



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

FEB 16

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 appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board Technical Release Exposure Draft: Implementation Guide for Estimating the Historical Cost of General Plant, Property & Equipment (G-PP&E). We have reviewed the Implementation Guide and feel it provides examples of various estimating methodologies to derive the historical cost of G-PP&E. It also provides more detail regarding permissible documentation. We agree with the rationale for the proposed changes in the exposure draft.

Responses to specific questions are at Enclosure 1. My contact is Ms. Carol A. Campbell. She can be reached at carol.campbell@osd.mil or 703-601-0129.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton".

Mark E. Easton
Deputy Chief Financial Officer

Enclosure:
As stated

DoD OCFO Responses to Questions for Respondents

Federal Financial Accounting Technical Release Exposure Draft:
Implementation Guide for Estimating the Historical Cost of G-PP&E
(dated December 10, 2010)

All responses are requested by February 16, 2011

- Q1. Do you agree or disagree with the types of estimating methodologies proposed to estimate the cost of historical assets? Please provide the rationale for your answer. Do you believe additional methodologies should be included? If so, please specify.

Department of Defense (DoD) agrees with the types of estimating methodologies proposed to estimate the cost of historical assets. DoD was a key participant on the Accounting and Auditing Policy Committee (AAPC) Task Force, Acquisition Subgroup, that developed the implementation guide. No additional methodologies are recommended for inclusion in the implementation guide.

- Q2. Do you agree or disagree with the example for estimating the cost using deflation of current replacement? (Page 14) Please provide the rationale for your answer.

DoD agrees with the example for estimating the cost using deflation of current replacement. Rapid changes in technologies used in military equipment do not permit reasonable comparisons of older assets to current replacements since the assets tend to not represent the same item you originally bought. Current replacement costs for assets with very long useful life (such as buildings, planes and some ships) could result in inaccurate estimates due to construction standards and/or technical capabilities changing over long periods of time, which in turn would result in wide variances on costs due to varying construction costs, electronic components, materials used, etc.

Enclosure 1

- Q3. Do you agree or disagree with the example for estimating the cost using appraisal information? (Page14) Please provide the rationale for your answer.**

DoD agrees with the example for estimating the historical cost using appraisal information from close to the time of acquisition. However, DoD sees future challenges with finding experienced appraisers who are knowledgeable in appraising federal-type assets, be they vessels, jet fighters, tanks, etc.

- Q4. Do you agree or disagree with the example for estimating the cost using expenditures? (Page 18) Please provide the rationale for your answer.**

DoD agrees with the example for estimating the cost using expenditures, provided the expenditure data is delineated per end item, and/or easily divisible per end item. Although inaccuracies in estimated allocation of individual costs may result, expenditures themselves are fairly accurate at a summary level and will provide a good estimate for overall balance sheet numbers that are well supported at the summary level. This example implies that the accounting system captures total costs accurately and does not have the capability to allocate these costs by asset in a way that is acceptable to audit.

- Q5. Do you agree or disagree with the example for estimating the cost using budget and appropriation information? (Page 18) Please provide the rationale for your answer.**

DoD agrees with the example for estimating the cost using budget and appropriation information. In many cases, the program and/or end items are significantly modified (thereby) modifying contracts and requiring a change in funding) during production. In light of this, it would be our recommendation that this methodology be used as a "last resort option" to estimate historical cost of G-PPE. Using budget data for estimates generally will not align with generally accepted accounting principles (GAAP), unless a direct link between budget and expenditure data can be established and proven quantitatively.