

**U.S Department of Labor**

Office of Inspector General  
Washington, D.C. 20210



FEB 15 2011

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, U.S. Department of Labor, enclosed are responses to questions about the exposure draft entitled "Implementation Guide for Estimating the Historical Cost of General Property, Plant and Equipment."

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

Sincerely,

A handwritten signature in black ink that reads "Elliot P. Lewis". The signature is written in a cursive style with a large, prominent "E" and "L".

Elliot P. Lewis  
Assistant Inspector General  
for Audit

Enclosure

Office of Audit  
Office of Inspector General  
Department of Labor

**Exposure Draft: Implementation Guide for Estimating Historical Cost of PPE  
Questions for Respondents**

- 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?**

We agree with the proposed methodologies for estimating the cost of historical assets. Furthermore, we believe the types of estimating methodologies are in line with current GAAP, specifically Statement of Federal Financial Accounting Standard (SFFAS) 35: *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*, which states, "although the measurement basis for valuing G-PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of G-PP&E, in accordance with the asset recognition and measurement provisions herein. Estimates may be based on: cost of similar assets at the time of acquisition, current cost of similar assets discounted for inflation since the time of acquisition (i.e., deflating current costs to costs at the time of acquisition by general price index), or other reasonable methods, including those estimation methods specified in SFFAS 23 paragraph 12."

The methods proposed by the implementation guide are in line with the guidance outlined above, and we believe the guide provides a sufficient range of methodologies for consideration.

- Q2. Do you agree or disagree with the example for estimating the cost using deflation or current replacement cost.**

We agree with the example for estimating the cost using deflation or current replacement cost. As noted above, current replacement cost is an acceptable method of estimating cost as prescribed by SFFAS 35.

However, the Board may want to consider whether or not the Consumer Price Index is the most appropriate discount rate to use or if another discount rate (e.g., Treasury borrowing rates) might be more appropriate. The Board might also consider providing more specific guidance on the selection and application of the discount factor to avoid inconsistencies in practice.

**Q3. Do you agree or disagree with the example for estimating the cost using appraisal information.**

We agree with the example for estimating the cost using appraisal information. This approach appears to be consistent with SFFAS 35 and also with International Financial Reporting Standards, specifically the fair value approach to estimating cost of PP&E as described by the "revaluation model" of IAS 16 *Property, Plant and Equipment*. Specifically, paragraph 32 of IAS 16 states, "The fair value of items of plant and equipment is usually their market value determined by appraisal."

**Q4. Do you agree or disagree with the example for estimating the cost using expenditures.**

We agree with the example for estimating the cost using expenditures. We believe this approach is analogous to using historical cost data whereby the total cost of a larger project is allocated to individual components of PP&E. In effect, this is similar to assigning costs to units of PP&E, as described in SFFAS 6 *Property, Plant and Equipment*, paragraph 22 which states, "In determining which category PP&E should be placed in, it will be necessary to identify the 'base unit' of PP&E against which the category definitions will be applied. For example, units as large as entire facilities or as small as computers could be categorized. In determining the level at which categorization takes place, an entity should consider the cost of maintaining different accounting methods for property and the usefulness of the information, the diversity in the PP&E to be categorized (e.g., useful lives, value, alternative uses), the programs being served by the PP&E, and future disposition of the PP&E (e.g., transferred to other entities or scrapped)."

While the various "projects" included in the example provided might be grouped together for obligation and expense recognition purposes, the allocation of cost to the individual "projects" is important for capitalization purposes as different "projects" might have different useful lives, alternative uses, etc. Consequently, we believe it is appropriate to allocate the total cost to various "projects," as described in the example.

**Q5. Do you agree or disagree with the example for estimating the cost using budget and appropriation information.**

While we agree with the possibility of using budget and appropriation information, we disagree with the example. It is unclear in the example why, for the seven aircraft already delivered, budget and appropriation information is a more accurate estimate of historical cost than the actual expenditure information. At the time the aircraft were procured, the Agency would most likely have a detailed record of the procurement cost. These costs, as opposed to the budget and appropriation information, would appear to be a more reliable measure of historical cost.

We recommend the Board either clarify why the budget and appropriation information is a more reliable measure of historical cost than the procurement cost,

or explain why the procurement cost is unavailable to the Agency in the specific example.

**Q6. Do you agree or disagree with the example for estimating the cost for G-PPE in the possession of contractors.**

We agree with the example for estimating the cost for G-PPE in the possession of contractors.

**Q7. Do you agree or disagree with the G-PP&E record retention recommendations outlined in Appendix B.**

We agree with the record retention recommendations outlined in Appendix B.