Implementation Guidance on G-PP&E Cost Accumulation, Assignment, and Allocation

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From: Krabbe, Carla
Sent: Thursday, April 11, 2013 1:48 PM
To: Payne, Wendolyn M; FASAB
Cc: Molander, Chris; Dushel, Annette; Kolb, Kristen; Boettiger, Dawn; Silvestri, Mark; Hull, Stephen; Long, Christopher; Conigliaro, Dana; Hild, Karen
Subject: RE: AAPC Seeks Comments on Proposed Implementation Guidance On G-PP&E Cost Allocation

Wendy,

Thank you for the opportunity to comment on the *Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation* exposure draft. Our responses to the questions are in the attached Word document (SSA Response to Exposure Draft Implementation Guidance on G-PPE.doc).

Carla Krabbe

Deputy CFO

Social Security Administration

Questions for Respondents

Federal Financial Accounting Technical Release Exposure Draft:
Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation
(Dated March 1, 2013)
Responses requested by May 1, 2013

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

SSA Response: We agree. The Standards allow us to establish accounting processes and procedures to ensure we are compliant with GAAP and our accounting methodology aligns with our entity's operational environment. Our goal is to produce valid financial information that provides measurable results. The cost accounting standards established in Statement of Federal Financial Accounting Standard (SFFAS) 4 provide management with the flexibility to "determine the appropriate detail for its cost accounting processes and procedures based on several factors" (SFFAS 4, paragraph 72) including materiality and cost constraints based upon the entity's operating environment and the informational needs of its stakeholders.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

SSA Response: We agree. In environments where cost recovery is essential to continued operations, an entity will place a higher value on tracking costs at a more precise level. Both our internal and external stakeholders are important to our agency and are entitled to relevant and reliable financial information that portray how we meet our mission and goals. Although different agencies have different missions and operational goals, each agency should be able to portray financial information in a way that reports the data accurately,

timely, and in a manner that addresses their stakeholders' (internal and external) needs.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

SSA Response: We agree that the three principles of relevance (is the data useful); level of precision (what is materiality base); and cost-benefit (does the benefit outweigh the costs) aid management in determining financial management informational needs of the stakeholders. As part of the decision-making process, these three principles provide initial building blocks upon which to base a decision on accumulating, allocating, capitalizing, and reporting costs of general property, plant, and equipment (G-PP&E). We believe it is important for management to select a materiality threshold that falls in line with the level of detail required by stakeholders for decision-making purposes, as long as the costing model provides information in an economically feasible way.

Q4. Do you agree or disagree with how **direct** costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

SSA Response: We agree that "direct costs are costs that can be specifically identified with an item or items of G-PP&E." If the cost is "incurred to bring the G-PP&E to a form and location suitable for its intended use," per SFFAS 6, agencies should include direct costs as part of the G-PP&E items asset base.

Q5. Do you agree or disagree with how **indirect** costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.

SSA Response: We agree. Indirect costs are costs that cannot be directly traceable to an activity, a product, a department or in this case, an asset. These costs, if "incurred to bring the G-PP&E to a form and location suitable for its intended use," per SFFAS 6, should be accumulated, assigned or allocated to the G-PP&E items asset base.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

SSA Response: We agree. Entities should treat costs that cannot be traced, assigned, or allocated to a G-PP&E item in an economically feasible way as an organizational cost, and expense these costs in the period incurred.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

SSA Response: We agree. Entities should not assign non-production costs to G-PP&E. If an entity incurs non-production costs (such as other post-employment benefit costs, reorganization costs, and non-recurring cleanup costs) typically such costs are for a particular event and are not incurred to "bring the G-PP&E to a form and location suitable for its intended use." Entities should report non-production costs as a period expense and not costs related to output.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

SSA Response: We agree. The Decision Framework Flowchart provides users with a clear outline to use when developing entity specific costing policies and procedures in compliance with GAAP.

April 24, 2013

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Submitted via email to fasab@fasab.gov

Re: Federal Financial Accounting Technical Release, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*.

Dear Executive Director:

On behalf of the 11,000 members of the Virginia Society of CPAs (VSCPA), we appreciate the opportunity to respond to the request for comments on the exposure draft of the proposed Federal Financial Accounting Technical Release, entitled *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*. The Virginia Society of CPAs' (VSCPA) Accounting & Auditing Advisory Committee has reviewed and discussed the proposed release and the related questionnaire and provided the following responses:

Question 1
Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

We agree that management has the ability and flexibility to design these GAAP-compliant processes and procedures to align with their entity's environment. They are in the best position to understand their operating environment and have the ability to implement these policies and procedures in a manner that ensures GAAP compliance while promoting adoption from the personnel within the organization. Additionally, as illustrated in the Implementation Guide, the variety of missions and operations among federal agencies creates a need for this flexibility in design of policies and procedures to implement GAAP.

Question 2
Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

We agree that the operational environment within the entity will impact its financial management information needs. Entities that are fee for service have a requirement to allocate costs in a manner that allows them to track the true cost of a particular area of service, while entities that derive the bulk of their revenue from appropriations may not have the requirement to allocate costs to that level of detail for operational or accountability purposes.

Question 3
If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

We agree with management's use of the principles discussed in paragraph 10:

- **Relevance/usefulness of information:** Management should seek to understand what information will be required by the stakeholders in part based upon its applicability to the stakeholders. No useful purpose is served from presenting information that is not relevant and useful, and management should be granted discretion to make this determination with regards to their own financial management information.
- **Level of precision:** Management should determine if stakeholders need a more macro view of the information or if they need to see precise activity level costs.
- **Cost-benefit:** Management needs to weigh the costs associated with the level of effort required to develop the very detailed level of information and make the determination if there is a reasonable benefit to be derived from the cost required.

However, we believe that the Implementation Guide should emphasize the need for management to document decisions made using these principles and to reevaluate the decisions periodically to ensure that circumstances requiring changes to them have not occurred.

Question 4
*Do you agree or disagree with how **direct** costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.*

We agree that if a direct cost is required to bring the asset into use this cost should be assigned to the asset and capitalized if the capitalization threshold is met. If the costs are not required to bring the asset into use, they should be expensed. We believe this is consistent with existing GAAP.

Question 5
*Do you agree or disagree with how **indirect** costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.*

We agree with this as it is a basic cost principle. If a cost cannot be directly associated with a cost object, then the cost should be classified as indirect. However, if the costs do not contribute to bring the asset to a form and location suitable for its intended use, then it is inconsistent with existing GAAP to capitalize the costs as part of the asset.

Question 6
Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

We agree with this basic cost principle for the reasons stated above in Question 5. However, such unassigned costs reported on the Statement of Net Cost should not be material to the entity as a whole.

Question 7
Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

We agree with the guidance in Paragraph 24. Non-production costs are generally infrequent in nature and, if assigned, would distort the cost of assets acquired during the period that these costs were incurred.

Question 8
Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

We agree with the decision points in the flowchart. The decisions relate to the principles of relevance/usefulness, level of precision and cost benefit and are appropriate indicators to utilize in making the determination of how to categorize those costs relating to G-PP&E.

As an editorial matter, we would like to know why the first question is presented in a diamond-shaped box normally associated with decisions in flow-charting, but all subsequent decision points are presented in rectangular boxes. It would provide more clarity to either a) have all boxes be rectangular or b) have the five other decision boxes that phrase a question be diamond shaped and the two end-point boxes be rectangular.

In addition to our responses to the questions presented, we also observe that the Implementation Guide emphasizes the need for flexibility (see paragraph 17) but never mentions or emphasizes the need to ensure adequate financial statement disclosure of cost capitalization policies and procedures. As previously stated, we agree with the need for flexibility in designing the policies and procedures for reporting of G-PP&E. However, it is when there is flexibility or differences in application, that disclosures are important.

Again, the VSCPA appreciates the opportunity to respond to this Exposure Draft. Please direct any questions or concerns to VSCPA Government Affairs Director Emily Walker at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Mike Wagner, CPA, CGFM
Chair

2012–13 VSCPA Accounting & Auditing Advisory Committee
Mike Wagner, CPA (Chair)
Joshua Keene, CPA (Vice Chair)
Audrey Davis, CPA
Heather Flanagan, CPA
Mitchell Hartson, Jr., CPA
Daniel Haynes, CPA
Staci Henshaw, CPA
Stephen Holton, CPA
Charles Valadez, CPA

UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

APR 29 2013

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Federal Financial Accounting Technical Release exposure draft, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation,* dated March 1, 2013.

Please find enclosed answers to the questions that were asked of the respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov or Bruce Henshel at (202) 482-0646 or bhenshel@doc.gov.

Sincerely,

Gordon T. Alston
Director of Financial Reporting
and Internal Controls

Enclosure

cc: Lisa Casias
Diane Marston
Julie Tao
Bruce Henshel

Department of Commerce Response
FASAB Exposure Draft (March 1, 2013), *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*

Prepared by: Department of Commerce, Office of Financial Management
Date Completed: April 29, 2013

Questions and Answers

1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

   Department of Commerce Response:
   The Department of Commerce agrees with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design GAAP compliant policies and processes that align with the respective entity's operational environment since these standards are based on sound cost accounting concepts. The standards are broad enough to allow maximum flexibility for agencies to develop methods that are best suited to their operational environment for direct tracing of costs to outputs. This gives the entity the option of directly tracing costs to outputs a) where economically feasible; b) on a cause and effect basis; and c) on a reasonable and consistent basis. In addition to these options, the entity can then choose its appropriate level of detail for cost accounting processes and procedures. These procedures have the option of taking into consideration the entity's operations, the cost benefit of obtaining data, practicality issues, availability of data, the cost of data, and any management requirements or needs.

2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

   Department of Commerce Response:
   The Department of Commerce agrees that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders because the sources of an entity's budgetary resources significantly impact the types of and level of cost detail required to be allocated to outputs. This is shown by the examples used in the Exposure Draft. The Federal Aviation Administration, General Services Administration, and National Reconnaissance Office all have different operational environments. This Exposure Draft effectively shows how to apply the framework to each situation since each entity has a unique operating environment.

3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

Department of Commerce Response:
The Department of Commerce agrees with management's use of the three principles set forth in Paragraph 10 because the principles take into account the relevance/usefulness of information to both internal and external stakeholders, the materiality needed to properly manage and report costs, and the cost-benefit of establishing and executing cost assignment processes, methods, and tools. Relevance takes into consideration the needs of the entity. Precision also takes into consideration the entity operations, and goes hand in hand with cost-benefit principles. It may make sense for one agency to trace costs in a detailed manner; while it may not be feasible or practical for another to do so.

4. Do you agree or disagree with how direct costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

Department of Commerce Response:
The Department of Commerce agrees with how direct costs are characterized as it relates to G-PP&E in Paragraph 15. Direct costs are traceable and can be easily identified as part of a specific G-PP&E asset.

5. Do you agree or disagree with how indirect costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rationale for your answer.

Department of Commerce Response:
The Department of Commerce agrees with the Board's proposal to characterize indirect costs as those costs that cannot be identified specifically with or traced to a given cost object. Those indirect costs, however, that bring the G-PP&E to a form and location suitable for its intended use, should be accumulated, assigned, or allocated to the cost of the G-PP&E item.

6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

Department of Commerce Response:
The Department of Commerce agrees with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22. Certain indirect costs cannot be traced, assigned, or allocated to segments and their outputs, but they are part of the organization costs and should be reported on the entity's financial statements as costs not assigned to programs. If costs cannot be reasonably assigned, or if the cost of assignment outweighs the benefit, then classifying a cost as 'not assigned to programs' is reasonable.

7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

Department of Commerce Response:
The Department of Commerce agrees with the financial reporting of non-production costs as described in Paragraph 24. Costs that are not a part of construction or acquisition of an asset should not be a part of G-PP&E costs. Non-production costs are most often recognized for a period in which a particular event occurs, and assigning those costs to goods and services produced in that period would distort the production costs.

8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

Department of Commerce Response:
The Department of Commerce agrees with the approach as outlined in the Decision Framework Flowchart and believes it is helpful for users when evaluating whether a cost is direct and indirect. We believe that the Decision Framework Flowchart is helpful in clarifying the appropriate cost to be associated with capitalized PP&E and which costs should be expensed.

National Aeronautics and Space Administration

Headquarters
Washington, DC 20546-0001

April 30, 2013

Reply to Attn of: Office of the Chief Financial Officer

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

Dear Ms. Payne:

The National Aeronautics and Space Administration (NASA) appreciates the opportunity to provide comments to the exposure draft "Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation." Enclosed you will find NASA's response to the questions for the respondents.

If you have any questions regarding NASA's response, please contact Shelley Meredith, Acting Director for Policy Division, at (202) 358-1028 or by e-mail at shelley.j.meredith@nasa.gov.

Sincerely,

Pamela D. Hanes

Pamela D. Hanes
Deputy Chief Financial Officer for Finance

Enclosure

NASA RESPONSE TO QUESTIONS FOR RESPONDENTS REGARDING EXPOSURE DRAFT ON "IMPLEMENTATION GUIDANCE FOR GENERAL PROPERTY, PLANT, AND EQUIPMENT COST ACCUMULATION, ASSIGNMENT AND ALLOCATION"

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

NASA agrees with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design GAAP compliant policies and processes that align with the respective entity's operational environment. This concept is consistent with the objectives of Federal financial reporting defined in the Statements of Federal Financial Accounting Concepts (SFFAC) 1. SFFAC 1 explains that: "*The objectives are designed to guide the Board in developing accounting standards to enhance the financial information reported by the federal government to (1) demonstrate its accountability, (2) provide useful information, and (3) help internal users of financial information improve the government's management….They provide a framework for assessing the existing financial reporting systems of the federal government and for considering how new accounting standards might help to enhance accountability and decision-making in a cost-effective manner*."

The flexibility in the accounting standards is important to achieve the above objectives, because each reporting entity operates in a different business environment (e.g., customers, nature of services, materiality, etc.) for various missions. Capitalization thresholds are a good example of such flexibility in the accounting standards. SFFAS 6 Paragraph 13 explains that: "*The Board believes that capitalization thresholds should be established by Federal entities rather than centrally by the Board. Because Federal entities are diverse in size and in uses of PP&E, entities must consider their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds."*

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of

the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

NASA agrees that entity's mission and operational environment impact the financial management information needs of the entity's stakeholders as it is aligned with the objectives of Federal financial reporting. SFFAC 1 explains that: "*The objectives reflect the federal environment. They also consider many of the needs expressed by current and potential users of federal financial information*." The primary objectives of Federal financial reporting are to provide useful information and help internal users of financial information improve the government's management. The financial information can be considered useful and relevant when it reflects a reporting entity's operational environment and support its mission. The reporting entity's mission and operational environment are the key drivers of the financial management information needs of the entity's stakeholders.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

NASA agrees with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs, which include the following: "*1) Relevance/usefulness of information (both to internal and external stakeholders); 2) Level of precision (e.g., materiality) needed to properly manage and report costs; and 3) Cost-benefit of establishing and executing intricate cost assignment processes, methods and tools*." The above principles will lead to the financial management information that can enhance accountability, decision making and program evaluation in a cost-effective manner.

Q4. Do you agree or disagree with how **direct** costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

NASA agrees with how direct costs are characterized as it relates to G-PP&E in Paragraph 15 as it is consistent with SFFAS 4 Paragraph 90. SFFAS 4 Paragraph 90 explains that: "*Direct costs are costs that can be specifically identified with an output. All direct costs should be*

included in the full cost of output." Costs that are identifiable with an item(s) of G-PP&E are considered direct costs.

Q5. Do you agree or disagree with how **indirect** costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.

NASA agrees with how indirect costs are characterized as it relates to G-PP&E in Paragraph 16. SFFAS 4 Paragraph 91 explains that: "*Indirect costs are costs of resources that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs."* Costs that are not identifiable to an item(s) of G-PP&E are considered indirect costs. Both direct and indirect costs should be included in the full cost of G-PP&E acquisition if costs incurred to "*bring to a form and location suitable for its intended use (SFFAS 6 Paragraph 26)*."

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

NASA agrees with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22. SFFAS 4 Paragraph 92 explains that: "*A reporting entity and its responsibility segments may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are part of the organization costs, and they should be reported on the entity's financial statements (such as the Statement of Net Costs) as costs not assigned to programs*." If there is no reasonable way to allocate certain indirect costs to an item(s) of G-PP&E, such costs cannot be included in the full cost of G-PP&E. The Implementation Guidance can be enhanced by providing an example of unassigned costs as it relates to G-PP&E.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

NASA agrees with the financial reporting of non-production costs as described in Paragraph 24. SFFAS 4 Paragraph 104 explains that: "*A responsibility segment may incur and recognize costs that are linked to events other than the production of goods and services."* Non-

production costs should not be assigned as G-PP&E acquisition costs as they do not impact the value of G-PP&E.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

NASA agrees with the approach as outlined in the Decision Framework Flowchart as it is consistent with the narratives.

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

COMPTROLLER

MAY 1 2013

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Department of Defense appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board Exposure Draft, Implementation Guidance for General Property, Plant, and Equipment (G-PP&E) Cost Accumulation, Assignment and Allocation. We have reviewed the draft and agree with the decision framework presented for management to use in the development and application of policies and practices to account for the cost incurred for G-PP&E in accordance with generally accepted accounting principles.

Our response is enclosed. My contact is Ms. Carol A. Campbell. She can be reached at carol.campbell@osd.mil or 703-602-0129.

Sincerely,

Donjette L. Gilmore
Director, Accounting and Finance Policy

Enclosure:
As stated

Questions for Respondents – Department of Defense

Federal Financial Accounting Technical Release Exposure Draft:
Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation
(Dated March 1, 2013)

All responses are requested by May 1, 2013

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)?

Answer 1. Agree.
Management should have the responsibility and flexibility to design GAAP compliant policies and processes, given each entity's varying levels of precision when allocating costs to end outputs or objectives in their operational environment.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)?

Answer 2. Agree.
Within the Department of Defense, it is evident that our mission and operational environment has an impact on the financial management information needs of our stakeholders. The uniqueness and complexity of the Department's mission and operational environment require multiple revenue sources, along with multiple financial systems that must be responsive to information needs of the stakeholders.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs?

Answer 3. Agree.
The three principles of a) relevance/usefulness of information, b) level of precision (e.g. materiality) needed to properly manage and report costs and c) cost-benefit of establishing and executing intricate cost assignment processes, methods and tools should all be considered when determining financial management information needs of the stakeholders.

Q4. Do you agree or disagree with how **direct** costs are characterized as it relates to G-PP&E in paragraph 15?

Answer 4. Agree.
SFFAS 4 and SFFAS 6 support the basis for classifying GPP&E items suitable for "direct costs" and provide examples of direct costs and treatment of expensed or capitalized assets in accordance with other standards.

Q5. Do you agree or disagree with how **indirect** costs are characterized as it relates to G-PP&E in paragraph 16?

Answer 5. Agree.
This basic cost principle of how to characterize indirect costs as it relates to G-PP&E is consistent with the Department's policy.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22?

Answer 6. Agree.
The unassigned indirect costs should be reported on the entity's financial statements as "costs not assigned to programs."

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24?

Answer 7. Agree.
If a responsibility segment incurs and recognizes costs that are linked to events other than the production of goods and services, they should be recognized in the same period the event occurs.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)?

Answer 8. Agree.
The decision points in the flowchart provide users with an organized and clear outline to use when developing entity specific costing policies and procedures for accumulating, allocating, and reporting the cost of G-PP&E.

Greater Washington Society of CPAs and GWSCPA Educational Foundation

1111 19th Street, NW, Suite 1200, Washington, DC 20036
202-464-6001 (v) 202-238-9604 (f) www.gwscpa.org info@gwscpa.org

May 1, 2013

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

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board (FASAB) Accounting and Auditing Policy Committee's (AAPC) Exposure Draft (ED) on the Federal Financial Accounting Technical Release (TR), *Implementation Guide for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes over 20 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our response to the ED question follows.

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

A1. The FISC agrees that entities have the responsibility to design policies and procedures that comply with GAAP, and that align with the respective entity's operational environment. However, the FISC does not agree with the amount of flexibility offered in this TR. By allowing similar Federal agencies to adopt different policies and procedures for accounting for similar activities, such as the production or construction of assets, the ED does not address how this TR will satisfy the provisions of Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, Objectives of Federal Financial Reporting, paragraph 164, which states:

> *Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations*

rather than by the mere selection of different alternatives in accounting procedures or practices.

One could interpret this TR, such as paragraphs 17, 22 and 25, as promoting a lack of comparability between Federal agencies by allowing conflicting practices that permit some agencies to assign overhead costs whereas other agencies may expense overhead costs when constructing or producing similar assets.

In addition, it remains unclear how an organization that lacks an adequate cost accounting process that prevents an organization from assigning material indirect costs within the organization can comply with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*. The decision framework (Appendix C) and the associated paragraphs within the TR (e.g., paragraphs 3, 4, 7 and 9) do not provide a distinction between the allocation of indirect costs that would materially affect the value of the constructed or produced asset, and those indirect costs that do not rise to a material level. We suggest that the TR be revised to include a discussion of the requirements associated with the allocation of material indirect costs.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

A2. The FISC supports the statement that cost accounting standards "allow maximum flexibility for agency managers to develop costing methods that are best suited to their operational environment" (SFFAS 4, paragraphs 3 and 24).

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

A3. The FISC is concerned that the statement in paragraph 10, states that three principles may be used "to determine their stakeholder's financial management information needs," is too broad in nature, and may be interpreted by some to extend these principles beyond the narrow focus of the TR. We suggest that the AAPC revise this paragraph to more narrowly focus the application of the three principles outlined in paragraph 10.

Q4. Do you agree or disagree with how direct costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

A4. The FISC agrees with the statements made in paragraph 15 of the TR.

Q5. Do you agree or disagree with how indirect costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.

A5. The FISC agrees with the statements made in paragraph 16 of the TR. However, some additional guidance, or a cross-reference to Appendix B, would be appropriate to describe acceptable methods to identify and allocate indirect costs that are necessary to "bring the G-PP&E to a form and location suitable for its intended use."

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

A6. The FISC generally agrees with the statements made in paragraph 22.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

A7. The FISC agrees with the statements made in paragraph 24.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

A8. The FISC has the following suggestions on the Decision Framework Flowchart (Appendix C):

a. As stated in our response to Q1, the issue of requiring the accumulation, assignment, or allocation of material indirect costs necessary to bring an asset to a form and location suitable for its intended use should be considered as part of the framework.

b. The framework should specify that it only applies to the accumulation, assignment, or allocation of indirect costs associated with the production or construction of assets.

c. The step in the framework ("Are the costs indirect costs that cannot be identified specifically with or traced to a given cost object (G-PP&E) in an economically feasible way? (SFFAS 6, Glossary)") could be interpreted by some to state that the accumulation, assignment, or allocation of indirect costs is optional if management concludes that it is not economically feasible to accumulate, assign, or allocate indirect costs. SFFAS 4, paragraph 124, requires that indirect costs be assigned using one of the three methods listed (i.e., accumulation, assignment, or allocation), and that the matter of economic feasibility be considered by management when making the cost-benefit decisions on which method to apply (SFFAS 4, paragraphs 142-143). We suggest that the framework be revised to reflect that at least one of the three methods for distributing indirect costs (i.e., accumulation, assignment or allocation) be employed by management.

Other Comments

1. At the end of paragraph 5, the ED excludes internal use software from the scope of the TR. We suggest that this exclusion be stated more prominently in the final TR.

2. In Appendix B, the AAPC has included a discussion of specific accounting policies of the FAA, GSA, and NRO. Absent a specific discussion in the appendix that these policies are provided for illustrative purposes and are only accurate as of the writing of this TR, one could interpret that a change in the FAA's, GSA's, or NRO's policies mentioned in the TR may require a modification of the TR because the TR is higher in the GAAP hierarchy than the accounting policies set by the agencies' management.

3. We also offer the following editorial suggestions:

    a. In paragraph B.5, we suggest that the phrase "while allows *them* to procure" should be modified to "which allows *the NRO* to procure" (emphasis added).

    b. In paragraph B.7.ii, we suggest the abbreviation "e.g.," be used instead of "i.e.," in the first sentence.

    c. Page 24 of the ED is blank, and should be removed.

*****

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

Andrew C. Lewis
FISC Chair

Department of Energy
Washington, DC 20585

May 2, 2013

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street NW, Suite 6814
Washington, DC 20548

SUBJECT: Comments on the Federal Accounting Standards Advisory Board's Exposure Draft: *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation*

Dear Ms. Payne:

The Department of Energy (DOE) appreciates the opportunity to comment on Exposure Draft: *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation.* DOE generally agrees with the implementation guidance and its concepts, and strongly supports the overall emphasis on agency discretion for meeting the underlying accounting requirements.

While these standards are largely applicable to DOE, we have determined that the discussion on the allocation of direct and indirect costs to General Property, Plant, and Equipment (G-PP&E) is not relevant for property construction by the DOE Management and Operating (M&O) contractors because the Cost Accounting Standards at 41 U.S.C. 422, and the contract terms, will govern the measurement, assignment, and allocation of construction related costs.

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

Agree. The accounting standards allow an entity management with both responsibility and flexibility to design GAAP compliant policies and processes that align with the entity's operational environment.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

Agree. An entity's mission and operational environment drive the financial management information needs of the entity's stakeholders. The focus on agency flexibility in this exposure draft is important to ensure the financial information generated by DOE meets the needs of our stakeholders.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

Agree. Relevance, level of precision, and cost benefit are all important in determining stakeholder's financial management information needs. The use of these principles provides management with guidance that invokes the flexibility needed to determine their information needs and related cost assignment policies and procedures.

However, a key aspect of making information for stakeholders useful is to provide the information in a timely manner. We recommend that the "timeliness" of the information be considered a basic principle in identifying stakeholder's management information needs.

Q4. Do you agree or disagree with how direct costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rationale for your answer.

Disagree. The language in paragraph 15 implies that some indirect costs, such as contract administration and oversight, should be considered a direct cost. We agree with the general statement in SFFAS 4, paragraph 90, but not all of the examples are costs that should be considered direct costs. Instead of providing specific examples, the Technical Guidance should emphasize entity's discretion for defining direct costs.

Q5. Do you agree or disagree with how indirect costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rationale for your answer.

Agree. Indirect costs that can be attributed to bringing the asset into service should be captured as part of the G-PP&E, and indirect costs that are not identified as a cost to bring the asset into service should be expensed. This is a reasonable approach in determining which indirect costs should be allocated to the G-PP&E acquisition cost for assets constructed or produced by a federal agency. The approach allows sufficient agency discretion for allocating these costs.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

Agree. There are certain costs that cannot be reasonably allocated to programs, segments or outputs including G-PP&E acquisition, and should be reported as unassigned costs on the entity's financial statements.

We recommend that the last sentence of paragraph 22 be revised to ensure consistency with paragraph 16. Paragraph 22 states "general management and administrative costs" may be allocated to G-PP&E, while paragraph 16 indicates that these costs are examples of costs that

should be expensed because they are not associated with bringing an item of G-PP&E to a form and location suitable for its intended use.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

Agree. We agree with the statements concerning the treatment of non-production costs.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

Agree. The decision framework flowchart is consistent with the exposure draft and articulates the decision process for assigning direct and indirect costs to an item of G-PP&E.

Thank you for your consideration of our comments. If you have any questions, please contact Mr. John Wall at (202) 586-5728 or at john.wall@hq.doe.gov.

Sincerely,

Alison L. Doone
Deputy Chief Financial Officer

From: Tekleberhan, Karen - OCFO [mailto:Tekleberhan.Karen@dol.gov]
Sent: Wednesday, May 01, 2013 5:51 PM
To: FASAB
Cc: Simpson, Cynthia - OCFO; Karczewski, Stanley - OCFO; Sacchetti, Dylan M - OCFO; balin.Robert@dol.gov; Polen, Chris P - OCFO; Brown, Kevin L - OCFO; Donovan, Joseph - OIG
Subject: AAPC of FASAB Requests Comments on Exposure Draft, Proposed Technical Release, "Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation"

Attached please find comments from the U.S. Department of Labor, Office of the Chief Financial Officer, on the exposure draft of proposed Federal Financial Accounting Technical Release, "Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation." Comments were requested by today, May 1, 2013.

If there are any questions, please contact Cynthia Simpson at simpson.cynthia@dol.gov or 202-693-6807.

Thank you for the opportunity to comment.

Karen
Karen Tekleberhan, CPA
Deputy Chief Financial Officer
U. S. Department of Labor

(202) 693-6800

U.S. Department of Labor
Office of the Chief Financial Officer
Comments on Exposure Draft, Federal Financial Accounting Technical Release
"Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation"

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

Comment: Yes, we agree that management has discretion in applying the cost assignment methods identified in SFFAS 4, paragraph 124, to accumulate acquisition costs because:
-- overall, management has discretion with regard to materiality and thresholds for recognition;
-- the accounting standard in SFFAS 4, paragraph 124, is principles-based, rather than rules-based, and alternative methodologies are described in paragraphs 148—162;
-- management has alternatives for cost finding through special studies or through systematic means (and we interpret this in a manner that may include a combination of both special study and systematic means);
-- in SFFAS 4, paragraph 124(a), the use of the words "whenever economically feasible" implies management's discretion on whether to use direct tracing when considering materiality, efficiency, and timeliness.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

Comment: We agree that an entity's mission and operational environment impact the financial management needs of the entity's stakeholders. As the mission/operational environment grows in complexity, so may the stakeholders' need of information for decision-making purposes.

However, we believe that the wording in the example provided in paragraph 9 could be improved in the statement, "For example, entities operating under a fee-for-service or working capital fund structure have a business need to accumulate and allocate costs at a very granular level to ensure that their pricing models, rates and schedules facilitate the full recovery of costs under a non-appropriated, user-fee model." by including "allowable" or "relevant" before the last instance of the word "costs."

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

Comment: We agree with the three principles, but we do not believe that materiality should be associated with the level of precision. The level of precision could be associated with the use of estimated versus actual amounts, how frequently an estimate or methodology may be validated, or summarized versus detailed amounts. We believe that materiality could also include qualitative factors, whereas level of precision connotes quantitative factors.

The needs among stakeholders may differ depending on the stakeholder and impact the application of the principles. Prior to the execution of each principle, management may consider the needs of the stakeholders and revisit the stakeholders' needs periodically to make necessary adjustments.

Q4. Do you agree or disagree with how **direct** costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

Comment: We agree with how direct costs are characterized as it relates to G-PP&E in paragraph 15. Direct costs should be costs that are easily identified to the asset. We believe that the reference to SFFAS 6, paragraph 26 is helpful and that the list provided in paragraph 13 (from SFFAS 6, paragraph 26) provides adequate guidance about the direct costs.

Q5. Do you agree or disagree with how **indirect** costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.

Comment: We agree with how indirect costs are characterized as it relates to G-PP&E in paragraph 16. We believe that the reference to SFFAS 6, paragraph 26 is helpful and that the list provided in paragraph 13 (from SFFAS 6, paragraph 26) provides adequate guidance about the indirect costs.

However, we noted that, unlike paragraph 15, paragraph 16 is missing the statement, "The item(s) of G-PP&E must meet or will meet the entity's capitalization threshold or other capitalization recognition criteria. We believe that this statement, or one similar to it, should also be included in paragraph 16.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

Comment: We agree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22 because this is in compliance with SFFAS 4, paragraph 92. The U.S. Department of Labor reports "Costs not Assigned to Programs" on its Statement of Net Costs.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

Comment: We agree with the financial reporting of non-production costs as described in paragraph 24. We believe that the non-production costs should be recognized as period costs and not deferred to future periods through capitalization to G-PP&E.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

Comment: We agree with the approach as outlined in the Decision Framework Flowchart (Appendix C). However, on the right side of the chart, we believe that a decision point should also be included for reaching the capitalization threshold, in a manner similar to the left side of the chart.

From: Mainguy, Timothy (US - Arlington)
Sent: Wednesday, May 01, 2013 4:59 PM
To: FASAB
Cc: Gorman, Louella (US - Arlington)
Subject: Deloitte Comment Letter on Proposed FASAB Technical Release - Implementation Guidance for G-PPE Cost Allocation

Good afternoon Ms. Payne,

Enclosed is Deloitte's response with comments to the subject exposure draft of proposed Federal Financial Accounting Technical Release, entitled *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*. Our response letter includes two appendices. In Appendix A, we respond to each of the questions posed by the AAPC in the proposed Technical Release's Questions for Respondents. Appendix B contains our editorial suggestions for the proposed Technical Release.

We appreciate the opportunity to comment on the proposed Technical Release. If you have any questions concerning our comments or require additional information, please contact Louella Gorman at +1 571 814 7340 or by email at lgorman@deloitte.com

Please confirm receipt of our letter.

Kind Regards,

Timothy Mainguy
ERS Manager | Federal BR FSG
Deloitte & Touche LLP
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v.E.1

Deloitte.

May 1, 2013

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Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

RE: Proposed FASAB Technical Release: Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation

Dear Ms. Payne:

Deloitte & Touche LLP is pleased to comment on the Accounting and Auditing Policy Committee (AAPC) of the Federal Accounting Standards Advisory Board's (FASAB or the Board's) exposure draft of a proposed Federal Financial Accounting Technical Release, entitled *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation* (the "proposed Technical Release").
We support the FASAB's objective to promote improved understanding of the flexibility in the application of FASAB Statements of Federal Financial Accounting Standards as they relate to (1) recognition requirements related to costs incurred during the G-PP&E lifecycle, (2) the concept of a cost accumulation decision framework, and (3) management's role in applying the cost accumulation, assignment, and allocation decision framework.

This letter includes two appendices. In Appendix A, we respond to each of the questions posed by the AAPC in the proposed Technical Release's Questions for Respondents. Appendix B contains our editorial suggestions for the proposed Technical Release.

*****

We appreciate the opportunity to comment on the proposed Technical Release. If you have any questions concerning our comments or require additional information, please contact Louella Gorman at +1 571 814 7340.

Yours truly,

Deloitte & Touche LLP

cc: Louella Gorman, Partner

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

We agree with the concept that the current accounting standards provide entity management with the responsibility and flexibility to design GAAP-compliant policies and processes that align with the respective entity's operational environment. Specifically, one of the core objectives of federal financial reporting is to provide information to federal program managers (in addition to external users). This implies strongly that the entity should select and implement financial reporting policies and processes which produce information that is inherently relevant to its internal needs and environment. In fact, the Board, in SFFAC 1, paragraph 25, stated that "The FASAB, on the other hand, considers the information needs of both *internal* and external users."

However, the tailoring of GAAP-compliant policies should be tempered by the need to meet the basic characteristic of comparability. As stated in SFFAC 1, paragraph 164 "Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions *or organizations* rather than by the mere selection of different alternatives in accounting procedures or practices." Accordingly, the Board should consider providing cautionary guidance emphasizing that organizations should be mindful of comparability when selecting GAAP-compliant policies and procedures, and avoid selecting policies which result in significant differences in financial reporting between similar organizations which are merely attributable to alternative accounting procedures or practices, rather than underlying transactions or organizational characteristics.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

We agree that the financial management information produced by an entity should reflect the entity's mission and operational environment, as detailed in our response to Q1 above. As federal program managers are a primary user of financial reports and require relevant financial management information, entities should generally select and design accounting policies and procedures which produce information that reflects the mission and operations of the entity. Useful information for decision making purposes should be based on the mission, objectives and strategy of the entity. Additionally, the materiality of indirect costs, alongside cost-benefit analyses, must be considered when determining the needs of the entity's stakeholders. The wording and accompanying example in paragraph 9 that notes: "An entity's revenue source…significantly impacts the types of, and level of, cost detail required to be allocated to end assets" indicates the importance of materiality concerns within paragraphs 9 and 10.

Paragraph 9 does not currently reference Statement of Federal Financial Accounting Standards 35, Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23 (SFFAS 35), in which the Board clarified and expanded on the ability to leverage a wide variety of information to establish reasonable, supportable estimates for PP&E asset values. Reasonable estimates of value for PP&E assets under SFFAS 35 often include more broadly-based estimates and allocations of indirect costs due to a lack of detailed information to support detailed cost assignments. The Board should consider making reference to the concepts invoked in SFFAS 35 related to materiality and reasonable estimates and allocations to promote consistency and further support the statements made in this paragraph. The Board may also refer to Statement of Federal Financial Accounting Standard 4 (SFFAS 4), paragraph 10, which states that "The full costs of resources that directly or indirectly contribute to the production of outputs should be assigned to outputs through costing methodologies or cost finding techniques that are *most appropriate to the segment's operating environment* and should be followed consistently."

Further, we believe that more granularity in actual indirect cost information would generally be indicated when the materiality of the indirect costs to be allocated is significant when compared to the financial statements presented as a whole, and when the amount of costs assigned to G-PP&E under more broad systems of allocation would differ substantially from those assigned using a more granular methodology.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

We agree with the overall concepts of the three principles presented in Paragraph 10 of the exposure draft. These principles reflect key aspects of the qualitative characteristics of effective financial reporting information detailed in Chapter 6 of SFFAC 1, and the consideration of balancing costs and benefits detailed in Chapter 5 of SFFAC 1. However, some readers may be confused by the use of different terminology in the principles described in Paragraph 10 as compared to the qualitative characteristics described in SFFAC 1. The Board should consider placing these principles explicitly into the context of overall federal financial reporting objectives, user information needs, cost-benefit constraints, and characteristics of effective financial reporting as laid out in its conceptual framework. Alternately, this connection could be more completely explained in the Basis for Conclusions, or with the proposed changes we suggest in the editorial section of this comment letter.

In addition, the use of the phrase "Cost-benefit of establishing and executing *intricate* cost assignment processes, methods and tools" may be unnecessarily prejudicial against the use of so-called "intricate" cost assignment processes. We suggest the Board consider rephrasing this principle or simply deleting the word "intricate" (suggestion made in editorial section) to avoid prejudicial over-selection towards simplified cost assignment methodologies by users of the framework. The Board should exercise caution in providing cost-benefit as a primary

consideration in selection and application of cost allocation methodologies, as some users may see this as an overriding concern to the important principles of relevance and precision. We suggest the insertion of clarifying language in paragraph 10 similar to that appearing in SFFAS 4, paragraph 142-143 (suggestion made in editorial section), which states: "Throughout the discussions of this section, it is stated that a cost accumulation and assignment method would be used when it is economically feasible. A method is economically feasible if the benefits resulting from implementing the method outweigh its costs. It is not advantageous to use a costing method if it requires a large amount of resources and yet produces information of little value to users…However, they are preferable because they produce more reliable cost information than cost allocations."

Q4. Do you agree or disagree with how direct costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rationale for your answer.

We agree with the characterization of direct costs based on the referenced citations to SFFAS 4 and Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant and Equipment (SFFAS 6).

Q5. Do you agree or disagree with how indirect costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rationale for your answer.

We agree with the characterization of indirect costs based on the referenced citations to SFFAS 6. As the proposed implementation guidance is primarily concerned with methods for accumulating and allocating indirect production costs, it may be helpful for readers if the Board were to provide additional guidance for determining whether an indirect cost contributes "to bring the G-PP&E to a form and location suitable for its intended use." Specifically, there may be confusion among users of this guidance regarding the difference between administrative overhead which should not be capitalized and other, potentially similar, costs which should be allocated to G-PP&E and capitalized.

In providing guidance on the definition of capitalizable indirect production costs, it may be helpful to review standards set by the Financial Accounting Standards Board (FASB) on this topic. FASB Accounting Standards Codification (ASC) 360-970 Property, Plant and Equipment Real Estate – General can be referenced in order to provide additional guidance regarding the definition of indirect project costs. ASC 360-970-25-3 states "Indirect project costs that relate to several projects shall be capitalized and allocated to the projects to which the costs relate." That standard spells out in its glossary definition of indirect project costs that such costs must be "clearly related" to the project under construction. Based on this guidance, it may be helpful to users if the Board defines capitalizable indirect costs to be those costs which ***can be clearly***

related to cost objects which include G-PP&E and relate to activities necessary to bring the G-PP&E to a form and location suitable for its intended use.

An additional definition for Indirect Project Costs that may be helpful for readers is found in the FASB Accounting Standards Codification's Master Glossary:

"Costs incurred after the acquisition of the property, such as construction administration (for example, the costs associated with a field office at a project site and the administrative personnel that staff the office), legal fees, and various office costs, that clearly relate to projects under development or construction. Examples of office costs that may be considered indirect project costs are cost accounting, design, and other departments providing services that are clearly related to real estate projects."

Although we believe that a principles-based standard is essential to the success of this guidance, examples are very helpful to help reinforce users' understanding in regards to this particular topic.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

We agree that management should consider general management and administrative support costs when identifying the costs to bring G-PP&E to a form and location suitable for its intended use. As noted in our response to Q5 above and per SFFAS 4 paragraphs 90 and 91, we believe that only indirect costs which are clearly related to, or can be specifically identified with, a G-PP&E cost object should be considered for capitalization. To the extent that the Board clarifies the definition of capitalizable indirect project costs per our suggestions in response to Q5, paragraph 22 of the proposed Technical Release may be unnecessary, since it appears that the Board's intention in including this paragraph is to further define indirect costs which are not capitalizable. Paragraph 16 of the proposed Technical Release also defines indirect costs and specifies their treatment, which appears to answer the question posed in paragraph 21 as to how indirect costs should be applied in considering the acquisition cost of G-PPE. Further, the paragraph, as written, is somewhat difficult to follow, overly general (e.g. "there will be differences in both methodologies and levels of allocation"), and unconnected with surrounding text. Accordingly, we recommend that the Board consider removing paragraph 22 and incorporating a reference to paragraph 16 of the proposed Technical Release as specified in the attached suggested editorial changes in Appendix B.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

We agree. The costs specified in the example are unusual and, if capitalized, would create significant variances. Such variances may limit the usefulness of the cost information.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

We agree with the overall approach as outlined in the Decision Framework Flowchart, consistent with our responses in the previous sections above. We would suggest certain changes to align with our previous recommendations as detailed in the editorial section in Appendix B. Primarily, we suggest that the framework incorporate a clear definition stating that indirect project costs are clearly related to cost objects which include G-PP&E and relate to activities necessary to bring the G-PP&E to a form and location suitable for its intended use. We also suggest that limited examples of "Indirect Project Costs" be provided to clarify the types of costs which should be considered for capitalization, as detailed in our response to Q5 above.

This appendix contains our suggested editorial changes to the proposed Statement. (Added text is underlined and deleted text is ~~struck out~~.)

Paragraph 10

10. ~~The following three principles may be used by management to determine their stakeholder's financial management information needs:~~

~~a) Relevance/usefulness of information (both to internal and external stakeholders);~~

~~b) Level of precision (e.g., materiality) needed to properly manage and report costs; and~~

~~c) Cost-benefit of establishing and executing intricate cost assignment processes, methods, and tools.~~

10. The following principles may be used by management in conjunction with the definitions provided in SFFAC 1 to determine their stakeholder's financial management information needs:

a) Relevance of information (logical relationship must exist between the information provided and the purpose for which it is needed, both to internal and external stakeholders)

b) Reliability (e.g., nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions)

c) Timeliness of information (e.g., benefits of more timely information can be more useful than precise information that takes longer to produce.) Note: a method is economically feasible if the benefits resulting from implementing the method outweigh its costs. It is not advantageous to use a costing method if it requires a large amount of resources and yet produces information of little value to users. However, more precise methods are preferable, to the extent they are economically feasible, because they produce more reliable cost information.

OR

10. The following three principles may be used by management to determine their stakeholder's financial management information needs:

a) Relevance/usefulness of information (both to internal and external stakeholders);

b) Level of precision (e.g., materiality) needed to properly manage and report costs; and

c) Cost-benefit of establishing and executing ~~intricate~~ cost assignment processes, methods, and tools. Note: a method is economically feasible if the benefits resulting from

implementing the method outweigh its costs. It is not advantageous to use a costing method if it requires a large amount of resources and yet produces information of little value to users. However, more precise methods are preferable, to the extent they are economically feasible, because they produce more reliable cost information.

Paragraph 16

Indirect costs are costs that cannot be identified specifically with or traced to a given cost object in an economically feasible way [SFFAS 6, Glossary]. [For purposes of this guidance "cost object" is an item or items of G-PP&E.] The example of indirect costs noted in SFFAS 6 Paragraph 26 is indirect production costs (for assets produced or constructed). The indirect costs ~~identified as costs incurred to~~ which clearly relate to, or can be specifically identified with, cost objects which include G-PP&E and relate to activities necessary to "bring the G-PP&E to a form and location suitable for its intended use" should be accumulated, assigned or allocated to the cost of the G-PP&E item(s). If the accumulated indirect costs ~~are not identified as costs incurred to~~ do not clearly relate to, or cannot be specifically identified with, cost objects which include G-PP&E and relate to activities necessary to "bring the G-PP&E to a form and location suitable for its intended use" (for example, administrative overheads that do not contribute to bring the G-PP&E item to a form and location suitable for its intended use), then the costs should be expensed.

Paragraph 22

A2. ~~SFFAS 4, paragraph 92, explains that: "A reporting entity and its responsibility segments may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are part of the organization costs, and they should be reported on the entity's financial statements (such as the Statement of Net Costs) as costs not assigned to programs." Management should consider general management and administrative support costs when identifying the costs to bring the G-PP&E to a form and location suitable for its intended use. Entities may incur indirect costs that cannot be reasonably allocated to programs, segments, or outputs including G-PP&E acquisition. Indirect production costs only apply to G-PP&E produced or constructed. When entities are allocating general management and administrative support costs to G-PP&E, there will be differences in both methodologies and levels of allocation.~~

Indirect costs which clearly relate to, or can be specifically identified with, cost objects which include G-PP&E and relate to activities necessary to bring the G-PP&E to a form and location suitable for its intended use should be accumulated, assigned or allocated to the cost of the G-PP&E item(s). If the indirect costs do not clearly relate to, or cannot be specifically identified with, cost objects which include G-PP&E and relate to activities necessary to bring the G-PP&E to a form and location suitable for its intended use (for example, administrative overheads benefitting several programs that do not contribute to bring the G-PP&E item to a form and location suitable for its intended use), then the costs should be expensed in the period incurred.

Appendix C: Decision Framework Flowchart

See changes suggested in Paragraph 10 above for page 1 of the flowchart as well as in the box which contains the text beginning with "Assign these costs to the item(s) or activities (outputs) they produce by:"

In the box containing the text "Was the indirect cost incurred for cost objects which include G-PP&E and needed to bring the G-PP&E to a form and location suitable for intended use?" (See SFFAS 6, par. 26):

Was the indirect cost incurred for cost objects which include G-PP&E and clearly relate to, or can be specifically identified with the cost objects which include G-PP&E, and was indirect cost related to activities needed to bring the G-PP&E to a form and location suitable for intended use? (See SFFAS 6, par. 26)

From: Bergin, Christopher C
Sent: Wednesday, May 01, 2013 4:46 PM
To: FASAB
Cc: Sidari, David P; Vaiana, Jerome A; Tucker, Gerald A; Guilford, William E; Moore, Scott
Subject: HUD's response to AAPC Request for Comments on Proposed Implementation Guidance On G-PP&E Cost Allocation

Hello,

I am pleased to provide HUD's response to the Accounting and Auditing Policy Committee's request for comments on the Proposed Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation.

Please do not hesitate to contact me if you have any questions.

Chris Bergin
Financial Policy and Procedures Division
Office of the Assistant CFO for Financial Management
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410
(202) 402-6374
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Questions for Respondents

Federal Financial Accounting Technical Release Exposure Draft:
Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation
(Dated March 1, 2013)

U.S. Department of Housing and Urban Development

All responses are requested by May 1, 2013

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

Yes, HUD agrees with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment. Due to the diverse missions and nature of operations of each individual agency, it is not practical to have one standard process to fit all agencies. Agencies require flexibility to ensure the best approach to capture, allocate and present their costs as it relates to their entity. The standards provide wide-ranging, reasonable, and consistent principles for reporting within which entities can effectively operate. These standards also are based on sound cost accounting concepts and are broad enough to allow maximum flexibility for agency managers to develop costing methods that are best suited to their operational environment.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

Yes, the Department agrees that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders. An entity's revenue source (e.g., appropriated funds, revolving fund, user fee, etc.) significantly impacts the types of and level of

cost detail required to be allocated to assets. As illustrated in Appendix B, program cost verses period cost may vary among entities for a particular asset. Allowing the flexibility to capture the difference in operational environment enhances the information provided to the stakeholders.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

Yes, HUD agrees with management's use of the three principles identified in Paragraph 10 to determine financial management information needs of stakeholders. These principles provide a logical framework for management to define the informational needs of stakeholders in the appropriate detail and precision necessary to properly manage and report costs in a cost effective manner. Relevance/usefulness, materiality, and cost-benefit are measures commonly used in accounting to provide meaningful financial management data to make sound decisions.

Q4. Do you agree or disagree with how **direct** costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

Yes, the Department agrees with how direct costs are characterized as it relates to G-PP&E in paragraph 15. Any costs incurred to bring PP&E to a form and location suitable for its intended use should be consider direct costs when it can be directly and without dispute linked to the specific G-PP&E item in question.

Q5. Do you agree or disagree with how **indirect** costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.

Yes, HUD agrees with how indirect costs are characterized as it relates to G-PP&E in paragraph 16. Indirect costs are costs that cannot be identified specifically with or traced to a given cost object in an economically feasible way. The indirect costs identified as costs incurred to "bring the G-PP&E to a form and location suitable for its intended use" should be accumulated, assigned or allocated to the cost of the G-PP&E item(s). With respect to indirect costs which cannot be linked directly to the G-PP&E item, and/or were not part of costs to bring the item to a form and location suitable for its intended use (for example administrative overhead), then It is logical and

sound accounting practice to expense or capitalize the item in accordance with other standards.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

Yes, HUD agrees with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in paragraph 22. Costs that cannot be traced, assigned or allocated to a specific program should be included in the Statement of Net Cost to avoid misstatement of the agencies overall costs and financial statements. It is the entity's goal to capture accounting data as accurately as possible.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

Yes, the Department agrees with the financial reporting of non-production costs as described in paragraph 24. However, the Department does not have any non-production costs as it relates to this guidance. When appropriate, it makes sense to distribute certain non-production costs over a number of past periods to avoid materially distorting the agencies expenses and financial position in any given accounting period.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

Yes, HUD agrees with the approach as outlined in the Decision Framework Flowchart. It is consistent with the guidance outlined in the draft which is logical, practical and sound accounting practice. It is also simple and easy to follow. The decision framework flowchart provides users with an organized approach for applying the principles described above to support their process of developing entity specific policies and practices for accumulating, allocating, and reporting the cost of G-PP&E in compliance with relevant accounting standards. The decision framework supports the inherent flexibility available to organizations to appropriately implement accounting policies and practices in accordance with GAAP.

NOTE: The majority of HUD's PP&E consist of Internal Use Software which was not covered in the scope of this document. HUD recognizes that it does not currently have a precise cost allocation system to meet the objective of SFFAS 10 and other cost allocation guidance. HUD uses an alternative approach for reallocating costs based of FTEs. HUD hopes to implement a cost allocation system in the future.

From: Erik Dorman (BC) [mailto:erik.dorman@gsa.gov]
Sent: Wednesday, May 01, 2013 3:13 PM
To: FASAB
Cc: Priscilla Sampson - BCA
Subject: Comments - Federal Financial Accounting Technical Release Exposure Draft: Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation

Dear FASAB Director,

Attached in the email are GSA's comments on Federal Financial Accounting Technical Release Exposure Draft: Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation issued on March 1, 2013. Thank you for the opportunity to provide comments and please let me know if you have any questions.

--
Thank you,
Erik Dorman, CPA, CISA, CIA
Director, Financial Policy and Analysis (BCA)
GSA, Office of the Chief Financial Officer
erik.dorman@gsa.gov
202-501-4568

General Services Administration
Office of the Chief Financial Officer
Financial Policy and Operations

Federal Financial Accounting Technical Release Exposure Draft: *Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation (Dated March 1, 2013)*

Questions for Respondents

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

We agree such flexibility is necessary to determine materiality and perform a proper cost-benefit analysis. General Services Administration (GSA) has been able to defend its current practices for capitalization threshold and cost allocation methodologies. However, we do believe there is a need for further clarification of 'indirect production costs," without this GSA may bump up against some external auditor's interpretation.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

We agree, different agencies require a greater degree of transparency and detail to be provided to stakeholders. However, we suggest that FASAB clearly define the term "very granular". We are concerned with a reader's interpretation of this example.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

We agree the principles identified address the germane issues.

Q4. Do you agree or disagree with how direct costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

We believe the characterization is sufficient and clear. The definition is consistent with how GSA is treating these costs in its internal policy, and it works well within the GSA environment.

Q5. Do you agree or disagree with how indirect costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.

We are not clear of the definition of "indirect production costs" (para 13, 14, 16, & 23). The SFFAS No. 6, para 26, focus on “indirect production costs” is not full costing as we understand the requirements promulgated by SFFAS No. 4. The language is, in itself, an inherent contradiction - - for an "indirect" cost to even clear the bar and be characterized as a "production cost" it would pretty much have to be a direct cost – if not of the construction project itself then at least a direct cost of the PBS Construction Segment/Program itself. [Or how else would you know it’s a "production" cost?] This inherent contradiction is again repeated where Par 16 says, “If the accumulated indirect costs are not identified as costs incurred to “bring the G-PP&E to a form and location suitable for its intended use” (for example, administrative overheads that do not contribute to bring the G-PP&E item to a form and location suitable for its intended use), then the costs should be expensed.” That sentence is again clearly the test of a direct expense or an indirect expense within the construction program proper; this however is not full costing as put forth by SFFAS No.4 in our view. To meet the test of a “production” cost implies that the costs have been partitioned off in some way (e.g. organizationally) and can be directly traced to construction activity, although they may be indirect at the specific project level. In the context of SFFAS No. 4, this would generally preclude the capturing, as project construction output costs, of any costs that are not direct costs of the particular responsibility segment engaged in the construction activity. Imputed Intra-departmental or imputed inter-entity costs would likely be excluded from the “full costs” of construction outputs and most billed Intra-departmental costs (e.g. GSA-wide IT Support) would be excluded as well. We disagree with drawing such a line on capitalization of indirect costs, as assets on the scale of GSA building projects cannot be built without the full scope of administrative, personnel, accounting, legal , IT services and technical infrastructure that resides in the GSA support offices. Again, we would assume none of these cost fall under the mantle of an "indirect production cost" as none of these functions or services are a part of the Public Building Service (PBS) proper – at GSA these costs are intra-entity costs that are allocated to PBS and then to the PBS construction segments and assigned to outputs.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

We agree the tracing and capitalization of indirect costs associated with bringing PP&E to its intended use are immaterial and represent aggressive accounting treatment.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

Please provide a sentence in this paragraph that addresses whether Environmental Remediation must be or may be included as a non-production cost. Suggested sentence: "Non-production costs may include clean up costs for environmental remediation. However, clean up costs for environmental remediation does not always fall under non-production costs. This is another area where Federal entities have flexibility based on the costing methods that are best suited to their operational environment." Note: Appendix B FAA Table 3 Phase 4 shows environmental costs with a comingled (expensed and capitalized) recognition. If environmental remediation must always be a non-production cost, then this chart shows FAA not following GAAP.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

We believe some of the decision points would leave some 'unassigned costs' and not in compliance with SFFAS #4 for full costing to agency's responsibility segments. In addition, we found the flow chart confusing in that regardless of how a decision was answered all outcomes were the same "Expense or capitalize in accordance with other standards".

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

May 2, 2013

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Subject: FASAB Exposure Draft, *Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation*

Dear Ms. Payne:

Attached is the Department of the Interior's consolidated response to the subject Exposure Draft.

If you have any questions regarding this response please contact me (202) 208-3425.

Sincerely,

Paul McEnrue
Chief, Financial Reporting Division

Attachment

Department of the Interior (DOI)

Federal Financial Accounting Technical Release Exposure Draft:
Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation
(Dated March 1, 2013)

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

A.

We agree with the concept that current accounting standards provide the flexibility and responsibility for management to make decisions in accordance with each entity. Operational environments vary between entities, so "one size fits all" standards would not be sufficient and would result in confusing and inconsistent results. Management discretion is crucial to identifying particular situations and the impact that they may have on the organization. As illustrated in Appendix B: Illustrations – Asset Acquisition Lifecycle Phases, it is appropriate to "expense" certain costs in various phases and "capitalize" in others, which align with the entity's operational environment. This provides the needed flexibility in the more uncertain phases of asset acquisition. Appendix C outlines the core requirements involved in a decision framework and the standard doesn't limit or prohibit the entity's ability to manage G-PP&E. These accounting standards are based on sound cost accounting concepts and allow flexibility to agency managers to implement accounting policies and practices in accordance with GAAP.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

We agree that the entity's mission and operational environment greatly impact the financial information required by stakeholders. There are times when detailed cost information is appropriate and others when the cost of reporting more granular details outweighs the

benefits even when direct and indirect costs can be identified. The example provided in the Technical Release Exposure Draft illustrates the importance of such arrangements due to the varying financial structures of entities. The DOI is comprised of nine bureaus of varying sizes and budgets with vastly different programs and stakeholders. For example, the Bureau of Reclamation has external customers such as Western Area Power Association, Bonneville Power Administration and various Water Districts and other entities that require specific granular level detail to ensure capital cost repayments. The decision framework provides the latitude needed in a diverse agency and recognizes that the needs of an entity's stakeholders impacts the types and level of cost detail allocated to end assets.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

A. Relevance, precision, and cost-benefit are key considerations that provide guidance to management when considering the degree to which an agency will address the financial management information needs of its stakeholders. All three of these principles address the accurate preparation of financial information that can be employed by stakeholders in order to make sound financial decisions. These principles highlight the important elements to be considered when evaluating entities with varying financial practices.

Q4. Do you agree or disagree with how **direct** costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

A. We agree with the characterization of direct costs in paragraph 15 as long as the acquisition life cycle is taken into consideration, which allows costs to be expensed until a decision point is reached thereby incorporating the entity's operating environment into the decision as to what constitutes a direct cost that needs to identified with a product.

Q5. Do you agree or disagree with how **indirect** costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.

A. We agree with the characterization of indirect costs as provided in the Technical Release Exposure Draft. The definition in the paragraph 16

complies with established SFFAS standards as well as explains the need to expense the items that don't fit the criteria of indirect costs. Indirect costs identify costs that cannot directly be linked to the cost object, but they may or may not be an important aspect of developing a functional end-product. Therefore management needs to consider the relevance, the precision, and the cost-benefit before determining the method and levels of allocation for indirect costs.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

A. We agree with the reporting of indirect costs as unassigned costs on the Statement of Net Cost. These costs may not be traced and assigned to certain outputs, but they are still part of the organization's costs and need to be reported on financial statements. These costs could impact financial decisions and therefore should be reported regardless of whether or not they are traced, assigned or allocated to segments or their outputs. Each entity should determine its own level of detail and that unnecessary precision and refinement of data should be avoided. These general management and administrative support costs that cannot be traced or allocated to outputs should be reported as costs not assigned to programs.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

A. We agree with the financial reporting of non-production costs as described in the Technical Release Exposure Draft. Since some events are rare it would be inappropriate to assign them to the production cost. Such isolated events distort the production cost of property, unless it is determined by management that the event is recurring. We feel the Implementation Guidance can be improved with an example or scenario that clarifies the statement, "For example, losses that arise from a natural disaster should not be attributed to G-PP&E acquisition costs even if the assets damaged are those being used to construct the G-PP&E." It is unclear what this statement is really indicating.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework

Flowchart (Appendix C)? Please provide the rationale for your answer.

A. We agree with the approach as outlined in the Decision Framework Flowchart. The Decision Framework Flowchart provides an organized, logical way to make a conclusive determination as to whether or not costs need to be capitalized along with an output. The approach is straight forward and provides a logical application for the three principles, which determine the necessary financial management information.

General Comments on the ED

The Exposure Draft provides excellent insight into the process of making important financial decisions. It touches upon major issues such as addressing the difference in needs between separate entities. Overall we agree with many of the ideas presented in this Technical Release Exposure Draft and feel that many of these practices will be of benefit to organizations in order to correctly record PP&E in accordance with GAAP. Appendix C – Does a decision box need to be added to address the "capitalization" or "expensing" of indirect costs similar to what is shown on the direct cost side of the flowchart or some text elsewhere to indicate some linkage between the two?

From: Katherine.Reed@dni.gov [mailto:Katherine.Reed@dni.gov]
Sent: Monday, May 06, 2013 5:32 PM
To: Valentine, Monica R
Cc: barbarbj@dni.gov; William.Stefan@dni.gov; KETANRP@dni.gov; TYSONJS@dni.gov; Katherine.Reed@dni.gov
Subject: Intelligence Community (IC) Comments - FASAB Implementation Guidance on General PP&E Cost Accumulation

Monica:

Attached for your consideration are the IC Comments on FASAB's "Implementation Guidance on General
Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation".
Please let me know if you have any questions.

Katherine A. Reed, CGFM
Chief
Financial Improvement and Audit Readiness
Financial Management Division
CFO, ODNI

Intelligence Community (IC) Comments - FASAB Implementation Guidance on General PP&E Cost Accumulation

Q1. Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 - 4, 19 - 20, and 25)? Please provide the rationale for your answer.

NGA Response: Agree. Concept provides management with flexibility and to provide professional judgment/reasonable approach to allocate direct and indirect costs to G-PP&E in accordance with GAAP. It allows for the design of a cost accumulation structure based on an assessment/judgment of criteria such as the relevance/usefulness of the information in the entity's operating environment.

DIA Response: I believe the standard could be further clarified. Paragraph 26 of SFFAS 6 states that costs shall include all costs incurred to bring PP&E to a form and location suitable for its intended purpose. And it goes on to list the different costs that should be included. While SFFAS 4 paragraph 124 does talk to directly tracing costs whenever feasible, and tells each reporting entity to determine the appropriate detail for its cost accounting data considering several factors to include practicality of data collection and processing, most logisticians and facility engineers only focus on SFFAS 6 and FMR Vol 4 Chapter 6. Therefore there is a sense that all the cost elements listed in Paragraph 26 must be captured, if applicable, regardless of the feasibility.

For example, a entity purchases equipment that is assembled and installed under separate contracts and shipped to the location of its intended use under yet another contract that again if captured may cause the asset to exceed the capitalization threshold. Tracing some of these costs back to the originally purchased asset requires management to implement and maintain additional cost accounting processes. A decision as to the economic feasibility of capturing the data and the relevance of the data to internal and external stakeholders needs to be considered.

NSA Response: Agree, based upon the mission of the Agency the level of detail may vary.

ODNI/FMD Response: ODNI agrees with the concept that the current accounting standards provide management with the responsibility and flexibility to design GAAP compliant policies and processes that align with it's operational environment. ODNI agrees with this rationale because one accounting standard setting body could not possibly provide standards at a detailed level that would provide for every accounting need for all agencies across the Federal Government. Therefore, it is imperative that standards are set at a high enough level so that individual agencies can implement the standards to accommodate the accounting requirements.

Q2. Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

NGA Response: Agree. Organizational mission and operating structure must be considered when accumulating and bucketing asset costs. For example, in a cost recovery environment

such as a working capital fund, it is important to capture, bucket and allocate asset depreciation according to the structure in place for recovering the costs.

DIA Response: Absolutely. The Exposure Draft paragraph A.7. accurately points out that financial management information needs vary by entity.

NSA Response: Agree, entity stakeholders may require more detailed data to be able to evaluate the effective use of funds.

ODNI/FMD Response: ODNI concurs that an entity's mission, operational environment, and revenue sources significantly impact the types and level of cost detail required to be allocated to end assets. However, recommend that the wording in the paragraph be changed in align with and further emphasize the intent of SFFAS 4. Paragraph 9 should read as follows "The decision framework discussed i this technical release recognizes that the cost accumulation needs of management may vary by entity. In accordance with an entity's management purpose, the revenue source (e.g. approrpiated funds, revolving fund, user fee, etc) significantly impact the types of and level of cost detail required to be allocated for the intended purpose. ....." The rationale for this change is that SFFAS 4 would not come into play unless a asset is being produce as an output and indirect cost have to be applied.

Q3. If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

NGA Response: Agree. The three criteria must be considered since the accumulation of costs should reflect relevance to the stakeholders while considering the precision needed and associated cost/benefits of intricate/costly cost assignments.

DIA Response: I agree. All three of those principles need to be considered by management in deciding their and their stakeholders' information needs.

Each agency, when deciding on the specific costs that should be allocated to assets or other cost objects need to consider the total agency requirements to ensure consistency in application, level of precision needed and relevance/usefulness of information. If it is deemed relevant and useful to apply indirect costs to assets or other specific cost objects, care must be taken to ensure overhead is consistently applied across all agency assets or cost objects and that the agency is receiving a benefit and understands how to use the information for management decision making.

NSA Response: Agree, these three principles should be considered when determining informational needs.

ODNI/FMD Response: ODNI agrees with the use of the three principles identified in Paragraph 10 to determine their stakeholder's cost accumulation needs.

Q4. Do you agree or disagree with how direct costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.

NGA Response: Agree. Direct costs can be specifically attributed to an end-item (or component of G-PP&E) and bring the G-PPE to a form and location suitable for its intended use.

DIA Response: I agree but the Technical Release would benefit from examples of costs that may not be easily identifiable when bringing a G-PP&E to the form and location for its intended use.

NSA Response: Agree with how direct costs are characterized. Suggest breaking out labor into civilian government and military labor buckets.

ODNI/FMD Response: ODNI agrees with the characterization of direct costs however, further clarification is needed addressing the application of direct costs to assets that are produced as output only.

Q5. Do you agree or disagree with how indirect costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.

NGA Response: Agree. Indirect costs that do not "bring the G-PP&E to a form and location suitable for its intended use" are not allocated to the G-PP&E.

DIA Response: I agree with the statement "can not be traced to a given cost object in an economically feasible way". But again the Technical Release would benefit from an example of where it may not be economically feasible to trace the costs to the G-PP&E item

NSA Response: Agree as presented, Suggest that indirect costs have three buckets: costs incurred at the level above asset creation (project); costs incurred at the level two up and just below upper management from asset creation (project) and the costs incurred at upper management level – director level. Suggest allocation of the two lower level buckets of cost to the asset value and expense the upper management level costs.

ODNI/FMD Response: ODNI agrees with the characterization of indirect costs however, further clarification is needed addressing the application of direct costs to assets that are produced as output only.

Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

NGA Response: Agree. Indirect costs that cannot be reasonably traced, assigned or allocated should not be assigned to a specific output. If the allocation is not reasonable/defendable then it does not add to the usefulness/relevance of the assignment.

DIA Response: Generally agree. For organizations buying a lot of different types of G-PP&E, it is not practical to allocate G&A costs to the individual assets. Whereas, it may make sense to allocate them to different programs under GPRA.

Additionally, the organization has to consider whether the costs should be allocated to assets or other cost objects where costs have to be recovered from another external (Federal or non-

Federal organization); and the allocation should be consistently applied to all similar assets or cost objects.

NSA Response: Agree, this relates to suggestion for Q5 – upper management costs would not be allocated to asset value.

ODNI/FMD Response: ODNI agrees with the reporting of certain unassigned indirect costs as costs not assigned to programs in the Statement of Net Cost. However, this is included in paragraph 22 as a quotation from SFFAS 4 which is already authoritative, and not under review in this exposure draft. Paragraph 22 is intended to answer the question "How should indirect costs be applied in considering the acquisition cost of G-PP&E?"

ODNI believes the answer to this question should focus more around discussion on how to apply indirect costs (i.e. the different methodologies, and the criteria the auditors will use to evaluate them such as reasonableness and consistency). The current paragraph only includes the statement that “there will be differences in both methodologies and levels of allocation.”

Consistent with paragraph 17, ODNI recommends the answer emphasize management’s flexibility in selecting a reasonable methodology for applying costs to items of G-PP&E, and provide examples of reasonable cost allocation methodologies.

Additionally, ODNI recommends that terms such ‘reporting entity’ be defined or cited to the appropriate standard to ensure clarity for the reader.

Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

NGA Response: Agree. The cost of certain items are not related to the production of good or service as the event driving the cost is unrelated to the end item.

DIA Response: I do not think that non-production costs should be captured in the value of G-PP&E. These costs may need to be captured for a BRAC decision or estimated for a cost-benefit analysis but I don't see the accounting logic in capitalizing them as part of a G-PP&E asset.

NSA Response: Agree, only costs that can be associated with the construction/purchase of an asset should be added to the value of the asset.

ODNI/FMD Response: ODNI concurs with the financial reporting treatment of non-production costs as described in Paragraph 24.

Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

NGA Response: Agree. The Framework provides flexibility developing a cost accumulation approach that complies with GAAP.

DIA Response: Generally agree. As pointed out in #3 above, the economical feasibility of capturing these costs and the usefulness of the information to internal and external stakeholders needs to be part of the decision tree. The decision framework however, isn't clear as to when you would decide whether the item meets the capitalization threshold. Is it just based on the direct costs as the framework shows or do you need to determine all costs applied to the G-PP&E before you determine whether it meets the capitalization criteria?

NSA Response: Agree, the flow easily depicts the questions and responses to drive to the proper treatment of costs.

ODNI/FMD Response: In the Decision Framework Flowchart, ODNI recommends reversing the order of the boxes for 1) determining whether direct costs are assignable to an item, and 2) exceed the capitalization threshold. This is in reference to the second and third boxes after answers of 'YES' and 'YES' in the Flowchart. For example, shouldn't costs have to be assignable to an item of G-PP&E before it can be determined whether the item exceeds the capitalization threshold?

Second, ODNI recommends rearrangement of the boxes to make the flow of the framework more apparent at first glance. For example, the final box related to assignment of costs looks at first like it is related to indirect costs because it is on the right side of the chart. The box above that box overlaps with another box, and suggest adding ‘Start’ and ‘End’ boxes to the chart. Third, in the first decision box, where it states "Are the costs indirect sots that cannot be ...." The word cannot should be changed to "can" The sentence as it is make sit a negative statement making the decision a "no".

From: Grant, Valerie D (JMD)
Sent: Tuesday, May 07, 2013 3:28 PM
To: FASAB
Subject: RE: Reminder: AAPC Requests Your Input

Good afternoon FASAB,

The purpose of the email is to provide comments, based on our review, for your consideration on Exposure Draft "Implementation Guidance on General Property, Plant and Equipment Cost Accumulation Assignment and Allocation.

Thanks for the opportunity to review and comment.

Valerie D. Grant
DOJ JMD Finance Staff
Financial Statements Group

Response from: United States Department of Justice

All responses are requested by May 1, 2013. Extended to May 6, 2013

Q1. **Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.**

Agree. The current accounting standards provide entity management the ability to set its own policies and processes. Given that all federal entities are not created equally, different budgets as well as different missions, the PP&E needs differ greatly. Flexibility can also exist within an entity depending on the nature of costs. It would be impossible to design a standard that would be appropriate for all organizations.

Q2. **Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.**

Agree, for the most part. Despite the source of revenue, transparency in reporting to stakeholders is of the utmost importance to ensure there is no waste, fraud, or abuse. While the Department believes transparency is important, it also believe that the nature of the costs should determine the level in which financial information is provided to stakeholders. Further the level can vary throughout the same entity depending on the nature of the cost and require different levels of reporting.

It may not be economically feasible, nor warranted, to provide stakeholders with granular costs that to complete a total unit; however, even though it is not practical to provide transparency to the level of incidental costs, it is important to properly report the cost of the entire building.

Conversely, costs out of the same funding source may require granular reporting if the nature of those costs is different.

Q3. **If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.**

Agree. The three principles provide a framework for deciding what information is relevant and material to reporting for the organization. In addition, the principles address what level of detail is necessary to satisfy reporting needs both internal and external as well as the associated cost to track the information.

Q4. **Do you agree or disagree with how direct costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer**.

Agree, most PP&E have easily identifiable direct costs associated with the purchase such as the cost of the equipment, freight and installation. When the cost includes onsite installation and human intervention (supervision, training, construction) the cost are sometimes more

difficult to access. However, these costs must be included to ensure the full cost of bringing the PP&E to a usable status is recorded.

Q5. **Do you agree or disagree with how** indirect **costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer**.

Agree. The costs that cannot be directly associated to the production of G-PP&E should be allocated as they are determined to be necessary to produce the end product. Any costs that cannot be tied directly and rationally associated with the production should be expensed. Some examples in the paragraph would help with explaining this concept.

Q6. **Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.**

Agree, there are costs which are necessary to conduct business that exist regardless of whether G-PP&E is purchased/produced. These costs should not be allocated to any special project and G-PP&E. Since the "cost of doing business" differs from one organization to another these cost must be accessed by the individual organization.

Q7. **Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.**

Agree, except DOJ attributes the costs associated with the demolition and clean-up of a loss (i.e. natural disaster) to the acquisition to construct new PP&E.

Q8. **Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer**.

Agree, the flowchart mirrors the process flow as written in the Standard. DOJ currently uses this approach.

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May 8, 2013

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board (FASAB)
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548

RE: Proposed Federal Financial Accounting Technical Release, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation* – the exposure draft (ED)

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Federal Financial Accounting Technical Release, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation* – the exposure draft (ED). We recognize the Accounting and Auditing Policy Committee's (AAPC) efforts to develop this technical release based on their mission to assist the federal government in improving financial reporting by timely identifying, discussing, and recommending solutions to accounting issues within the framework of existing authoritative literature. We appreciate the AAPC's belief that there is a need for additional guidance on accounting issues related general property, plant, and equipment (G-PP&E).

We understand that the purpose of the document is to promote an understanding of the flexibility of the standards as it relates to the allocation of indirect production costs to G-PP&E. However, we believe that the standards provide the necessary guidance to accomplish the stated purpose, without the need for a technical release. Paragraph 26 of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment* provides examples of the types of costs that should be included in G-PP&E, assuming the criteria noted in paragraphs 17 and 18 of SFFAS No. 6 for capitalization have been met. Included within these example cost are indirect production costs for assets produced or constructed. Therefore, if the criteria for capitalization have been met, the standards require indirect production costs (for assets produced or constructed) to be recognized as part of the cost of G-PP&E. Paragraph 124 of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, provides flexibility to entity management by describing the three methods for cost assignment/allocation. Further, paragraph 125 of SFFAS No. 4, states that these methods can be applied to the assigning of indirect costs to outputs, which would relate to the assigning of indirect production costs to G-PP&E.

However, if after considering the above information the AAPC believes a technical release is warranted, we provide the following specific revisions to accomplish the stated purpose of promoting the flexibility of the accounting standards in relation to the allocation of indirect production costs to G-PP&E.

1. The technical release should clearly state its purpose, which should include a reference to the applicable paragraph or paragraphs of the existing standards to which the guidance relates. For

example, based on our understanding of the purpose, the technical release could state the following in the first paragraph:

> Statement of Federal Financial Accounting Standards 6 (SFFAS 6), *Accounting for Property, Plant and Equipment*, paragraph 26 outlines the recognition requirements for general property, plant, and equipment. Specifically, paragraph 26 states that all general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of producing or constructing G-PP&E should include indirect production costs. The purpose of this technical release is to provide guidance as it relates to the recognition of indirect production costs incurred during the construction/production of an asset and the allocation of those costs to G-PP&E. The guidance assumes that the criteria for capitalization as provided in paragraphs 17 and 18 of SFFAS No. 6 have been met.

2. Once having clearly established the purpose, there should not be the need to discuss in the technical release direct costs or those costs (direct or indirect) that do not meet the criteria for capitalization and therefore are expensed. We believe including information unrelated to the purpose of the technical release may cause confusion. Further, after establishing the purpose, the technical release should introduce the decision framework and state that it has been developed to assist entity management in applying the guidance included within the technical release.

3. The technical release should state that the first step in the decision framework includes the accumulation of indirect production costs related to G-PP&E, which can be referred to as the indirect production cost "pool". The next step would relate to the assignment/allocation of the indirect costs from the "pool" to outputs (G-PP&E).

4. The second step of the decision framework should relate to the assignment/allocation of indirect production costs from the pool to G-PP&E. This step of the technical release should refer to SFFAS No. 4, paragraph 124 for guidance related to the assignment/allocation of indirect production costs. It should be noted that paragraph 124 of SFFAS No. 4, provides the three methods for assigning (allocating) indirect costs to outputs. These three methods demonstrate the flexibility that the AAPC is seeking to promote as part of this technical release. As part of this step, it should be clear that if the indirect costs have been determined to be capitalizable in accordance with SFFAS No. 6, then the costs should be allocated to G-PP&E and remain capitalized for the life of the asset. The current decision framework flowchart included in Appendix C could be interpreted that if an entity cannot establish a method to allocate the costs that the costs could be expensed, which would not be in accordance with the standards.

5. The technical release should not include the information provided in Appendix B. The inclusion of specific agency policies and procedures that are presented at a summarized level may be incorrectly interpreted by a user of the technical release. In addition, the concept of materiality is not discussed in relation to the policies and procedures, as what may be appropriate for one agency may not be appropriate for another. Further, the inclusion of the specific agency policies, while summarized, could be interpreted as an endorsement by the FASAB of these policies and procedures.

6. Based upon the steps noted through items 3 and 4 above, Appendix C (Decision Framework Flowchart) should be adjusted as follows:

    a. The first decision point should be – do the costs meet the criteria for capitalization in accordance with SFFAS No. 6. If the answer is "no" then the result would be to expense in accordance with the standards.
    b. The next decision point (if "yes" to item "a") should be – are the costs indirect production costs for assets produced or constructed? If the answer is "no" then the result would be to capitalize in accordance with SFFAS No. 6.
    c. The next and last decision point (if "yes" to item "b") should be – assign/allocate to G-PP&E using one of the three methods outlined in SFFAS No. 4, paragraph 124.

7. Appendix D is not necessary to be included with the technical release.

We recommend that the AAPC and Board consider the issues described above and consider the need for the technical release or consider the outline provided in items 1-7 above in order to re-draft the technical release. If the AAPC elects not to follow our suggested outline for the technical release, we provide the following additional comments:

1. The technical release should not include references to SFFAS 23 and 25 as the guidance does not relate to the requirements of those standards.

2. Although Paragraph 5 of the technical release excludes Internal Use Software from the scope of the document, based on our understanding of the purpose; we believe that the technical release could be applied to indirect production costs related to Internal Use Software (SFFAS 10). SFFAS 10 paragraph 15 states, "Entities should capitalize the cost of software when such software meets the criteria for G-PP&E." Paragraph 16 further states, "For internally developed software, capitalized cost should include the full cost (direct and indirect costs) incurred during the software development stage."

3. The technical release should clearly state that the guidance does not relate to other aspects of SFFAS No. 6 outside of indirect production costs, such as the recognition of direct costs related to G-PP&E and the recognition of environmental liabilities.

4. Based upon our understanding of the purpose, paragraph 10 of the ED is not necessary. If the indirect production costs meet the criteria for capitalization in accordance with SFFAS No. 6, the needs of the internal and external users; level of precision; and cost-benefit of allocating costs should not override the requirement that the costs be capitalized. We also believe the introduction of new principles goes beyond the role of a technical release. Further the first of three principles (relevance) is a specific consideration of FASAB in setting GAAP.

5. Paragraph 2 implies that there is flexibility within the standards as it relates to the recognition requirement of G-PP&E costs. While we agree that the standards include flexibility related to the points made in 2b and 2c; the flexibility related to the recognition requirement of G-PP&E costs (included in item 2a) is not in accordance with SFFAS No. 6 and as a result should be removed from paragraph 2.

6. Appendix B should not be included; however, if the AAPC elects to maintain Appendix B, we suggest that terminology such as “environmental studies” and “software design” be removed from the summarized policies/procedures. The inclusion of these terms could cause a user of the technical release to draw the incorrect conclusion that the guidance relates to the recognition of environmental liabilities or the accounting for internal use software. We also recommend that the FASAB obtain approval of the summarized accounting policies/procedures from appropriate senior accounting leadership within the named agency.

Due to the issues described above, we have not provided comments on the specific questions posed by the ED.

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or aenelson@kpmg.com.

Very truly yours,

KPMG LLP

KPMG LLP