consideration.

- 1) Statement of Federal Financial Accounting Standards (SFFAS) 35, "Estimating the Historical Cost of General Property, Plant and Equipment," permits the use of reasonable estimates to determine historical cost values of property, plant, and equipment. The DoD requests a similar standard for inventory and operating materials and supply (OM&S). Inventory and OM&S valuations, such as moving average cost, are also based on historical cost. Extending the use of reasonable baseline estimates for inventory and OM&S would assist DoD in properly valuing its inventory and OM&S.
- 2) There are long-standing disagreements about the proper reporting of certain contract finance payments for property, plant, and equipment (PP&E). The accounting disagreement concerns the types of contract financing payments regulated by the Federal Acquisition Regulation used during the construction or acquisition of PP&E assets and as it relates to the use of the "construction work in process" account. SFFAS 6 states, "PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agency of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E." Under certain fixed price contracts, the DoD makes financing payments which are not based on progress completed. The DoD generally is not liable for the goods being produced until DoD accepts them. Therefore, DoD has reported these contract financing payments as advances. SFFAS 1 states, "Advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires." Clarifying the proper recording treatment of these payments, as advances or construction in process, would support DoD audit readiness efforts.

- 3) In fulfilling its mission, the DoD deploys PP&E assets across the world. Many times, these assets are destroyed or are become unusable. At times, it is more cost-effective not to return the assets to the United States. Therefore, the possibility of expensing rather than capitalizing deployed assets may be a more appropriate accounting treatment for these assets. FASAB consideration of this possibility is appreciated.
- 4) Revolving Fund or business-type activities are largely ignored in Federal accounting standards. They receive budget authority through offsetting collections, contract authority, and borrowing authority. These business-type organizations are required to follow appropriation type guidance, while performing service for fee or maintaining supplies for sale. There is little authoritative guidance for them to follow. Developing reporting/accounting guidance for Revolving Fund activity (business-type enterprise) in the Federal Environment would assist these types of organizations.
- 5) FASAB is currently developing revisions to SFFAS 10, "Accounting for Internal Use Software," primarily due to changes in how these assets are developed. They are no longer following a "waterfall" methodology. The same analysis needs to be reviewed for other types of research and development. Determining the proper timing of capitalization in a changing research and development world requires a new review.
- 6) FASAB has begun reviewing accounting for leases in its review of SFFAS 5, "Accounting for Liabilities of the Federal Government," and SFFAS 6, "Accounting for Property Plant and Equipment." In the changing economic environment, Federal agencies have begun using in-kind lease payments, rather than collecting rental fees. In-kind lease payment examples include free or reduced utility expenses, new construction, leasehold improvements, easements, and others. Recommend FASAB develop guidance to account for in-kind lease payments. None currently exist.

Please contact Ms. Maryla E. Engelking if you have any questions. You can reach her by email at maryla.e.engelking.civ@mail.mil or by phone at 703-602-0155.

Sincerely,



Mark E. Easton
Deputy Chief Financial Officer