



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of the Secretary
Washington, DC 20201

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

Dear Ms. Payne:

The Department of Health and Human Services (HHS) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's Exposure Draft: *Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials*.

The Board requested comments on the following question:

- Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, *Accounting for Inventory and Related Property*.

Do you agree or disagree with the proposed standards? Please provide your rationale.

Response

HHS agrees with the proposed standard. HHS has been preparing financial statements and reporting inventory, operating materials and supplies and stockpile materials based on historical cost for almost 18 years. However, Department of Defense and other agencies who are not currently preparing financial statements following GAAP may not have historical records available for use in establishing opening balances for the first period of reporting in compliance with GAAP. The concept of "deemed cost" set forth in this standard allows them acceptable options for moving forward and gives a basis for auditors to accept the methodology used for the opening balance.

HHS agrees that this should be a one-time option. After establishing opening balances for the first reporting period with a GAAP assertion, all subsequent activity should comply with the established requirements in Statement of Federal Financial Accounting Standards (SFFAS) 3.

If you have any questions or would like additional information, please contact Yianting Lee, Director, Division of Financial Statements and Audit, at Yianting.Lee@hhs.gov (202-690-6441) or David Horn, Director, Financial Policy and Reporting, at David.Horn@hhs.gov (202-260-9658).

Sincerely,

A handwritten signature in black ink, appearing to read 'Sheila Conley', written in a cursive style.

Sheila Conley
Deputy Assistant Secretary, Finance and
Deputy Chief Financial Officer