



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

May 2, 2013

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

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

Dear Ms. Payne:

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

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

Sincerely,

Paul McEnrue
Chief, Financial Reporting Division

Attachment

Department of the Interior (DOI)

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

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

A.

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

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

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

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

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

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

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

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

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

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

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

- Q6. Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.
- A. We agree with the reporting of indirect costs as unassigned costs on the Statement of Net Cost. These costs may not be traced and assigned to certain outputs, but they are still part of the organization's costs and need to be reported on financial statements. These costs could impact financial decisions and therefore should be reported regardless of whether or not they are traced, assigned or allocated to segments or their outputs. Each entity should determine its own level of detail and that unnecessary precision and refinement of data should be avoided. These general management and administrative support costs that cannot be traced or allocated to outputs should be reported as costs not assigned to programs.
- Q7. Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.
- A. We agree with the financial reporting of non-production costs as described in the Technical Release Exposure Draft. Since some events are rare it would be inappropriate to assign them to the production cost. Such isolated events distort the production cost of property, unless it is determined by management that the event is recurring. We feel the Implementation Guidance can be improved with an example or scenario that clarifies the statement, "For example, losses that arise from a natural disaster should not be attributed to G-PP&E acquisition costs even if the assets damaged are those being used to construct the G-PP&E." It is unclear what this statement is really indicating.
- Q8. Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework

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

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

General Comments on the ED

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