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Subject: Intelligence Community (IC) Comments - FASAB Implementation Guidance on General PP&E Cost Accumulation

Monica:

Attached for your consideration are the IC Comments on FASAB's "Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation". Please let me know if you have any questions.

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Intelligence Community (IC) Comments - FASAB Implementation Guidance on General PP&E Cost Accumulation

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.

NGA Response: Agree. Concept provides management with flexibility and to provide professional judgment/reasonable approach to allocate direct and indirect costs to G-PP&E in accordance with GAAP. It allows for the design of a cost accumulation structure based on an assessment/judgment of criteria such as the relevance/usefulness of the information in the entity's operating environment.

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 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, a 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.

NSA Response: Agree, based upon the mission of the Agency the level of detail may vary.

ODNI/FMD Response: ODNI agrees with the concept that the current accounting standards provide management with the responsibility and flexibility to design GAAP compliant policies and processes that align with it's operational environment. ODNI agrees with this rationale because one accounting standard setting body could not possibly provide standards at a detailed level that would provide for every accounting need for all agencies across the Federal Government. Therefore, it is imperative that standards are set at a high enough level so that individual agencies can implement the standards to accommodate the accounting requirements.

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.

NGA Response: Agree. Organizational mission and operating structure must be considered when accumulating and bucketing asset costs. For example, in a cost recovery environment

such as a working capital fund, it is important to capture, bucket and allocate asset depreciation according to the structure in place for recovering the costs.

DIA Response: Absolutely. The Exposure Draft paragraph A.7. accurately points out that financial management information needs vary by entity.

NSA Response: Agree, entity stakeholders may require more detailed data to be able to evaluate the effective use of funds.

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 with and further emphasize the intent of SFFAS 4. Paragraph 9 should read as follows "The decision framework discussed i 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 a asset is being produce as an output and indirect cost have to be applied.

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.

NGA Response: Agree. The three criteria must be considered since the accumulation of costs should reflect relevance to the stakeholders while considering the precision needed and associated cost/benefits of intricate/costly cost assignments.

DIA Response: I agree. All three of those principles need to be considered by management in deciding their and their stakeholders' information needs.

Each agency, when deciding on the specific costs that should be allocated to assets or other cost objects need to consider the total agency requirements to ensure consistency in application, level of precision needed and relevance/usefulness of information. If it is deemed relevant and useful to apply indirect costs to assets or other specific cost objects, care must be taken to ensure overhead is consistently applied across all agency assets or cost objects and that the agency is receiving a benefit and understands how to use the information for management decision making.

NSA Response: Agree, these three principles should be considered when determining informational needs.

ODNI/FMD Response: ODNI agrees with the use of the three principles identified in Paragraph 10 to determine their stakeholder's cost accumulation needs.

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.

NGA Response: Agree. Direct costs can be specifically attributed to an end-item (or component of G-PP&E) and bring the G-PPE to a form and location suitable for its intended use.

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.

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.

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.

NGA Response: Agree. Indirect costs that do not "bring the G-PP&E to a form and location suitable for its intended use" are not allocated to the G-PP&E.

DIA Response: I agree with the statement "can not 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.

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.

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.

NGA Response: Agree. Indirect costs that cannot be reasonably traced, assigned or allocated should not be assigned to a specific output. If the allocation is not reasonable/defendable then it does not add to the usefulness/relevance of the assignment.

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.

NSA Response: Agree, this relates to suggestion for Q5 – upper management costs would not be allocated to asset value.

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 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.

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.

NGA Response: Agree. The cost of certain items are not related to the production of good or service as the event driving the cost is unrelated to the end item.

DIA Response: I do not think that non-production costs should be captured in the value of G-PP&E. These costs may need to be captured for a BRAC decision or estimated for a cost-benefit analysis but I don't see the accounting logic in capitalizing them as part of a G-PP&E asset.

NSA Response: Agree, only costs that can be associated with the construction/purchase of an asset should be added to the value of the asset.

ODNI/FMD Response: ODNI concurs with the financial reporting treatment of non-production costs as described in Paragraph 24.

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.

NGA Response: Agree. The Framework provides flexibility developing a cost accumulation approach that complies with GAAP.

DIA Response: Generally agree. As pointed out in #3 above, the economical 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?

NSA Response: Agree, the flow easily depicts the questions and responses to drive to the proper treatment of costs.

ODNI/FMD Response: 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 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 costs 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".