

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

Dear FASAB Director,

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

--

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

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

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

Questions for Respondents

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

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

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

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

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

We agree the principles identified address the germane issues.

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

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

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

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

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

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

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

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

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

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