Federal Accounting Standards Advisory Board

July 1, 2013

Memorandum

To: Members of the AAPC

From: Monica R. Valentine, Assistant Director

Subject: **Analysis of Comment Letters** – *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation*.[1]

MEETING OBJECTIVE

The objective of the meeting is to review the comments from the exposure draft (ED) and staff's analysis of those responses. Staff has suggested several edits throughout the draft technical release based on the comments received from the ED. We are requesting that you also review staff's proposed changes and be prepared to discuss them.

BRIEFING MATERIAL

Staff Summary: This memo provides a summary of the responses. Staff has summarized responses to each of the questions. To facilitate your analysis, in some cases the staff's summary takes excerpts from respondent replies. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters.

The staff summary consists of the following tables and/or figures:

[1] The staff prepares AAPC/FASAB meeting materials to facilitate discussion of issues at the AAPC/FASAB meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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Attachment 1 provides the full text of each of the comment letters in the order the responses were received and processed.

Attachment 2 provides the original Exposure Draft.

Attachment 3 provides a revised Exposure Draft pursuant to staff review of respondent comments.

Attachment 4 provides a pre-ballot draft of the final Technical Release.

BACKGROUND

The *Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation* promotes an understanding of organizational considerations that affect the application of the standards for general property, plant, and equipment (G-PP&E) except for internal use software. The implementation guidance relates to:

a) Recognition requirements for programmatic, managerial, administrative, and other elements of program costs incurred during the G-PP&E lifecycle, decisions regarding the granularity of cost information, and acceptable methods for recognizing those costs (i.e., capital costs captured on the Balance Sheet or period expense costs captured on the Statement of Net Costs [SNC]),
b) The concept of a cost accumulation and allocation decision framework (i.e., acceptable methods of accumulating, assigning, and reporting cost data), and
c) Management's role in applying the cost accumulation, assignment, and allocation decision framework.

One of the objectives of this technical release is to enable federal reporting entities to use a consistent framework to apply existing guidance. The guidance also supports the objectives of ensuring that transactions involving G-PP&E are recorded in accordance with federal accounting standards, and (the cost of producing federal financial information, as it relates to establishing the cost of G-PP&E, does not outweigh the benefits derived by the users of the financial information. Lastly, it provides a decision framework flowchart to assist entity management in applying the principles described throughout the technical release.

SUMMARY OF OUTREACH EFFORTS

The ED was issued March 1, 2013 with comments requested by May 1, 2013. Upon release of the exposure draft, notices and press releases went to the following organizations:

a) The Federal Register
b) *FASAB News*
c) The *Journal of Accountancy, AGA Today, the CPA Journal, Government Executive* and *the CPA Letter*
d) The CFO Council, the Council of the Inspectors General on Integrity and Efficiency (CIGIE), and the Financial Statement Audit Network;
e) Committees of professional associations generally commenting on exposure drafts in the past

Two reminder notices were sent on April 12, 2013 and May 1, 2013.

RESULT

We received 15 responses. Table 1.0 summarizes all received responses below.

Table 1.0 - Summary of Respondent Types to Exposure Draft

RESPONDENT TYPE	FEDERAL (Internal)	NON-FEDERAL (External)	TOTAL
Preparers and financial managers	11	0	11
Users, academics, others	0	2	2
Auditors	0	2	2
Total	11	4	15

Table 2.0 – Tally of Responses by Question

Question Number	QUESTION	YES /[2] AGREE	AGREE (with Comments)	NO / DISAGREE
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.**	10*	4	0
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.**	10*	4	0
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.**	10*	4	0
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.**	12*	1	1
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.**	8*	6	0

[2] KPMG does not believe that this TR is necessary and did not specifically address each question. Consequently, the total for each question is 14 rather than 15.

Table 2.0 – Tally of Responses by Question

Question Number	QUESTION	YES /[2] AGREE	AGREE (with Comments)	NO / DISAGREE
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.**	10*	4	0
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.**	12*	2	0
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.**	8*	6	0

Table 3.0 – Summary of Responses by Question

Table 3.0 – Summary of Responses by Question [3]

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.	
1. SSA/OCFO	Agree – Please see respondent comments for a full explanation.
2. VSCPA	Agree – Please see respondent comments for a full explanation.
3. COMMERCE/OCFO	Agree – Please see respondent comments for a full explanation.
4. NASA/OCFO	Agree – Please see respondent comments for a full explanation.
5. DOD/OCFO	Agree – Please see respondent comments for a full explanation.

[3] In some cases the staff's summary takes excerpts from each respondents reply and as such, is not intended to substitute for a complete reading of the individual letters.

Table 3.0 – Summary of Responses by Question

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.**	
6. GWSCPA	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) 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 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.
7. ENERGY/OCFO	Agree – Please see respondent comments for a full explanation.
8. DOL/OCFO	Agree – Please see respondent comments for a full explanation.
9. DELOITTE	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

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	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.
10. HUD/OCFO	Agree – Please see respondent comments for a full explanation.
11. GSA/OCFO	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.
12. DOI/OCFO	Agree – Please see respondent comments for a full explanation.
13. INTEL COMMUNITY	**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

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	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, an 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.
14. DOJ/OCFO	Agree – Please see respondent comments for a full explanation.
15. KPMG	KPMG did not provide comments on the specific questions posed by the ED. Please refer to the “Other Comments” section below.

Table 3.0 – Summary of Responses by Question

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.	
1. SSA/OCFO	Agree – Please see respondent comments for a full explanation.
2. VSCPA	Agree – Please see respondent comments for a full explanation.
3. COMMERCE/OCFO	Agree – Please see respondent comments for a full explanation.
4. NASA/OCFO	Agree – Please see respondent comments for a full explanation.
5. DOD/OCFO	Agree – Please see respondent comments for a full explanation.
6. GWSCPA	Agree – Please see respondent comments for a full explanation.
7. ENERGY/OCFO	Agree – Please see respondent comments for a full explanation.
8. DOL/OCFO	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."
9. DELOITTE	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

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	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.
10. HUD/OCFO	Agree – Please see respondent comments for a full explanation.
11. GSA/OCFO	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.
12. DOI/OCFO	Agree – Please see respondent comments for a full explanation.
13. INTEL COMMUNITY	**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

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	with and further emphasize the intent of SFFAS 4. Paragraph 9 should read as follows "The decision framework discussed in 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. appropriated 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 an asset is being produce as an output and indirect cost have to be applied.
14. DOJ/OCFO	Agree – Please see respondent comments for a full explanation.
15. KPMG	KPMG did not provide comments on the specific questions posed by the ED. Please refer to the "Other Comments" section below.

Table 3.0 – Summary of Responses by Question

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.**	
1. SSA/OCFO	Agree – Please see respondent comments for a full explanation.
2. VSCPA	Agree – Please see respondent comments for a full explanation.
3. COMMERCE/OCFO	Agree – Please see respondent comments for a full explanation.
4. NASA/OCFO	Agree – Please see respondent comments for a full explanation.
5. DOD/OCFO	Agree – Please see respondent comments for a full explanation.
6. GWSCPA	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.
7. ENERGY/OCFO	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.
8. DOL/OCFO	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

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	necessary adjustments.
9. DELOITTE	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."
10. HUD/OCFO	Agree – Please see respondent comments for a full explanation.
11. GSA/OCFO	Agree – Please see respondent comments for a full explanation.

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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.	
12. DOI/OCFO	Agree – Please see respondent comments for a full explanation.
13. INTEL COMMUNITY	Agree – Please see respondent comments for a full explanation.
14. DOJ/OCFO	Agree – Please see respondent comments for a full explanation.
15. KPMG	KPMG did not provide comments on the specific questions posed by the ED. Please refer to the "Other Comments" section below.

Table 3.0 – Summary of Responses by Question

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.	
1. SSA/OCFO	Agree – Please see respondent comments for a full explanation.
2. VSCPA	Agree – Please see respondent comments for a full explanation.
3. COMMERCE/OCFO	Agree – Please see respondent comments for a full explanation.
4. NASA/OCFO	Agree – Please see respondent comments for a full explanation.
5. DOD/OCFO	Agree – Please see respondent comments for a full explanation.
6. GWSCPA	Agree – Please see respondent comments for a full explanation.
7. ENERGY/OCFO	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.
8. DOL/OCFO	Agree – Please see respondent comments for a full explanation.
9. DELOITTE	Agree – Please see respondent comments for a full explanation.
10. HUD/OCFO	Agree – Please see respondent comments for a full explanation.
11. GSA/OCFO	Agree – Please see respondent comments for a full explanation.
12. DOI/OCFO	Agree – Please see respondent comments for a full explanation.
13. INTEL COMMUNITY	**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.

Table 3.0 – Summary of Responses by Question

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.	
	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.
14. DOJ/OCFO	Agree – Please see respondent comments for a full explanation.
15. KPMG	KPMG did not provide comments on the specific questions posed by the ED. Please refer to the “Other Comments” section below.

Table 3.0 – Summary of Responses by Question

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.	
1. SSA/OCFO	Agree – Please see respondent comments for a full explanation.
2. VSCPA	Agree – Please see respondent comments for a full explanation.
3. COMMERCE/OCFO	Agree – Please see respondent comments for a full explanation.
4. NASA/OCFO	Agree – Please see respondent comments for a full explanation.
5. DOD/OCFO	Agree – Please see respondent comments for a full explanation.
6. GWSCPA	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."
7. ENERGY/OCFO	Agree – Please see respondent comments for a full explanation.
8. DOL/OCFO	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.
9. DELOITTE	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

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	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.
10. HUD/OCFO	Agree – Please see respondent comments for a full explanation.
11. GSA/OCFO	We are not clear of the definition of "indirect production costs" (para 13, 14, 16, & 23). The SFFAS 6, para 26, focus on "indirect production costs" is not full costing as we understand the requirements promulgated by SFFAS 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

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	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 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 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.
12. DOI/OCFO	Agree – Please see respondent comments for a full explanation.
13. INTEL COMMUNITY	**DIA Response:** I agree with the statement "cannot 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.

Table 3.0 – Summary of Responses by Question

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.	
	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.
14. DOJ/OCFO	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.
15. KPMG	KPMG did not provide comments on the specific questions posed by the ED. Please refer to the “Other Comments” section below.

Table 3.0 – Summary of Responses by Question

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.**	
1. SSA/OCFO	Agree – Please see respondent comments for a full explanation.
2. VSCPA	Agree – Please see respondent comments for a full explanation.
3. COMMERCE/OCFO	Agree – Please see respondent comments for a full explanation.
4. NASA/OCFO	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.
5. DOD/OCFO	Agree – Please see respondent comments for a full explanation.
6. GWSCPA	Agree – Please see respondent comments for a full explanation.
7. ENERGY/OCFO	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.
8. DOL/OCFO	Agree – Please see respondent comments for a full explanation.

Table 3.0 – Summary of Responses by Question

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.**	
9. DELOITTE	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.
10. HUD/OCFO	Agree – Please see respondent comments for a full explanation.
11. GSA/OCFO	Agree – Please see respondent comments for a full explanation.
12. DOI/OCFO	Agree – Please see respondent comments for a full explanation.
13. INTEL COMMUNITY	**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. **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

Table 3.0 – Summary of Responses by Question

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.**	
	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.
14. DOJ/OCFO	Agree – Please see respondent comments for a full explanation.
15. KPMG	KPMG did not provide comments on the specific questions posed by the ED. Please refer to the "Other Comments" section below.

Table 3.0 – Summary of Responses by Question

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.	
1. SSA/OCFO	Agree – Please see respondent comments for a full explanation.
2. VSCPA	Agree – Please see respondent comments for a full explanation.
3. COMMERCE/OCFO	Agree – Please see respondent comments for a full explanation.
4. NASA/OCFO	Agree – Please see respondent comments for a full explanation.
5. DOD/OCFO	Agree – Please see respondent comments for a full explanation.
6. GWSCPA	Agree – Please see respondent comments for a full explanation.
7. ENERGY/OCFO	Agree – Please see respondent comments for a full explanation.
8. DOL/OCFO	Agree – Please see respondent comments for a full explanation.
9. DELOITTE	Agree – Please see respondent comments for a full explanation.
10. HUD/OCFO	Agree – Please see respondent comments for a full explanation.
11. GSA/OCFO	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.
12. DOI/OCFO	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

Table 3.0 – Summary of Responses by Question

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.	
	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.
13. INTEL COMMUNITY	Agree – Please see respondent comments for a full explanation.
14. DOJ/OCFO	Agree – Please see respondent comments for a full explanation.
15. KPMG	KPMG did not provide comments on the specific questions posed by the ED. Please refer to the "Other Comments" section below.

Table 3.0 – Summary of Responses by Question

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.	
1. SSA/OCFO	Agree – Please see respondent comments for a full explanation.
2. VSCPA	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.
3. COMMERCE/OCFO	Agree – Please see respondent comments for a full explanation.
4. NASA/OCFO	Agree – Please see respondent comments for a full explanation.
5. DOD/OCFO	Agree – Please see respondent comments for a full explanation.
6. GWSCPA	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

Table 3.0 – Summary of Responses by Question

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.	
	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.
7. ENERGY/OCFO	Agree – Please see respondent comments for a full explanation.
8. DOL/OCFO	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.
9. DELOITTE	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.
10. HUD/OCFO	Agree – Please see respondent comments for a full explanation.
11. GSA/OCFO	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".
12. DOI/OCFO	Agree – Please see respondent comments for a full explanation.
13. INTEL COMMUNITY	**DIA Response:** Generally agree. As pointed out in #3 above, the economic 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? **ODNI/FMD Response:** In the Decision Framework Flowchart, ODNI recommends reversing the

Table 3.0 – Summary of Responses by Question

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.	
	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".
14. DOJ/OCFO	Agree – Please see respondent comments for a full explanation.
15. KPMG	KPMG did not provide comments on the specific questions posed by the ED. Please refer to the "Other Comments" section below.

Table 3.0 – Summary of Responses by Question

Other Comments	
6. GWSCPA	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.
9. DELOITTE	This appendix contains our suggested editorial changes to the proposed Statement. (Added text is <u>underlined</u> 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.~~

Table 3.0 – Summary of Responses by Question

Other Comments	
	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

Other Comments	
	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)

Table 3.0 – Summary of Responses by Question

Other Comments	
	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)
12. DOI/OCFO	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?
15. KPMG	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) 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 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 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 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

Table 3.0 – Summary of Responses by Question

Other Comments	
	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 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 4, paragraph 124 for guidance related to the assignment/allocation of indirect production costs. It should be noted that paragraph

Table 3.0 – Summary of Responses by Question

Other Comments	
	124 of SFFAS 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 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 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 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 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:

Table 3.0 – Summary of Responses by Question

Other 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 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 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 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

Table 3.0 – Summary of Responses by Question

Other Comments	
	leadership within the named agency.

Table 4.0 – Analysis of Respondent Suggestions and Concerns

Table 4.0 – Analysis of Respondent Suggestions and Concerns [4]

Respondent Number	Respondent Suggestions and Concerns	STAFF ANALYSIS & RECOMMENDATION
2. VSCPA	**Addressing Question 3:** "We agree…" However, we believe that the Implementation Guide should emphasize the need for management to document decisions made using these principles and reevaluate the decisions periodically to ensure that circumstances requiring changes to them have not occurred.	**Response to Question 3:** Agree. We believe that by reiterating the three points below we have an opportunity to further strengthen the *Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation* exposure draft (referred to as *Exposure Draft* for the remainder of the "Staff Analysis & Recommendation" section). . When applying the principles listed above, management should develop formalized policies and procedures documenting its decisions. Such decisions should be based on an understanding of the entity's mission and operating model and how the entity's stakeholders use the information. **Response to Question 8:** We reviewed the *Appendix C: Decision Framework Flowchart* and identified opportunities to strengthen the presentation. We will reflect those changes in the next iteration of the *Exposure Draft*.

[4] In some cases the staff's summary takes excerpts from each respondents reply and as such, is not intended to substitute for a complete reading of the individual letters.

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	Addressing Question 8: 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.	
4. NASA	**Addressing Question 6:** The Implementation Guidance can be enhanced by providing an example of unassigned costs as it relates to G-PP&E.	**Response to Question 6:** SFFAS 4 limits its explanation of "unassigned costs" to "general management and administrative support costs…" Providing specific examples of unassigned costs as it relates to G-PP&E would equate to expanding on the provisions of SFFAS 4. Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.
6. GWSCPA, FISC	**Addressing Question 1:** 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) 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*	**Responding to Question 1:** We disagree with this comment. The *Exposure Draft* does not introduce additional risk of lack of comparability. Some risk of lack of comparability is **inherent** because GAAP is applied by members of the federal financial management community using judgment in varying operating environments. GAAP must be applied to the

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	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 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.	facts and circumstances at each entity. This ED provides a framework for considering management information needs which may differ for substantive reasons. Paragraphs 8 and 11 in the "Background" of the *Exposure Draft* reiterates the importance of designing management's cost accounting policies and procedures in manner consistent with GAAP – including comparability which is one of the SFFAC 1 qualitative characteristics of financial reporting. Additionally, footnote 2 in *Appendix B: Illustrations* is a reference to SFFAC 1 pertaining to comparability. While we believe that the *Exposure Draft* sufficiently underscores the importance of comparability, we have identified an opportunity (at the end of paragraph 2) to more prominently reference SFFAC 1 Regarding materiality, as previously stated, AAPC Technical Releases are predicated on existing FASAB concepts and standards. Those concepts and standards incorporate an element of materiality. Specifically, SFFAC 1 when describing "Reliability" as a qualitative characteristic of financial reporting states the following: "Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions, nor should anything be included that would likely cause the information to be misleading to the

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		intended report user." The *Exposure Draft* does nothing to undermine that concept.
	Addressing Question 3: 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.	**Responding to Question 3:** We disagree with this comment. However, we have identified opportunities to strengthen this section by doing the following: 1) Draw a stronger correlation between the three principles in paragraph 10 and the relevance and reliability qualitative characteristics of financial reporting as described in SFFAC 1. Incorporate the following language: When applying the principles listed above, management should develop formalized policies and procedures documenting its decisions. Such decisions should be based on an understanding of the entity's mission and operating model and how the entity's stakeholders use the information. **Responding to Question 5:** We believe that the *Exposure Draft*, in its current form, sufficiently addresses this suggestion. **Responding to Question 8:**

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	Addressing Question 5: 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." **Addressing Question 8:** 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).	**a.** The Decision Framework Flowchart included in the *Exposure Draft* reflects this concept. **b.** Scope paragraph changed to give a clearer sense of what is not covered. **c.** SFFAS 4, paragraph 92: "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." **Responding to Other Comment 1:** The scope placement in this *Exposure Draft* is

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	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.	consistent with other AAPC TRs. **Responding to Other Comment 2:** The title, Appendix *B: Illustrations*, indicates that the information is provided for illustrative purposes. However, we have identified an opportunity to further state this point. **Responding to Other Comment 3:** **a)** Agree that we can change it to "which allows the NRO to procure" **b)** Disagree. It is correct as written. **c)** Agree.
7. DOE	**Addressing Question 3:** A key aspect of making information for	**Responding to Question 3:** Noted. We do

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	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. **Addressing Question 4:** 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. **Addressing Question 6:** 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.	not believe that the timeliness qualitative characteristic of financial reporting is relevant factor to the subject of the *Exposure Draft*. **Responding to Question 4:** Paragraph 15 specifically talks about "… the direct costs of inspection, supervision, and administration of construction contracts…" The excerpt is a direct reference to SFFAS 6. **Responding to Question 6:** Disagree. These pertain to two different things. As seen below, paragraph 16 refers to indirect costs that were **<u>not identified</u>** as costs incurred to "bring the G-PP&E to a form and location suitable for its intended use" and paragraph 22 is talking about differences in both methodologies and levels of allocation **<u>after</u>** being identified as costs incurred to "bring the G-PP&E to a form and location suitable for its intended use" : Paragraph 16 reads, "If the accumulated **<u>indirect costs are not identified as costs incurred to "bring the G-PP&E to a form and location suitable for its intended use"</u>** (for example, administrative overheads that do not contribute to bring the G-PP&E to a form and location suitable for its intended use), then the costs should be expensed. Paragraph 22 reads: "When entities are

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		allocating general management and administrative support costs to G-PP&E, there will be differences in both methodologies and levels of allocation."
8. DOL	**Addressing Question 2:** 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." **Addressing Question 3:** 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.	**Responding to Question 2:** Noted. We do not see the value of the adding the suggested word. **Responding to Question 3:** We have identified opportunities to strengthen this section by doing the following: 1) Draw a stronger correlation between the three principles in paragraph 10 and the relevance and reliability qualitative characteristics of financial reporting as described in SFFAC 1. When applying the principles listed above, management should develop formalized policies and procedures documenting its decisions. Such decisions should be based on an understanding of the entity's mission and operating model and how the entity's stakeholders use the information.

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		Responding to Question 5: Agree. We should add the following to paragraph 16: "Note also that if the item(s) of G-PP&E do not (or will not) meet the entity's capitalization criteria (e.g., capitalization threshold) then indirect costs are not a consideration.
	Addressing Question 5: 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. **Addressing Question 8:** 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.	**Responding to Question 8:** We can add a decision point in a manner similar to the left side of the chart.
9. Deloitte	**Addressing Question 1:** 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. **Addressing Question 2:** 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	**Responding to Question 1:** While we believe that the *Exposure Draft* sufficiently underscores the importance of comparability, we have identified an opportunity (at the end of paragraph 2) to more prominently reference and quote SFFAC 1 **Responding to Question 2:** Noted.

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	paragraph. The Board may also refer to 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. **Addressing Question 3:** 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 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	**Responding to Question 3:** We have identified opportunities to strengthen this section by doing the following: 1) Draw a stronger correlation between the three principles in paragraph 10 and the relevance and reliability qualitative characteristics of financial reporting as described in SFFAC 1. When applying the principles listed above, management should develop formalized policies and procedures documenting its decisions. Such decisions should be based on an understanding of the entity's mission and operating model and how the entity's stakeholders use the information. a.

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	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." **Addressing Question 5:** 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	**Responding to Question 5:** Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.

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	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. **Addressing Question 6:** 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	**Responding to Question 6:** Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.

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	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. **Addressing Question 8:** 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. **Other Comments:** Suggested editorial changes to the proposed Statement. (Added text is <u>underlined</u> and deleted text is ~~struck out~~.) **Paragraph 10**	**Responding to Question 8:** Noted. This is an underlying theme of the *Exposure Draft*. Entity management is responsible for establishing and supporting policies and procedures to account for the types of costs discussed in this respondent's suggestions. **Paragraph 10:** Noted. We have identified opportunities to strengthen this section by doing the following: 1) Draw a stronger correlation between the three principles in paragraph 10 and the relevance and reliability qualitative characteristics of financial reporting as described in SFFAC 1. When applying the principles listed above, management should develop formalized

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	~~10. The following three principles may be used by management to determine their stakeholder's financial management information needs:~~ ~~d) Relevance/usefulness of information (both to internal and external stakeholders);~~ ~~e) Level of precision (e.g., materiality) needed to properly manage and report costs; and~~ ~~f) 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: d) 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) e) Reliability (e.g., nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions) f) 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	policies and procedures documenting its decisions. Such decisions should be based on an understanding of the entity's mission and operating model and how the entity's stakeholders use the information.

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	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: d) Relevance/usefulness of information (both to internal and external stakeholders); e) Level of precision (e.g., materiality) needed to properly manage and report costs; and f) 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 –** Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.
	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	**Paragraph 22** – Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.

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	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	**Appendix C: Decision Framework Flowchart** – We reviewed the *Appendix C: Decision Framework Flowchart* and identified opportunities to strengthen the presentation. We will reflect those changes in the next iteration of the *Exposure Draft*. Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.

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	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)	
11. GSA	**Addressing Question 1:** 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. **Addressing Question 2:** We suggest that FASAB clearly define the term "very granular". We are concerned with a reader's interpretation of this example.	**Responding to Question 1:** Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases. **Responding to Question 2:** The Exposure Draft is purposefully consistent with the flexibility afforded to management through

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	Addressing Question 5: We are not clear of the definition of "indirect production costs" (para 13, 14, 16, & 23). The SFFAS 6, para 26, focus on “indirect production costs” is not full costing as we understand the requirements promulgated by SFFAS 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 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 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	FASAB concepts and principles. **Responding to Question 5:** Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.

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	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.	
	Addressing Question 7: 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.	**Responding to Question 7:** Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.
	Addressing Question 8: 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".	**Responding to Question 8:** Disagree. If the indirect costs were 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 then they would assign the costs to the items they produce by the three options from SFFAS 4, paragraph 124. However, we reviewed the *Appendix C: Decision Framework Flowchart* and identified opportunities to strengthen the presentation. We will reflect those changes in the next

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		iteration of the *Exposure Draft*.
12. DOI	**Addressing Question 7:** 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. **Other Comments:** 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?	**Responding to Question 7:** This is an example of non-production costs. The costs specified in the example are extraordinary and irregular and would create significant variances in the usability of cost information for activities that are unrelated to the outputs/activities of the organization, if capitalized. Capitalizing such costs is not consistent with existing FASAB concepts and principles. See example added to paragraph. **Responding to Other Comment:** However, we reviewed the *Appendix C: Decision Framework Flowchart* and identified opportunities to strengthen the presentation. We will reflect those changes in the next iteration of the *Exposure Draft*.
13. INTEL COMMUNITY	**Addressing Question 1:** 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, an entity purchases equipment that is assembled and installed under separate contracts and shipped to the	**Responding to Question 1:** SFFAS 6 does not explicitly state that all cost elements listing in paragraph 26 must be captured, if applicable, regardless of feasibility. Paragraph 142 of SFFAS 4 states that, "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."

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	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.	
	Addressing Question 2: 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. **<u>However, recommend that the wording in the paragraph be changed in align with and further emphasize the intent of SFFAS 4.</u>** **<u>Paragraph 9 should read as follows "The decision framework discussed in 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. appropriated funds, revolving fund, user fee, etc.) significantly impact the types of and level of cost detail required to be allocated for the intended purpose. ....."</u>** The rationale for this change is that SFFAS 4 would not come into play unless an asset is being produce as an output and indirect cost have to be applied.	**Responding to Question 2:** Noted. Note that SFFAS 6 does not establish different requirements based on funding source.
	Addressing Question 4: a. 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. b. Agree with how direct costs are characterized. Suggest breaking out labor into civilian government and military labor	**Responding to Question 4:** a. **Noted.** The Exposure Draft's reference to SFFAS 4, paragraph 92 provides macro-level examples "A reporting entity and its responsibility

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	buckets. c. 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. **Addressing Question 5:** a. I agree with the statement "cannot 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. b. 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. c. 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	segments may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs." b. Noted. This is too specific for the intent of the TR. c. Noted. We believe that the Exposure Draft sufficiently addresses the respondent's suggestion. **Responding to Question 5:** a. Noted. The Exposure Draft's reference to SFFAS 4, paragraph 92 provides macro-level examples "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." b. Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases. c. Noted. We believe that the Exposure

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	output only. **Addressing Question 6:** a. 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. b. 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	Draft sufficiently addresses the respondent's suggestion. **Responding to Question 6:** a. Noted. b. This quote is included to answer the question. The fact that SFFAS 4 is authoritative guidance bolsters the answer. Expanding on the provisions of FASAB concepts and standards exceeds the purpose, intent, and authority of AAPC Technical Releases.

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	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. **Addressing Question 8:** a. Generally agree. As pointed out in #3 above, the economic 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? b. 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	**Responding to Question 8:** a. Both of these statements are explicitly identified in the decision tree. i. The economic feasibility of capturing these costs and the usefulness of the information is included in the bottom right box. ii. The decision framework clearly shows (middle left box) when you would decide whether the item meets the capitalization threshold. b. However, we reviewed the *Appendix C: Decision Framework Flowchart* and identified opportunities to strengthen the presentation. We will reflect those changes in the next iteration of the *Exposure Draft*. This

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	threshold? c. 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. d. Suggest adding 'Start' and 'End' boxes to the chart. e. In the first decision box, where it states "Are the costs indirect costs that cannot be ...." The word "cannot" should be changed to "can" The sentence as it is makes it a negative statement making the decision a "no".	response applies to "b-e" in the "Respondent Suggestions and Concerns" column.
14. DOJ	**Addressing Question 5:** Some examples in the paragraph would help with explaining this concept.	**Responding to Question 5:** Agree. It would be useful to provide specific examples to help reinforce users' understanding in regards to a particular topic.
15. KPMG	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	**Responding to Question 1:** Noted. Please refer to the Introduction and Background sections of the *Exposure Draft*. We believe the scope of the TR is broader than what KPMG is suggesting.

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	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 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.	**Responding to Question 2:** Noted. The full context of the guidance is necessary in this instance.
	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).	**Responding to Question 3:** Noted. We reviewed the *Appendix C: Decision Framework Flowchart* and identified opportunities to strengthen the presentation. We will reflect those changes in the next iteration of the *Exposure Draft*

Table 4.0 – Analysis of Respondent Suggestions and Concerns

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	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 4, paragraph 124 for guidance related to the assignment/allocation of indirect production costs. It should be noted that paragraph 124 of SFFAS 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 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.	**Responding to Question 4:** Disagree with the respondent's interpretation of the guidance as written. However, reviewed the *Appendix C: Decision Framework Flowchart* and identified opportunities to strengthen the presentation. We will reflect those changes in the next iteration of the *Exposure Draft*.
	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.	**Responding to Question 5:** Noted. *Appendix B: Illustrations* provides useful context to entity management and the broader federal financial management community. The title, Appendix *B: Illustrations*, indicates that the information is provided for illustrative purposes. However, we have identified an opportunity to further state this point.
	6. Based upon the steps noted through items 3 and 4 above, Appendix C (Decision Framework Flowchart) should be adjusted as follows:	

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	a. The first decision point should be – do the costs meet the criteria for capitalization in accordance with SFFAS 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 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 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	**Responding to Question 6:** The *Exposure Draft* addresses each of these points from a broader perspective. **Responding to Question 7:** Noted. **Responding to Question 1:** Noted. The *Exposure Draft* includes references to each SFFAS, with the exception of SSFAS 10, that specifically apply to PP&E. **Responding to Question 2:** Noted. We intentionally excluded IUS. FASAB may consider IUS as the subject of a future FASAB AAPC Technical Release.

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	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 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 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.	**Responding to Question 3:** Disagree. This Technical Release does relate to other aspects of SFFAS 6, including recognition of direct costs related to G-PP&E (i.e. paragraph 15). **Responding to Question 4:** Noted. We have identified opportunities to strengthen this section by doing the following: 1) Draw a stronger correlation between the three principles in paragraph 10 and the relevance and reliability qualitative characteristics of financial reporting as described in SFFAC 1. When applying the principles listed above, management should develop formalized policies and procedures documenting its decisions. Such decisions should be based on an understanding of the entity's mission and operating model and how the entity's stakeholders use the information. This TR is implementation guidance, not a

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		new standard. Relevance, materiality, and cost-benefit are not new concepts to FASAB guidance. **Responding to Question 5:** Disagree. Paragraphs 8 and 11 in the "Background" of the *Exposure Draft* reiterates the importance of designing management's cost accounting policies and procedures in manner consistent with GAAP As previously stated, AAPC Technical Releases are predicated on existing FASAB concepts and standards. The *Exposure Draft* does nothing to undermine that concept.
	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 6 and as a result should be removed from paragraph 2.	**Responding to Question 6:** Noted. *Appendix B: Illustrations* provides useful context to entity management and the broader federal financial management community. The title, Appendix *B: Illustrations*, indicates that the information is provided for illustrative purposes. However, we have identified an opportunity to further state this point.
	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	Regarding "approval of the summarized accounting policies/procedures", please review paragraph 7 of the *Exposure Draft*. Paragraph 7 references the "AAPC G-PP&E Cost Accounting Issue (CAI) subgroup and further explains the group's objectives. The page immediately following *Appendix E: Abbreviations* lists CAI subgroup member agencies. Please note that each of the

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	policies/procedures from appropriate senior accounting leadership within the named agency.	agencies represented in *Appendix B: Illustrations* is also listed as a "task force member agency." The representatives from each of those agencies worked with the appropriate senior accounting leaders and provided the information used in the *Exposure Draft*.

Table 5.0 – Respondents

Table 5.0 - Respondents

Name		Organization	Category
1	Carla Krabbe	Social Security Administration	Federal - Preparer
2	Mike Wagner	Virginia Society of CPAs (VSCPA)	Non-Federal - Other
3	Gordon Alston	Department of Commerce	Federal - Preparer
4	Pamela D. Hanes	National Aeronautics and Space Administration	Federal - Preparer
5	Donjette L. Gilmore	Department of Defense	Federal - Preparer
6	Andrew Lewis	Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC)	Non-Federal - Other
7	Alison L. Doone	Department of Energy	Federal - Preparer
8	Karen Tekleberhan	Department of Labor	Federal - Preparer
9	Timothy Mainguy	Deloitte & Touche LLP	Non-Federal - Auditor
10	Chris Bergin	Department of Housing and Urban Development	Federal - Preparer
11	Erik Dorman	General Services Administration	Federal - Preparer
12	Paul McEnrue	Department of the Interior	Federal - Preparer

Table 5.0 – Respondents

Name		Organization	Category
13	Katherine Reed	Office of Director of National Intelligence (ODNI)	Federal - Preparer
14	Valerie Grant	Department of Justice	Federal - Preparer
15	KPMG LLP	KPMG LLP	Non-Federal - Auditor