

**From:** Bergin, Christopher C

**Sent:** Wednesday, May 01, 2013 4:46 PM

**To:** FASAB

**Cc:** Sidari, David P; Vaiana, Jerome A; Tucker, Gerald A; Guilford, William E; Moore, Scott

**Subject:** HUD's response to AAPC Request for Comments on Proposed Implementation Guidance On G-PP&E Cost Allocation

Hello,

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

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

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## Questions for Respondents

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

### U.S. Department of Housing and Urban Development

**All responses are requested by May 1, 2013**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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