

U.S. Department of Labor

Office of Inspector General  
Washington, D.C. 20210

MAY 29 2012

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814 (Mailstop 6k17V)  
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Office of Audit, Office of Inspector General, Department of Labor, enclosed are our responses to questions posed in the exposure draft titled "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use". This exposure draft discusses the improvement of Federal financial reporting and contributes to meeting the federal financial reporting objectives.

If you have any questions or need additional information, please contact Joseph L. Donovan, Jr., Audit Director, Financial Statement Audits, at 202-693-5248.

Sincerely,

Elliot P. Lewis  
Assistant Inspector General for Audit

Enclosure

Department of Labor  
Office of Inspector General  
Office of Audit

Exposure Draft: Accounting for Impairment of General Property,  
Plant and Equipment Remaining in Use

Questions for Respondents

Q1. The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree with the Board's proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.**

We generally agree with the Board's proposal to recognize impairment losses when there is a significant and sudden decline in the service utility of G-PP&E. As noted by the Board in paragraph A3 of the exposure draft, financial reporting should be reliable. By recognizing impairments at this point, the financial statements would better represent the underlying events and conditions of the reporting entity.

However, we do not believe an impairment should be recognized when the decline is gradual. G-PP&E is expected to gradually decline over its useful life through the ordinary course of business, and this decline is typically captured through depreciation. As noted in paragraph 8 of the proposed statement, "The events or changes in circumstances that lead to impairments are not considered normal and ordinary." Therefore, we recommend the Board consider removing the term "gradual" from the definition of an impairment.

Further, the Board should consider recognizing impairments for significant and sudden declines in the service utility of G-PPE when the decline is expected to be long-term (e.g., a year or more) rather than permanent. Statement of Federal Financial Accounting Concepts (SFFAC) No. 1: *Objectives of Federal Financial Reporting* states, "To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions, nor should anything be included that would likely cause the information to be

misleading to the intended report user.” If management has long-term plans to replace or restore the service utility but does not recognize the current impairment, the financial statements may not properly represent the underlying events and conditions of the entity.

Q2. The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree with the Board’s proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.**

We generally agree that entities should not be required to review their G-PP&E portfolios solely for potential impairments. Requiring an entity to test each asset each period would potentially be administratively burdensome and costly for reporting entities. As noted in SFFAC No. 1, the costs and benefits must be considered in recommending standards. We believe the Board has appropriately considered the cost-benefit of identifying potential impairments in paragraphs A7 and A8. In addition, both the FASB and GASB have also recognized the potentially costly burden of reviewing all assets for potential impairments. However, we believe the Board should revise the third sentence in paragraph 13 which currently reads, “This Statement does not require that entities perform procedures solely to identify potential impairment of G-PP&E.” We believe federal entities will misinterpret the intent of this sentence and determine they are not required to identify potential impairments of G-PP&E. Alternatively, we recommend the Board revise this sentence to read as follows: “Absent such events or changes in circumstances, entities are not required to perform additional procedures to identify potential impairment of G-PP&E beyond those already performed as part of their normal operations.” We believe this revised language would better clarify Federal entities requirements to identify impairments of G-PP&E, and it is consistent with the language used by GASB. In addition, we also recommend the Board delete the fourth sentence in paragraph 7 which also states that the entity is not required to conduct procedures solely for the purpose of applying these standards.

Q3. The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long

periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.**

We agree with each of the indicators of G-PP&E impairment except for the indicator in paragraph 12.g. If the G-PPE falls into this category, it is no longer providing service and should not be within the scope of this standard. As noted in paragraph 1 of the proposed statement, Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, contains principles-based guidance concerning general property, plant, and equipment that is removed from service due to total impairment or other reasons. SFFAS No. 6 states, "General PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity." As such, we believe PP&E scheduled or waiting disposal should be addressed in accordance with SFFAS No. 6 and should not be treated as an indicator of impairment in this standard.

Q4. The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.**

We agree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. Per SFFAC No. 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, to be an asset of the federal government, one of the characteristics a resource must possess is that it embodies economic benefits or services that can be used in the future. Therefore, the selection of a method

that reasonably reflects the diminished service utility of the G-PPE appears appropriate as the diminished service utility would no longer be considered an asset.

We agree with the use of the measurement methods identified. Based on our initial review of the proposed methods, they appear to be appropriate to calculate the remaining service utility of the G-PPE. However, auditors would need to review the methods used in more detail within the context of the entity being audited to ensure they are appropriate given the specific facts and circumstances.

Q5. The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for Federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.**

We did not identify any costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs.

- b. **Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.**

We believe the provisions of this proposed statement should be applied to all G-PP&E categories, classes, and base units except for internal use software. As noted in paragraph 2 of the proposed statement, SFFAS 10, *Accounting for Internal Use Software*, already provides guidance for the impairment of internal use software.

In addition, SFFAC No. 1 states, "To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions...." Therefore, to ensure the financial information is comprehensive, all G-PP&E categories, classes, and base units, should be subject to the provisions of this proposed statement except for internal use software.

- c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.**

As auditors, we have no comment on this matter. This question is more appropriate for agencies (i.e., management) to respond to, as it relates to costs associated with Federal agencies' implementation of the proposed.