



**August 9, 2017**

Memorandum

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

Through: *Wendy M. Payne*  
Wendy M. Payne, Executive Director

Subj: **Pre-Ballot Exposure Draft- Amending Inter-entity Cost Provisions - Tab B1<sup>1</sup>**

MEMBER ACTIONS REQUESTED:

- Respond to staff question (p.2 ) by August 24<sup>th</sup>
- Prepare to approve staff recommendation or provide alternatives

**MEETING OBJECTIVES**

The objective of this session is to approve an exposure draft (ED), *Amending Inter-entity Cost Provisions* for issuance.

**BRIEFING MATERIAL**

The staff analysis is attached along with a question for the Board on page 2. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

**Attachment A-** Pre-ballot ED, *Amending Inter-entity Cost Provisions* (**Marked Version**)

**Attachment B-** Pre-ballot ED, *Amending Inter-entity Cost Provisions* (**Clean Version**)

**Attachment C-** Ballot form

**BACKGROUND**

As you may recall, at the June 2017 Board meeting, the Board considered a new request for guidance from the Department of Defense (DoD) regarding DoD intragovernmental transactions. Staff provided the Board with a “strawman draft” of an exposure draft (ED) that would have provided certain flexibilities to the DoD.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

After deliberation, the Board concluded additional work needed to be done and the provisions should not be limited to DoD. The Board agreed that if permitted, all the provisions should be applied government-wide. However, it would be best to handle each of the issues in separate, appropriate GAAP-level documents.

It was agreed that a draft ED addressing the first issue (inter-entity cost) would be shared with the Board members prior to the August Board meeting. This would enable the Board to move to a pre-ballot or ballot at the August meeting.

## **EXPOSURE DRAFT PROPOSED**

Staff provided the Board with a first draft ED, *Amending Inter-entity Cost Provisions* on July 20<sup>th</sup>, with comments due August 3<sup>rd</sup>. The draft accomplished the goals intended by revising SFFAS 4, *Managerial Cost Accounting Standards and Concepts* to provide for recognition of inter-entity costs by business-type activities and rescinding SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.

Staff received comments from four members and certain members noted that they did not have comments. Of the members providing comments, most were minor editorial suggestions. The most substantial changes to the document were additional paragraphs added to the basis for conclusions in response to a request from a member. While staff notes that this is more than editorial, it is in the basis for conclusion and offers more explanation to support the reason for the rescission and amendments.

## **NEXT STEPS**

Staff has included a ballot form with the binder materials. Considering the comments received from members on the previous draft were very minor, staff is optimistic the Board will be prepared to ballot. However, final determination will be based on the Board member comments received on the pre-ballot. Time is allotted on the second day for the Board to consider changes if warranted.

## **MEMBER FEEDBACK**

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-5976 or by e-mail at [batchelorm@fasab.gov](mailto:batchelorm@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

## **STAFF RECOMMENDATION**

**Staff recommends the Board move to a ballot and approve the ED. If necessary, agreed upon changes can be presented on Thursday. Do members have any open concerns or edits to raise before voting on the ED?**



Federal Accounting Standards Advisory Board

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# AMENDING INTER-ENTITY COST PROVISIONS

## Attachment A- MARKED VERSION

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by November 30, 2017,

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September 1, 2017,

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**Deleted:** Working Draft – Comments Are Not Requested on This Draft¶

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board," exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters](#), and other items of interest are posted on FASAB's website at: [www.fasab.gov](http://www.fasab.gov)

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### Contact us:

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441 G Street, NW, Suite 6814  
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Washington, DC 20548  
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[www.fasab.gov](http://www.fasab.gov)



Federal Accounting Standards Advisory Board

~~September 1, 2017,~~

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TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Amending Inter-entity Cost Provisions* are requested. Specific questions for your consideration appear on page 4, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose.

Responses are requested by ~~November 30, 2017,~~

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All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

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

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide one or more public hearings may be held on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Deleted: or A public hearing has been scheduled at 9:00 AM on Month Day, Year, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, D.C.¶

Sincerely,

D. Scott Showalter  
Chairman



## EXECUTIVE SUMMARY

### WHAT IS THE BOARD PROPOSING?

Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts* (including Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*), requires reporting entities to recognize the full costs of services received from other federal reporting entities even if there is no requirement to reimburse the providing reporting entity for the full cost of such services. Consideration of the Department of Defense's implementation challenges and the experiences of other federal reporting entities led the Federal Accounting Standards Advisory Board to reconsider the inter-entity cost provisions for all federal reporting entities.

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Information regarding full cost is essential for those reporting entities conducting business-type activities. However, it may not be essential for other reporting entities. For example, large, complex departments such as the Department of Defense have numerous sub-components that perform specialized functions to support other sub-components that are not distinct for performance purposes. Where the outcome of operations requires many sub-components to work together in a matrixed environment, relating cost to performance of each sub-component would be challenging.

In addition, component reporting entities that successfully implemented the inter-entity cost provisions of SFFAS 4 typically have shown a less than one percent increase in gross costs attributable to imputed costs other than those associated with personnel benefits and the Treasury Judgment Fund. Therefore, the proposal would revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind the following:

- a. SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*
- b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This proposal would facilitate reporting for large and complex organizations so that cost information aligns with their operations. For example, cost would be assigned to component reporting entities based on the complex decisions made by officials regarding funding flows, specialized functions (such as security or transportation), and managerial responsibilities (such as property management). Given the complex responsibilities and relationships among the components of large departments charged with missions such as national defense, this proposal would result in less costly financial reporting by aligning reporting with established funding and governance structures.

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This proposal would also reduce the barriers to and cost of adopting generally accepted accounting principles. The revisions would not alter existing requirements applicable to business-type activities.

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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## QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by **November 30, 2017**.

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Q1. The provisions of Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standard and Concepts*, as amended, require all reporting entities to recognize the full costs of services received from other federal reporting entities even if there is no requirement to reimburse the providing entity for the full cost.

Component reporting entities that have implemented the inter-entity cost provisions of SFFAS 4 typically show less than one percent increase in gross costs attributable to imputed costs other than those associated with personnel benefits and the Treasury Judgment Fund. The **proposal would revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities** and rescind the following:

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Comment [MB1]: Streamlined question

- a. SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*
- b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

**Do you agree or disagree? Please provide the rationale for your answer.**

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The proposal would not alter existing requirements applicable to business-type activities.¶

Q2. The Board is proposing that component reporting entities provide a concise statement describing significant services received for which no cost is recognized.

**Do you agree or disagree? Please provide the rationale for your answer.**

## PROPOSED STANDARDS

### SCOPE

1. This Statement applies when a reporting entity is presenting general purpose federal financial reports (GPFRRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### REVISING SFFAS 4, *MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS* AND RESCINDING SFFAS 30, *INTER-ENTITY COST IMPLEMENTATION: AMENDING SFFAS 4, MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS*

2. This paragraph rescinds SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, in its entirety. ~~In doing so, this~~ removes the broad requirement to recognize certain inter-entity costs.
3. With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. This paragraph revises paragraphs 110 and 111 of SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and other minor updates:

110. Implementation of this standard on inter-entity costing should be accomplished in a practical and consistent manner by the various federal entities. Therefore, the Office of Management and Budget, with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to recognize. ~~begin recognizing~~. OMB should then issue guidance identifying these costs. These particular inter-entity costs should be specified in accordance with this standard including the recognition criteria presented below. ~~The OMB should consider information and advice from Treasury, GAO, and other agencies in developing the implementation guidance. It is anticipated that the largest and most important inter-entity costs will be identified first. As entities gain experience in the application of the standard, recognition of other inter-entity costs may be specified in future guidance or required by future standards.~~

111. Ideally, all significant inter-entity costs should be recognized. This is especially important when those costs constitute inputs to government goods or services provided to non-federal entities for a fee or user charge. The fees and user charges should recover the full costs of those goods and services. [Footnote 33] Thus, the cost of inter-entity goods or services needs to be recognized by the receiving entity in order to determine fees or user charges for goods and services sold outside the federal government. Therefore, recognition of inter-entity costs

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supporting business-type activities<sup>33A</sup> Such recognition, however, should be made in accordance with the implementation guidance provided by FASAB through one or more technical releases, issued by OMB as discussed above.

[Footnote 33: OMB Circular A-25 addresses user charges by federal entities.]  
[Footnote 33A: Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue as defined in SFFAS 7, *Accounting for Revenue and Other Financing Sources*. (See also SFFAS 6, footnote 27.)]

## RESCISSION OF INTERPRETATION 6, ACCOUNTING FOR IMPUTED INTRA-DEPARTMENTAL COSTS: AN INTERPRETATION OF SFFAS NO. 4

4. This paragraph rescinds Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, in its entirety. As a result, wjth the exception of recognition by business-type activities, intra-departmental inter-entity costs would not be recognized.

## DISCLOSURE REQUIREMENTS

### COMPONENT REPORTING ENTITY DISCLOSURES

5. Component reporting entities should provide a concise statement describing significant services received for which no cost is recognized.

### EFFECTIVE DATE

6. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

The provisions of this Statement need not be applied to immaterial items.

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**Comment [MB2]:** Removed the proposed changes to Technical Release (TR) 8. The language that was included in previous draft for Board's reference. It will be proposed in a TR after this document is issued.

**Deleted:** AMENDMENT OF TECHNICAL RELEASE 8, CLARIFICATION OF STANDARDS RELATING TO INTER-ENTITY COSTS ¶

<#>This paragraph rescinds paragraphs 1-7 (including all section titles and sub-section titles within the introduction and background sections) of TR 8, *Clarification of Standards Relating to Inter-Entity Costs*. This will eliminate potentially confusing references to the rescinded SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* ¶

<#>This paragraph amends the technical guidance section of TR 8 by inserting the subheading "scope" with paragraph A directly under "technical guidance" as:¶

#### **Scope¶**

A. Reporting entities should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This Technical Release (TR) provides additional guidance to reporting entities that conduct business-type activities and must apply the inter-entity cost provisions of SFFAS 4, *Managerial Cost Accounting Standards and Concepts for the Federal Government*, as amended.¶

<#>This paragraph further amends the technical guidance in TR 8 by inserting the subheading "effective date" with the following paragraph B directly under the scope section (added in paragraph 6 above) as follows:¶

#### **Effective Date¶**

B. This TR is effective upon issuance.¶  
<#>This paragraph amends TR 8, paragraph 12, by revising the last sentence as follows: "Guidance may clarify the following comments provided by respondents from the SFFAS 30 exposure draft."¶

## APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

### PROJECT HISTORY

#### *Department of Defense Implementation Guidance Request Project*

- A1. In 2014, the Department of Defense (DoD) requested the Federal Accounting Standards Advisory Board's (FASAB or "the Board") consideration of a project after identifying several financial reporting areas of concern and related audit challenges. The Board agreed to undertake a project to address these areas by providing practical guidance within the framework of existing accounting standards and, where necessary, by providing the appropriate guidance to address issues not addressed within the framework of existing accounting standards.
- A2. This Statement is issued in response to DoD's request for guidance related to certain intragovernmental transactions—including transactions and balances among DoD components—that DoD performs throughout execution of its mission that cannot be addressed effectively within the framework of existing accounting standards.
- A3. While DoD continues its efforts to comply with the Chief Financial Officers Act of 1990 (as amended), it has noted certain challenges in satisfying existing standards. SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, is one such existing Statement. Through its goals to associate costs with the related operating activities, SFFAS 4 creates special challenges to a large, complex and matrixed organization such as DoD.
- A4. There are many complex relationships among the components of DoD, such as the military services, as well as between DoD and other related departments, such as the U.S. Coast Guard. Many specialized components provide services to other components of DoD. Generally, the DoD operates in a matrixed environment. It shares resources such as employees and assets across sub-components having different functional disciplines to accomplish a given assignment or mission without removing them from the sub-component. Because of the extensive sharing of resources, implementing the inter-entity costing requirements would be more challenging and costly at DoD than at other departments.

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**Deleted:** That association may differ from the legal associations established by elected officials through laws establishing budgetary and management practices.

**Comment [WP3]:** These sentences and the new paragraph following A5 were added to enhance readers understanding of the matrixed environment at DoD. The initial example in A5 was a simple and clear example but did not convey the extent of resource sharing within DoD.

A5. For example, the Defense Security Service's (DSS) mission includes a variety of security functions for DoD. While it may be obvious that the security functions are for the benefit of all DoD reporting entities, Congress appropriates the funding to DSS and the cost is primarily (but not always) paid by DSS. Financial accounting requirements seek to associate the costs of security functions with the activities that benefit from them. For example, the military services request security services but may not be required by law or management practices to fund those security services. Under existing accounting standards, the cost of services would be associated with each military service through an imputed cost. However, given the complexity of DoD's components and operations, it may not be cost effective to impute costs for such services. In addition, the benefit of doing so may be reduced at DoD in comparison to other federal departments and agencies due to the challenge of identifying outputs and associating outputs with a single reporting entity.

A6. Further, today's command structure makes full cost information by military service less relevant. The DoD operates with "unified combatant commands" charged with executing military operations in different parts of the world and combining the capabilities of two or more military services. A Combatant Command (COCOM) is a military command with broad continuing missions under a single commander and composed of significant assigned components of two or more military departments. There are currently nine Combatant Commands. The COCOMs, and by extension their commanders, have responsibility for the military's operations in their respective area of responsibility during both peacetime and war. There are six regionally focused COCOMs, which operate in clearly delineated areas of operation and have a distinctive regional military focus. There are also three "functional" COCOMs, which operate worldwide across geographic boundaries and provide unique capabilities to geographic combatant commands and the services.<sup>1</sup>

#### Existing Generally Accepted Accounting Principles History

A7. FASAB issued SFFAS 4 in July of 1995, and it became effective in fiscal year (FY) 1998. However, the requirement for imputing inter-entity costs that are not reimbursed or are under-reimbursed was not immediately effective in FY1998. The Board explained this in the SFFAS 4 basis for conclusions as follows:

248. As discussed above, the Board realizes that there may be problems in implementing the standard on inter-entity costing. Recognition of non-reimbursed or under-reimbursed inter-entity costs is a new concept to federal entities and involves a new way of thinking about costs. There is concern that application of the standard may be inconsistent among federal entities. In addition, there could be problems, particularly at first, in developing estimates of costs; in revising accounting systems and procedures to accommodate these requirements; and in training personnel to accomplish the task. Furthermore, the Board recognizes the

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<sup>1</sup> Defense Primer: Commanding U.S. Military Operations, Congressional Research Service, December 13, 2016 (IF10542).

concern that some have about the elimination of inter-entity cost transactions for consolidated reporting since the accounting procedures may be complicated.

249. As a result of these problems and concerns, the Board has expressed the need to take a measured, step-by-step, practical approach to implementation of this standard. Therefore, the Board has decided that, in implementing the standard, it recommends that OMB, with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to begin recognizing and OMB should then issue guidance identifying those costs. OMB should consider the requirements of the standard including the recognition criteria in developing the guidance and it should also consider suggestions and information provided by Treasury, GAO, and other agencies. The Board anticipates the largest and most important inter-entity costs will be identified first, followed by others as entities gain experience in the application of the standard. This approach is seen as a practical way to ensure uniformity in the application and implementation of the standard and to provide time and experience in overcoming any other practical problems which may arise. Also, the Board may recommend specific inter-entity costs for recognition in possible future recommended standards.

- A8. In April 2003, the Board issued Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4*, requiring implementation of inter-entity costing for costs between reporting entities that are part of the same department of a larger reporting entity. The requirement was effective for FY 2005.
- A9. In August 2005, the Board issued SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, requiring full implementation of the inter-entity cost provision in FY 2009. SFFAS 30 followed extensive research on inter-entity costs by an Accounting and Auditing Policy Committee (AAPC) task force. The results were described in the *Report of the AAPC Inter-Entity Costs Task Force* as follows:

The AAPC Inter-entity Cost Task Force (task force) was formed and initial research was conducted beginning in July 2000. The task force reported its research findings and recommendations to the AAPC at its May 2003 meeting. The task force noted that the current limitation in recognizing inter-entity costs was an impediment to progress towards full costing. The task force did not recommend changes to the current limitations in the application of SFFAS 4 inter-entity costs provisions. However, the task force did not find material non-reimbursed or under-reimbursed inter-entity costs for which government-wide guidance was warranted. The task force report is available on the AAPC website at <http://files.fasab.gov/pdf/files/aapciectfreport.pdf>.

- A10. As provided in paragraphs 28-30 of the basis for conclusions in SFFAS 30, half the respondents disagreed with SFFAS 30:

28. Approximately one-half of the respondents agreed with the Board's proposal that the inter-entity cost provisions of SFFAS 4 should be fully implemented. In other words, approximately one-half of the respondents disagreed with the

Board's proposal and agreed with the alternative view proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis.

29. Approximately one-half of the respondents believed that there were non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS 4. Additionally, a majority of respondents believed that federal entities would seek additional reimbursable agreements or modify existing agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized.

30. Approximately one-half of the respondents believed that additional guidance was needed to apply the factors in determining whether an inter-entity cost is material to the receiving entity and that additional guidance was needed to apply the broad and general support exception.

A11. In summary, in its due process of SFFAS 30, the Board determined the main concerns identified by respondents included (1) the lack of implementation guidance and (2) costs not being recognized consistently across agencies. These concerns also supported the task force findings. Therefore, the Board determined that there was a need for additional guidance, which led to the development of TR 8, *Clarification of Standards Relating to Inter-Entity Costs*. The Board believed the standards, along with the issuance of TR 8, balanced the concerns expressed by the task force and the ultimate goals of SFFAS 4. The majority of the Board determined SFFAS 30 was essential to attain the full cost accounting envisioned by SFFAS 4.

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#### Current SFFAS 4 Imputed Costs

A12. The goal of SFFAS 4 to identify full cost is critical to improving performance measurement. This Board understands the previous Board's reasons for issuing SFFAS 30 because paragraphs 34-36 of SFFAS 4 explain the following:

34. Measuring performance is a means of improving program efficiency, effectiveness, and program results. One of the stated purposes of the GPRA of 1993 is to "...improve the confidence of the American people in the capability of the federal government, by systematically holding federal agencies accountable for achieving program results."

35. *Measuring costs is an integral part of measuring performance in terms of efficiency and cost-effectiveness.* Efficiency is measured by relating outputs to inputs. It is often expressed by the cost per unit of output. While effectiveness in itself is measured by the outcome or the degree to which a predetermined objective is met, it is commonly combined with cost information to show "cost-effectiveness." Thus, the service efforts and accomplishments of a government entity can be evaluated with the following measures:

(1) Measures of service efforts which include the costs of resources used to provide the services and non-financial measures;

(2) Measures of accomplishments which are outputs (the quantity of services provided) and outcomes (the results of those services); and

(3) Measures that relate efforts to accomplishments, such as cost per unit of output or cost-effectiveness. (emphasis added)

36. Thus ... performance measurement requires both financial and non-financial measures. *Cost is a necessary element for performance measurement, but is not the only element.* (emphasis added)

A13. Currently, the inter-entity cost provisions have been implemented as envisioned by most agencies. However, the effect of inter-entity costs other than those associated with personnel benefits and Treasury Judgment Fund activities has been significantly less than one percent of gross costs at most agencies, calling into question the cost benefit of the original standard. Additional feedback was received about imputed costs from representatives of the largest agencies at roundtables on streamlining financial reporting. The comments were consistent with the results that imputed costs are often immaterial at the departmental level.

Deleted: At this time

Comment [MB4]: Provides additional explanation regarding feedback in making decision

A14. In addition, ongoing implementation efforts at DoD are expected to be very costly given the complex operating relationships among the sub-components of DoD. This additional cost led to the Board's reconsideration of the requirements contained within SFFAS 4 and SFFAS 30.

A15. Board members agree inter-entity cost must be imputed for those reporting entities conducting business-type activities. However, there are certain reporting entities or departments where the environment does not lend itself to full cost. For example, there are large, complex departments that may have sub-components that are not distinct for performance purposes. Therefore, the ability to relate cost to performance is more challenging for certain organizations than for others.

A16. For example, within DoD, under existing accounting standards, the full cost of inter-entity services would be associated with each military service through an imputed cost. However, given the complexity of DoD's components and operations, it may not be cost effective to impute costs for such services. In addition, the benefit of doing so may be reduced due to the challenge of identifying outputs and associating outputs with a single reporting entity such as a military service.

A17. Based on a government-wide review of (unaudited) percentages of gross cost attributable to imputed costs other than those for personnel benefits and Treasury Judgment Fund settlements, the imputed costs are often immaterial at the department level. Personnel benefits and Treasury Judgment Fund settlements are required to be imputed by GAAP standards other than SFFAS 4, and those standards ensure they continue to be imputed. The modifications proposed herein restore the option for future recognition of other inter-entity costs if the Office of Management and Budget decides to do so.

A18. The Board carefully considered the cost –benefits, operating environments, current reporting, and what must be accomplished for those reporting entities that had not implemented the requirements. After careful consideration, the Board concluded that the proposed standard will not have negative consequences to reporting entities and that its benefits will clearly exceed its costs for reporting entities that had not implemented inter-entity cost requirements. Therefore, based on research and the current costs to comply

Comment [MB5]: Provides a summary & what the Board concluded

with existing standards, the Board decided to amend existing standards by limiting the reporting of inter-entity costs to business-type activities.

## APPENDIX B: ABBREVIATIONS

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AAPC	Accounting and Auditing Policy Committee
CFR	Consolidated Financial Report of the U.S. Government
DoD	Department of Defense
DSS	Defense Security Service
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General Purpose Federal Financial Report
GPRA	Government Performance and Results Act
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
TR	Technical Release

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Federal Accounting Standards Advisory Board

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# AMENDING INTER-ENTITY COST PROVISIONS

CLEAN VERSION

**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by November 30, 2017

September 1, 2017

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board."](#) exposure drafts, [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB's website at: [www.fasab.gov](http://www.fasab.gov)

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## Federal Accounting Standards Advisory Board

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September 1, 2017

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Amending Inter-entity Cost Provisions* are requested. Specific questions for your consideration appear on page 4, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by November 30, 2017.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

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

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide one or more public hearings may be held on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

D. Scott Showalter  
Chairman



## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts* (including Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*) requires reporting entities to recognize the full costs of services received from other federal reporting entities even if there is no requirement to reimburse the providing reporting entity for the full cost of such services. Consideration of the Department of Defense's implementation challenges and the experiences of other federal reporting entities led the Federal Accounting Standards Advisory Board to reconsider the inter-entity cost provisions for all federal reporting entities.

Information regarding full cost is essential for those reporting entities conducting business-type activities. However, it may not be essential for other reporting entities. For example, large, complex departments such as the Department of Defense have numerous sub-components that perform specialized functions to support other sub-components that are not distinct for performance purposes. Where the outcome of operations requires many sub-components to work together in a matrixed environment, relating cost to performance of each sub-component would be challenging.

In addition, component reporting entities that successfully implemented the inter-entity cost provisions of SFFAS 4 typically have shown a less than one percent increase in gross costs attributable to imputed costs other than those associated with personnel benefits and the Treasury Judgment Fund. Therefore, the proposal would revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind the following:

- a. SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*
- b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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This proposal would facilitate reporting for large and complex organizations so that cost information aligns with their operations. For example, cost would be assigned to component reporting entities based on the complex decisions made by officials regarding funding flows, specialized functions (such as security or transportation), and managerial responsibilities (such as property management). Given the complex responsibilities and relationships among the components of large departments charged with missions such as national defense, this proposal would result in less costly financial reporting by aligning reporting with established funding and governance structures.

This proposal would also reduce the barriers to and cost of adopting generally accepted accounting principles. The revisions would not alter existing requirements applicable to business-type activities.

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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## QUESTIONS FOR RESPONDENTS

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by November 30, 2017.

- Q1. The provisions of Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standard and Concepts*, as amended, require all reporting entities to recognize the full costs of services received from other federal reporting entities even if there is no requirement to reimburse the providing entity for the full cost.

Component reporting entities that have implemented the inter-entity cost provisions of SFFAS 4 typically show less than one percent increase in gross costs attributable to imputed costs other than those associated with personnel benefits and the Treasury Judgment Fund. The proposal would revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind the following:

- a. SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*
- b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

**Do you agree or disagree? Please provide the rationale for your answer.**

Q2. The Board is proposing that component reporting entities provide a concise statement describing significant services received for which no cost is recognized.

**Do you agree or disagree? Please provide the rationale for your answer.**

## PROPOSED STANDARDS

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### SCOPE

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1. This Statement applies when a reporting entity is presenting general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### REVISING SFFAS 4, *MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS* AND RESCINDING SFFAS 30, *INTER-ENTITY COST IMPLEMENTATION: AMENDING SFFAS 4, MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS*

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2. This paragraph rescinds SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, in its entirety. In doing so, this removes the broad requirement to recognize certain inter-entity costs.
3. With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. This paragraph revises paragraphs 110 and 111 of SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and other minor updates:

110. Implementation of this standard on inter-entity costing should be accomplished in a practical and consistent manner by the various federal entities. Therefore, the Office of Management and Budget, with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to recognize. ~~begin recognizing~~. OMB should then issue guidance identifying these costs. These particular inter-entity costs should be specified in accordance with this standard including the recognition criteria presented below. ~~The OMB should consider information and advice from Treasury, GAO, and other agencies in developing the implementation guidance. It is anticipated that the largest and most important inter-entity costs will be identified first. As entities gain experience in the application of the standard, recognition of other inter-entity costs may be specified in future guidance or required by future standards.~~

111. Ideally, all significant inter-entity costs should be recognized. This is especially important when those costs constitute inputs to government goods or services provided to non-federal entities for a fee or user charge. The fees and user charges should recover the full costs of those goods and services. [Footnote 33] Thus, the cost of inter-entity goods or services needs to be recognized by the receiving entity in order to determine fees or user charges for goods and services sold outside the federal government. Therefore, recognition of inter-entity costs

supporting business-type activities<sup>33A</sup> Such recognition, however, should be made in accordance with the implementation guidance provided by FASAB through one or more technical releases. issued by OMB as discussed above.

[Footnote 33: OMB Circular A-25 addresses user charges by federal entities.]  
[Footnote 33A: Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue as defined in SFFAS 7, *Accounting for Revenue and Other Financing Sources*. (See also SFFAS 6, footnote 27.)]

## RESCISSION OF INTERPRETATION 6, ACCOUNTING FOR IMPUTED INTRA-DEPARTMENTAL COSTS: AN INTERPRETATION OF SFFAS NO. 4

4. This paragraph rescinds Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, in its entirety. As a result, with the exception of recognition by business-type activities, intra-departmental inter-entity costs would not be recognized.

## DISCLOSURE REQUIREMENTS

### COMPONENT REPORTING ENTITY DISCLOSURES

5. Component reporting entities should provide a concise statement describing significant services received for which no cost is recognized.

### EFFECTIVE DATE

6. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

The provisions of this Statement need not be applied to immaterial items.

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

### PROJECT HISTORY

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#### Department of Defense Implementation Guidance Request Project

- A1. In 2014, the Department of Defense (DoD) requested the Federal Accounting Standards Advisory Board's (FASAB or "the Board") consideration of a project after identifying several financial reporting areas of concern and related audit challenges. The Board agreed to undertake a project to address these areas by providing practical guidance within the framework of existing accounting standards and, where necessary, by providing the appropriate guidance to address issues not addressed within the framework of existing accounting standards.
- A2. This Statement is issued in response to DoD's request for guidance related to certain intragovernmental transactions—including transactions and balances among DoD components—that DoD performs throughout execution of its mission that cannot be addressed effectively within the framework of existing accounting standards.
- A3. While DoD continues its efforts to comply with the Chief Financial Officers Act of 1990 (as amended), it has noted certain challenges in satisfying existing standards. SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, is one such existing Statement. Through its goals to associate costs with the related operating activities, SFFAS 4 creates special challenges to a large, complex and matrixed organization such as DoD.
- A4. There are many complex relationships among the components of DoD, such as the military services, as well as between DoD and other related departments, such as the U.S. Coast Guard. Many specialized components provide services to other components of DoD. Generally, the DoD operates in a matrixed environment. It shares resources such as employees and assets across sub-components having different functional disciplines to accomplish a given assignment or mission without removing them from the sub-component. Because of the extensive sharing of resources, implementing the inter-entity costing requirements would be more challenging and costly at DoD than at other departments.

- A5. For example, the Defense Security Service's (DSS) mission includes a variety of security functions for DoD. While it may be obvious that the security functions are for the benefit of all DoD reporting entities, Congress appropriates the funding to DSS and the cost is primarily (but not always) paid by DSS. Financial accounting requirements seek to associate the costs of security functions with the activities that benefit from them. For example, the military services request security services but may not be required by law or management practices to fund those security services. Under existing accounting standards, the cost of services would be associated with each military service through an imputed cost. However, given the complexity of DoD's components and operations, it may not be cost effective to impute costs for such services. In addition, the benefit of doing so may be reduced at DoD in comparison to other federal departments and agencies due to the challenge of identifying outputs and associating outputs with a single reporting entity.
- A6. Further, today's command structure makes full cost information by military service less relevant. The DoD operates with "unified combatant commands" charged with executing military operations in different parts of the world and combining the capabilities of two or more military services. A Combatant Command (COCOM) is a military command with broad continuing missions under a single commander and composed of significant assigned components of two or more military departments. There are currently nine Combatant Commands. The COCOMs, and by extension their commanders, have responsibility for the military's operations in their respective area of responsibility during both peacetime and war. There are six regionally focused COCOMs, which operate in clearly delineated areas of operation and have a distinctive regional military focus. There are also three "functional" COCOMs, which operate worldwide across geographic boundaries and provide unique capabilities to geographic combatant commands and the services.<sup>1</sup>

#### Existing Generally Accepted Accounting Principles History

- A7. FASAB issued SFFAS 4 in July of 1995, and it became effective in fiscal year (FY) 1998. However, the requirement for imputing inter-entity costs that are not reimbursed or are under-reimbursed was not immediately effective in FY1998. The Board explained this in the SFFAS 4 basis for conclusions as follows:

248. As discussed above, the Board realizes that there may be problems in implementing the standard on inter-entity costing. Recognition of non-reimbursed or under-reimbursed inter-entity costs is a new concept to federal entities and involves a new way of thinking about costs. There is concern that application of the standard may be inconsistent among federal entities. In addition, there could be problems, particularly at first, in developing estimates of costs; in revising accounting systems and procedures to accommodate these requirements; and in training personnel to accomplish the task. Furthermore, the Board recognizes the

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<sup>1</sup> *Defense Primer: Commanding U.S. Military Operations*, Congressional Research Service, December 13, 2016 (IF10542).

concern that some have about the elimination of inter-entity cost transactions for consolidated reporting since the accounting procedures may be complicated.

249. As a result of these problems and concerns, the Board has expressed the need to take a measured, step-by-step, practical approach to implementation of this standard. Therefore, the Board has decided that, in implementing the standard, it recommends that OMB, with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to begin recognizing and OMB should then issue guidance identifying those costs. OMB should consider the requirements of the standard including the recognition criteria in developing the guidance and it should also consider suggestions and information provided by Treasury, GAO, and other agencies. The Board anticipates the largest and most important inter-entity costs will be identified first, followed by others as entities gain experience in the application of the standard. This approach is seen as a practical way to ensure uniformity in the application and implementation of the standard and to provide time and experience in overcoming any other practical problems which may arise. Also, the Board may recommend specific inter-entity costs for recognition in possible future recommended standards.

- A8. In April 2003, the Board issued Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4*, requiring implementation of inter-entity costing for costs between reporting entities that are part of the same department of a larger reporting entity. The requirement was effective for FY 2005.
- A9. In August 2005, the Board issued SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, requiring full implementation of the inter-entity cost provision in FY 2009. SFFAS 30 followed extensive research on inter-entity costs by an Accounting and Auditing Policy Committee (AAPC) task force. The results were described in the *Report of the AAPC Inter-Entity Costs Task Force* as follows:

The AAPC Inter-entity Cost Task Force (task force) was formed and initial research was conducted beginning in July 2000. The task force reported its research findings and recommendations to the AAPC at its May 2003 meeting. The task force noted that the current limitation in recognizing inter-entity costs was an impediment to progress towards full costing. The task force did not recommend changes to the current limitations in the application of SFFAS 4 inter-entity costs provisions. However, the task force did not find material non-reimbursed or under-reimbursed inter-entity costs for which government-wide guidance was warranted. The task force report is available on the AAPC website at <http://files.fasab.gov/pdffiles/aapciectfreport.pdf>.

- A10. As provided in paragraphs 28-30 of the basis for conclusions in SFFAS 30, half the respondents disagreed with SFFAS 30:

28. Approximately one-half of the respondents agreed with the Board's proposal that the inter-entity cost provisions of SFFAS 4 should be fully implemented. In other words, approximately one-half of the respondents disagreed with the

Board's proposal and agreed with the alternative view proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis.

29. Approximately one-half of the respondents believed that there were non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS 4. Additionally, a majority of respondents believed that federal entities would seek additional reimbursable agreements or modify existing agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized.

30. Approximately one-half of the respondents believed that additional guidance was needed to apply the factors in determining whether an inter-entity cost is material to the receiving entity and that additional guidance was needed to apply the broad and general support exception.

A11. In summary, in its due process of SFFAS 30, the Board determined the main concerns identified by respondents included (1) the lack of implementation guidance and (2) costs not being recognized consistently across agencies. These concerns also supported the task force findings. Therefore, the Board determined that there was a need for additional guidance, which led to the development of TR 8, *Clarification of Standards Relating to Inter-Entity Costs*. The Board believed the standards, along with the issuance of TR 8, balanced the concerns expressed by the task force and the ultimate goals of SFFAS 4. The majority of the Board determined SFFAS 30 was essential to attain the full cost accounting envisioned by SFFAS 4.

#### Current SFFAS 4 Imputed Costs

A12. The goal of SFFAS 4 to identify full cost is critical to improving performance measurement. This Board understands the previous Board's reasons for issuing SFFAS 30 because paragraphs 34-36 of SFFAS 4 explain the following:

34. Measuring performance is a means of improving program efficiency, effectiveness, and program results. One of the stated purposes of the GPRA of 1993 is to "...improve the confidence of the American people in the capability of the federal government, by systematically holding federal agencies accountable for achieving program results."

35. *Measuring costs is an integral part of measuring performance in terms of efficiency and cost-effectiveness.* Efficiency is measured by relating outputs to inputs. It is often expressed by the cost per unit of output. While effectiveness in itself is measured by the outcome or the degree to which a predetermined objective is met, it is commonly combined with cost information to show "cost-effectiveness." Thus, the service efforts and accomplishments of a government entity can be evaluated with the following measures:

- (1) Measures of service efforts which include the costs of resources used to provide the services and non-financial measures;

(2) Measures of accomplishments which are outputs (the quantity of services provided) and outcomes (the results of those services); and

(3) Measures that relate efforts to accomplishments, such as cost per unit of output or cost-effectiveness. (emphasis added)

36. Thus ... performance measurement requires both financial and non-financial measures. *Cost is a necessary element for performance measurement, but is not the only element.* (emphasis added)

A13. Currently, the inter-entity cost provisions have been implemented as envisioned by most agencies. However, the effect of inter-entity costs other than those associated with personnel benefits and Treasury Judgment Fund activities has been significantly less than one percent of gross costs at most agencies, calling into question the cost benefit of the original standard. Additional feedback was received about imputed costs from representatives of the largest agencies at roundtables on streamlining financial reporting. The comments were consistent with the results that imputed costs are often immaterial at the departmental level.

A14. In addition, ongoing implementation efforts at DoD are expected to be very costly given the complex operating relationships among the sub-components of DoD. This additional cost led to the Board's reconsideration of the requirements contained within SFFAS 4 and SFFAS 30.

A15. Board members agree inter-entity cost must be imputed for those reporting entities conducting business-type activities. However, there are certain reporting entities or departments where the environment does not lend itself to full cost. For example, there are large, complex departments that may have sub-components that are not distinct for performance purposes. Therefore, the ability to relate cost to performance is more challenging for certain organizations than for others.

A16. For example, within DoD, under existing accounting standards, the full cost of inter-entity services would be associated with each military service through an imputed cost. However, given the complexity of DoD's components and operations, it may not be cost effective to impute costs for such services. In addition, the benefit of doing so may be reduced due to the challenge of identifying outputs and associating outputs with a single reporting entity such as a military service.

A17. Based on a government-wide review of (unaudited) percentages of gross cost attributable to imputed costs other than those for personnel benefits and Treasury Judgment Fund settlements, the imputed costs are often immaterial at the department level. Personnel benefits and Treasury Judgment Fund settlements are required to be imputed by GAAP standards other than SFFAS 4, and those standards ensure they continue to be imputed. The modifications proposed herein restore the option for future recognition of other inter-entity costs if the Office of Management and Budget decides to do so.

A18. The Board carefully considered the cost –benefits, operating environments, current reporting, and what must be accomplished for those reporting entities that had not implemented the requirements. After careful consideration, the Board concluded that the proposed standard will not have negative consequences to reporting entities and that its benefits will clearly exceed its costs for reporting entities that had not implemented inter-entity cost requirements. Therefore, based on research and the current costs to comply

with existing standards, the Board decided to amend existing standards by limiting the reporting of inter-entity coats to business-type activities.

## APPENDIX B: ABBREVIATIONS

---

AAPC	Accounting and Auditing Policy Committee
CFR	Consolidated Financial Report of the U.S. Government
DoD	Department of Defense
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**Federal Accounting Standards Advisory Board**

---

Date: August 9, 2017

To: Members of the Board

From: Wendy M. Payne, Executive Director

Subject: **Ballot for Exposure Draft, *Amending Inter-entity Cost Provisions***

The following is a ballot for the Exposure Draft on the standard, *Amending Inter-entity Cost Provisions*. Please enter your name in the space provided below and indicate your approval or disapproval. Please fax the ballot to us at 202 512-7366. If you wish to submit your ballot via e-mail, please e-mail to me at [paynew@fasab.gov](mailto:paynew@fasab.gov). You may also submit it at the Board meeting.

Ballots are due by **August 31, 2107**. If you wish to express an alternative view, please notify staff immediately and provide your alternative view as soon as possible but no later than **August 18, 2107**. **When staff receives five affirmative votes, we will publish the exposure draft unless a member has notified us that he or she is preparing an alternative view.**

Board Member: \_\_\_\_\_ Date \_\_\_\_\_

\_\_\_\_\_ I approve the subject Exposure Draft

\_\_\_\_\_ I do not approve the subject Exposure Draft