

From: Krabbe, Carla

Sent: Thursday, April 11, 2013 1:48 PM

To: Payne, Wendolyn M; FASAB

Cc: Molander, Chris; Dushel, Annette; Kolb, Kristen; Boettiger, Dawn; Silvestri, Mark; Hull, Stephen; Long, Christopher; Conigliaro, Dana; Hild, Karen

Subject: RE: AAPC Seeks Comments on Proposed Implementation Guidance On G-PP&E Cost Allocation

Wendy,

Thank you for the opportunity to comment on the *Implementation Guidance on General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation* exposure draft. Our responses to the questions are in the attached Word document (SSA Response to Exposure Draft Implementation Guidance on G-PPE.doc).

Carla Krabbe

Deputy CFO

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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)

Responses 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.

SSA Response: We agree. The Standards allow us to establish accounting processes and procedures to ensure we are compliant with GAAP and our accounting methodology aligns with our entity's operational environment. Our goal is to produce valid financial information that provides measurable results. The cost accounting standards established in Statement of Federal Financial Accounting Standard (SFFAS) 4 provide management with the flexibility to "determine the appropriate detail for its cost accounting processes and procedures based on several factors" (SFFAS 4, paragraph 72) including materiality and cost constraints based upon the entity's operating environment and the informational needs of its stakeholders.

- 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.

SSA Response: We agree. In environments where cost recovery is essential to continued operations, an entity will place a higher value on tracking costs at a more precise level. Both our internal and external stakeholders are important to our agency and are entitled to relevant and reliable financial information that portray how we meet our mission and goals. Although different agencies have different missions and operational goals, each agency should be able to portray financial information in a way that reports the data accurately,

timely, and in a manner that addresses their stakeholders' (internal and external) needs.

- 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.

SSA Response: We agree that the three principles of relevance (is the data useful); level of precision (what is materiality base); and cost-benefit (does the benefit outweigh the costs) aid management in determining financial management informational needs of the stakeholders. As part of the decision-making process, these three principles provide initial building blocks upon which to base a decision on accumulating, allocating, capitalizing, and reporting costs of general property, plant, and equipment (G-PP&E). We believe it is important for management to select a materiality threshold that falls in line with the level of detail required by stakeholders for decision-making purposes, as long as the costing model provides information in an economically feasible way.

- 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.

SSA Response: We agree that "direct costs are costs that can be specifically identified with an item or items of G-PP&E." If the cost is "incurred to bring the G-PP&E to a form and location suitable for its intended use," per SFFAS 6, agencies should include direct costs as part of the G-PP&E items asset base.

- 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.

SSA Response: We agree. Indirect costs are costs that cannot be directly traceable to an activity, a product, a department or in this case, an asset. These costs, if "incurred to bring the G-PP&E to a form and location suitable for its intended use," per SFFAS 6, should be accumulated, assigned or allocated to the G-PP&E items asset base.

- 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.

SSA Response: We agree. Entities should treat costs that cannot be traced, assigned, or allocated to a G-PP&E item in an economically feasible way as an organizational cost, and expense these costs in the period incurred.

- 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.

SSA Response: We agree. Entities should not assign non-production costs to G-PP&E. If an entity incurs non-production costs (such as other post-employment benefit costs, reorganization costs, and non-recurring cleanup costs) typically such costs are for a particular event and are not incurred to “bring the G-PP&E to a form and location suitable for its intended use.” Entities should report non-production costs as a period expense and not costs related to output.

- 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.

SSA Response: We agree. The Decision Framework Flowchart provides users with a clear outline to use when developing entity specific costing policies and procedures in compliance with GAAP.