



February 1, 2018

Memorandum

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

Wendy M. Payne /s/
Through: Wendy M. Payne, Executive Director

Subj: ***Amending Inter-Entity Cost Provisions- Tab D***¹

MEMBER ACTIONS REQUESTED:

- Respond to staff questions (p.2) by February 15

MEETING OBJECTIVES

The objective of the meeting is to review and approve the Draft the Statement of Federal Financial Accounting Standards Statement (SFFAS) 55, *Amending Inter-Entity Cost Provisions*.

BRIEFING MATERIAL

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

Attachment 1- *Amending Inter-Entity Cost Provisions (Marked Version)*

Attachment 2- *Amending Inter-Entity Cost Provisions (Clean Version)*

Attachment 3- Ballot, Statement of Federal Financial Accounting Standards 55

¹ 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.

BACKGROUND

The Board considered the comment letters received on the exposure draft, *Amending Inter-Entity Cost Provisions* at the December 2017 meeting. The Board also considered staff's analysis and recommendations along with proposed revisions to draft Statement. The majority respondents agreed with the proposal and the substantial issues were resolved and agreed upon at the meeting.

Also, the decision to move to a pre-ballot was made at the December Board meeting. The Board decided an electronic pre-ballot review would allow Board members an opportunity to review the document in its entirety before balloting at the February 2018 meeting. Staff received comments from 7 of the 9 Board members. The comments received were minor or editorial in nature.

NEXT STEPS

Staff suggests the Board move to a ballot and vote as planned. This goal is for the Statement to be approved and ballots collected at the February 2018 meeting.

QUESTIONS FOR THE BOARD

Do members have any questions regarding SFFAS 55, *Amending Inter-Entity Cost Provisions*?

Do members approve SFFAS 55, *Amending Inter-Entity Cost Provisions*?

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 with a cc to paynew@fasab.gov.



Federal Accounting Standards Advisory Board

AMENDING INTER-ENTITY COST PROVISIONS

ATTACHMENT 1- MARKED VERSION

Statement of Federal Financial Accounting Standards 55

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May 30, 2018

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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 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

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SUMMARY

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*), required reporting entities to recognize the full costs of services received from other federal reporting entities even if there was no requirement to reimburse the providing reporting entity for the full cost of such services.

This Statement revises SFFAS 4 to provide for the continued recognition of significant inter-entity costs by business-type activities and rescinds the following:

- a. SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*¹
- b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, as amended, will be restored to their original language prior to the passage of SFFAS 30. However, Federal Accounting Standards Advisory Board adjusted the standards to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by the Office of Management and Budget. ~~Notwithstanding, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.~~

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Materiality

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.

¹ Conforming amendments will be made to Technical Release 8, *Clarification of Standards Relating to Inter-Entity Costs*, to acknowledge the rescission of SFFAS 30.

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STANDARDS

SCOPE

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*.

RESCISSION OF 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.

AMENDMENTS TO SFFAS 4, *MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS*

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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.
4. This paragraph amends² SFFAS 4, paragraphs 110 and 111 by
 - a. revising the subtitle for this section and moving it before paragraph 110
 - b. revising the paragraphs to provide for recognition of inter-entity costs by business-type activities and recognition of inter-entity costs for non-business type activities that elect to do so and
 - c. providing for other minor updates.

Recognition

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~~ may issue guidance identifying the specific additional inter-

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² The amendments are shown with strikethrough deletions of existing text and underlined additions.

entity costs for entities to ~~should~~ 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 in paragraphs 111 through 113 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.

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Recognition Criteria

111. Recognition of ~~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 by the federal government. Recognition of inter-entity costs supporting business-type activities [Footnote 33A] and recognition of inter-entity costs for non-business type activities that elect to do so~~ 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. Activities that are not business-type activities are not required to recognize inter-entity costs other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. ~~Notwithstanding, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.~~

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[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 and Concepts for Reconciling Budgetary and Financial Accounting. (See also SFFAS 6, Accounting for Property, Plant, and Equipment, footnote 27.)]

5. This paragraph amends the sub-title “Accounting and Implementation Guidance” of SFFAS 4 that precedes paragraphs 108 – 109 by adding a reference to the Recognition paragraphs in SFFAS 4. It does not amend the language contained within those paragraphs.

Accounting and Implementation Guidance [Footnote 31A]

[Footnote 31A: These paragraphs should be read in conjunction with “Recognition” paragraphs 110- 113 to provide a complete understanding of the implementation of standard on inter-entity costing due to different recognition requirements for certain types of activities.]

6. This paragraph amends SFFAS 4 by adding a new sub-title “Component Reporting Entity Disclosures” following paragraph 113 and adding paragraph 113A.

Component Reporting Entity Disclosures

113A. Component reporting entities should disclose that only certain inter-entity costs are recognized for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. ~~An example, disclosure includes:~~

~~Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed [by the component reporting entity] are recognized as imputed cost [in the Statement of Net Cost], and are offset by imputed revenue [in the Statement of Changes in Net Position]. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund.³ However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.~~

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~~Deleted: are recognized as imputed cost [in the statement of net cost], and are offset by imputed revenue [in the statement of changes in net position]~~

7. As a result of the above changes, business-type activities are still required to recognize inter-entity costs. Although recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

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

8. This paragraph rescinds Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, in its entirety.

EFFECTIVE DATE

9. The requirements of this Statement are effective for reporting periods beginning after September 30, 2018. Earlier implementation is permitted.

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

³ For simplicity, the illustration addresses only the unreimbursed costs required to be imputed by accounting standards. Component reporting entities should identify the general nature of other imputed costs recognized in their financial statements.

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. Since 2014, the Department of Defense (DoD) has requested the Federal Accounting Standards Advisory Board's (FASAB or "the Board") consideration of several financial reporting areas of concern and related audit challenges. 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 including SFFAS 4. Through its goals to associate costs with the related operating activities, SFFAS 4 creates special challenges to large, complex and matrixed organizations such as DoD.
- A2. 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, DoD operates in a matrixed environment. It shares resources, such as employees and assets, across sub-components that have different functional disciplines to accomplish a shared assignment or mission. Often this is done without removing the resources and associated cost from the sub-component. Because of the extensive sharing of resources, implementing the inter-entity costing requirements would be more challenging and costly to DoD than other departments.
- A3. 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) assumed 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 prior accounting standards, the cost of services would have been 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.

Generally Accepted Accounting Principles History

- A4. 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 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.

- A5. In April 2003, the Board issued Interpretation 6 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.
- A6. In August 2005, the Board issued SFFAS 30, 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 in SFFAS 30 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/aapcictfreport.pdf>.

A7. As provided in paragraphs 28-30 of the basis for conclusions in SFFAS 30, half the respondents disagreed with the proposal that led to 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.

A8. 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 Technical Release (TR) 8, *Clarification of Standards Relating to Inter-Entity Costs*. The Board concluded that 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.

Existing Practices (Current SFFAS 4 Imputed Costs)

A9. The goal of SFFAS 4, as amended, 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)

A10. 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 Statement. FASAB received additional feedback 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. In addition, feedback was consistent that where the outcome of operations requires many sub-components to work together in a matrixed environment (not only for DoD but other departments such as Health and Human Services), relating cost to performance of each sub-component is challenging.

A11. In addition, ongoing implementation efforts at DoD are expected to be very costly given the complex operating relationships among the sub-components of DoD. Consideration of DoD's implementation challenges and the experiences of other federal reporting entities (described above) led to the Board's reconsideration of the requirements contained within SFFAS 4 and SFFAS 30 under FASAB's Evaluation of Existing Standards project so that any changes would be applicable government-wide.

A12. Board members agree inter-entity cost must be imputed for those reporting entities conducting business-type activities because the information is directly tied to rates. However, there are certain reporting entities or departments where the operating 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.

- A13. 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.
- A14. 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 Board observed 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.⁴ The modifications herein restore the option for future recognition of other inter-entity costs if OMB decides to do so.
- A15. 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 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 as well as reduce the reporting burden for agencies that have been imputing such costs. Therefore, based on research and the current costs to comply with existing standards, the Board decided to amend existing standards by requiring the reporting of inter-entity costs (other than those associated with personnel benefits and the Treasury Judgment Fund settlement, which is required for all entities) to business-type activities.

SUMMARY OF OUTREACH

- A16. FASAB issued the exposure draft (ED) *Amending Inter-entity Cost Provisions* on September 1, 2017, with comments requested by November 30, 2017.
- A17. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants Topics, the *CPA Journal*, *Government Executive*, the *CPA Letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).
- A18. FASAB received 16 responses from preparers, auditors, users of federal financial information, and professional associations. The Board did not rely on the number of respondents in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board

⁴ See (1) paragraphs 93-95 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, for the costs of employees' benefits, (2) paragraphs 74-76 of SFFAS 5, *Accounting for Liabilities of The Federal Government*, for the pension's costs subset for personnel benefits, and (3) Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5*, for Treasury Judgment Fund settlements.

considered each response and weighed the merits of the points raised. The respondents' comments are summarized below. The respondents identified certain issues that could be clarified within the Statement or addressed in the basis for conclusions.

- A19. The majority of respondents agreed with the proposal to revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and to rescind SFFAS 30 and Interpretation 6.
- A20. One respondent (the Department of Agriculture) disagreed because it believed recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. The respondent explained that the Commodity Credit Corporation (CCC) has no employees⁵ or facilities, and the imputed costs are roughly 10% of operating costs. With further evaluation and consideration of the scenario, the Board determined it may be appropriate to revise the proposed language to remove the word "limit" and allow non-business-type activities the election to recognize other imputed costs.
- A21. Based on certain responses, there appeared to be confusion regarding the recognition of inter-entity costs by activities that are not business-type activities. The Board clarified the summary, standards, and basis for conclusions to ensure the language regarding recognition of inter-entity costs by activities that are not business-type activities was explicit.
- A22. The language explained that with the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, as amended will be restored to their original language. However, FASAB adjusted the standards to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB, ~~Notwithstanding, non-business-type~~ activities may elect to recognize imputed costs and corresponding imputed financing for other types of inter-entity costs.
- A23. With the amendments presented in this Statement, the revised paragraphs 110-111 of SFFAS 4 are as follows:

Recognition

110. Implementation of this standard on inter-entity costing should be accomplished in a practical and consistent manner by federal entities. The Office of Management and Budget may ~~issue guidance identifying additional~~ inter-entity costs, entities ~~should~~ recognize. The inter-entity costs should be specified in accordance with this standard including the recognition criteria presented in paragraphs 111 through 113.

111. Recognition of all significant inter-entity costs is important when those costs constitute inputs to government goods or services provided for a fee or user charge.

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⁵ The Commodity Credit Corporation (CCC) is a Government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. ... CCC has no operating personnel. Its price support, storage, and reserve programs, and its domestic acquisition and disposal activities are carried out primarily through the personnel and facilities of the Farm Service Agency (FSA). (<https://www.fsa.usda.gov/about-fsa/structure-and-organization/commodity-credit-corporation/index>)

[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 by the federal government. Recognition of inter-entity costs supporting business-type activities [Footnote 33A] and recognition of inter-entity costs for non-business type activities that elect to do so should be made in accordance with implementation guidance provided by FASAB through one or more Technical Releases. Activities that are not business-type activities are not required to recognize inter-entity costs other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. ~~Notwithstanding,~~ non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

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[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 and Concepts for Reconciling Budgetary and Financial Accounting. (See also SFFAS 6, Accounting for Property, Plant, and Equipment, footnote 27.)]

- A24. While agreeing with the proposal, one respondent suggested certain provisions of the proposed statement appear to be in conflict. The respondent noted SFFAS 4 appears to 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. This respondent believed that certain elements of the proposal appear to contradict certain portions of SFFAS 4. The Board acknowledges the ambiguity created by the interrelation of the full cost and inter-entity standards contained in different sections of SFFAS 4. This ambiguity is further complicated if particular paragraphs or sentences of SFFAS 4 are read in isolation.
- A25. The focus of this Statement is narrow and the Board did not undertake a review of SFFAS 4 in its entirety. The Board addressed the ambiguity by adding clarifying language where appropriate which included a new footnote to an earlier section within SFFAS. The new footnote explains the recognition paragraphs (par. 110-113) should be considered in conjunction with other sections to provide a complete understanding regarding the implementation of inter-entity costing due to different recognition requirements for different types of activities.
- A26. The majority of respondents generally agreed that component reporting entities should provide a concise statement to acknowledge that significant services were received for which no cost is recognized. However, certain respondents suggested additional explanation and clarification regarding the disclosure. The respondents believed providing clarity in these areas would ensure consistency and reduce costs associated with preparation and audit. Certain respondents also suggested sample wording of the disclosure.
- A27. The Board believed the comments indicated concern regarding the “costs” of determining whether unreimbursed inter-entity costs are “significant” and whether the proposed disclosure, without details of specific costs excluded, provided a meaningful distinction between entities with and without “significant inter-entity costs”. Based on the comments, the Board determined the disclosure requirements should be revised. Component reporting

entities should disclose that only certain inter-entity costs are recognized for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. In addition, the Board included sample wording for the disclosure in the Statement. The Board believed the sample wording would provide the minimum disclosure and that if the reporting entity recognized other imputed costs, that fact should be disclosed as well.

A28. Although the Board concluded that the proposed Statement will reduce the reporting burden for agencies, it recognizes that any change in standards may require time to implement. Therefore, the Board changed the effective date to be effective for reporting periods beginning after September 30, 2018, with earlier implementation permitted.

A29. As explained in paragraph 12 of SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, “For the purposes of this standard, changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards.” Therefore, reporting entities follow the guidance in SFFAS 21 paragraph 13.a – 13.c. for all changes in accounting principles:

- a. The cumulative effect of the change on prior periods should be reported as a “change in accounting principle.” The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.
- b. Prior period financial statements presented for comparative purposes should be presented as previously reported.
- c. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

Board Approval

A30. This Statement was [approved unanimously.] Written ballots are available for public inspection at FASAB’s offices.

Comment [MB2]: TBD

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
CCC	Commodity Credit Corporation
CFR	Consolidated Financial Report of the U.S. Government
DoD	Department of Defense
DSS	Defense Security Service
ED	Exposure Draft
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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Comment [MB3]: Need to confirm whether inclusion of Mailstop is necessary since the same..

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Federal Accounting Standards Advisory Board

AMENDING INTER-ENTITY COST PROVISIONS

Statement of Federal Financial Accounting Standards 55

May 30, 2018

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 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

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SUMMARY

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*), required reporting entities to recognize the full costs of services received from other federal reporting entities even if there was no requirement to reimburse the providing reporting entity for the full cost of such services.

This Statement revises SFFAS 4 to provide for the continued recognition of significant inter-entity costs by business-type activities and rescinds the following:

- a. SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*¹
- b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, as amended, will be restored to their original language prior to the passage of SFFAS 30. However, Federal Accounting Standards Advisory Board adjusted the standards to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by the Office of Management and Budget. Notwithstanding, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

Materiality

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.

¹ Conforming amendments will be made to Technical Release 8, *Clarification of Standards Relating to Inter-Entity Costs*, to acknowledge the rescission of SFFAS 30.

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STANDARDS

SCOPE

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*.

RESCISSION OF 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.

AMENDMENTS TO SFFAS 4, *MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS*

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.
4. This paragraph amends² SFFAS 4, paragraphs 110 and 111 by
 - a. revising the subtitle for this section and moving it before paragraph 110
 - b. revising the paragraphs to provide for recognition of inter-entity costs by business-type activities and recognition of inter-entity costs for non-business type activities that elect to do so and
 - c. providing for other minor updates.

Recognition

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~~ may issue guidance identifying the specific additional inter-

² The amendments are shown with strikethrough deletions of existing text and underlined additions.

entity costs for entities to ~~should 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 in paragraphs 111 through 113 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.~~

Recognition Criteria

111. Recognition of 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 by the federal government. Recognition of inter-entity costs supporting business-type activities [Footnote 33A] and recognition of inter-entity costs for non-business type activities that elect to do so 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.~~ Activities that are not business-type activities are not required to recognize inter-entity costs other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. Notwithstanding, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

[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 and Concepts for Reconciling Budgetary and Financial Accounting. (See also SFFAS 6, Accounting for Property, Plant, and Equipment, footnote 27.)]

5. This paragraph amends the sub-title “Accounting and Implementation Guidance” of SFFAS 4 that precedes paragraphs 108 – 109 by adding a reference to the Recognition paragraphs in SFFAS 4. It does not amend the language contained within those paragraphs.

Accounting and Implementation Guidance [Footnote 31A]

[Footnote 31A: These paragraphs should be read in conjunction with “Recognition” paragraphs 110- 113 to provide a complete understanding of the implementation of standard on inter-entity costing due to different recognition requirements for certain types of activities.]

6. This paragraph amends SFFAS 4 by adding a new sub-title “Component Reporting Entity Disclosures” following paragraph 113 and adding paragraph 113A.

Component Reporting Entity Disclosures

113A. Component reporting entities should disclose that only certain inter-entity costs are recognized for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. An example disclosure includes:

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed [by the component reporting entity] are recognized as imputed cost [in the Statement of Net Cost], and are offset by imputed revenue [in the Statement of Changes in Net Position]. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund.³ However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

7. As a result of the above changes, business-type activities are still required to recognize inter-entity costs. Although recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

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

8. This paragraph rescinds Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, in its entirety.

EFFECTIVE DATE

9. The requirements of this Statement are effective for reporting periods beginning after September 30, 2018. Earlier implementation is permitted.

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

³ For simplicity, the illustration addresses only the unreimbursed costs required to be imputed by accounting standards. Component reporting entities should identify the general nature of other imputed costs recognized in their financial statements.

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. Since 2014, the Department of Defense (DoD) has requested the Federal Accounting Standards Advisory Board's (FASAB or "the Board") consideration of several financial reporting areas of concern and related audit challenges. 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 including SFFAS 4. Through its goals to associate costs with the related operating activities, SFFAS 4 creates special challenges to large, complex and matrixed organizations such as DoD.
- A2. 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, DoD operates in a matrixed environment. It shares resources, such as employees and assets, across sub-components that have different functional disciplines to accomplish a shared assignment or mission. Often this is done without removing the resources and associated cost from the sub-component. Because of the extensive sharing of resources, implementing the inter-entity costing requirements would be more challenging and costly to DoD than other departments.
- A3. 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) assumed 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 prior accounting standards, the cost of services would have been 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.

Generally Accepted Accounting Principles History

A4. 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 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.

A5. In April 2003, the Board issued Interpretation 6 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.

A6. In August 2005, the Board issued SFFAS 30, 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 in SFFAS 30 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>.

A7. As provided in paragraphs 28-30 of the basis for conclusions in SFFAS 30, half the respondents disagreed with the proposal that led to 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.

A8. 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 Technical Release (TR) 8, *Clarification of Standards Relating to Inter-Entity Costs*. The Board concluded that 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.

Existing Practices (Current SFFAS 4 Imputed Costs)

A9. The goal of SFFAS 4, as amended, 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)

A10. 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 Statement. FASAB received additional feedback 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. In addition, feedback was consistent that where the outcome of operations requires many sub-components to work together in a matrixed environment (not only for DoD but other departments such as Health and Human Services), relating cost to performance of each sub-component is challenging.

A11. In addition, ongoing implementation efforts at DoD are expected to be very costly given the complex operating relationships among the sub-components of DoD. Consideration of DoD's implementation challenges and the experiences of other federal reporting entities (described above) led to the Board's reconsideration of the requirements contained within SFFAS 4 and SFFAS 30 under FASAB's Evaluation of Existing Standards project so that any changes would be applicable government-wide.

A12. Board members agree inter-entity cost must be imputed for those reporting entities conducting business-type activities because the information is directly tied to rates. However, there are certain reporting entities or departments where the operating 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.

- A13. 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.
- A14. 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 Board observed 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.⁴ The modifications herein restore the option for future recognition of other inter-entity costs if OMB decides to do so.
- A15. 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 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 as well as reduce the reporting burden for agencies that have been imputing such costs. Therefore, based on research and the current costs to comply with existing standards, the Board decided to amend existing standards by requiring the reporting of inter-entity costs (other than those associated with personnel benefits and the Treasury Judgment Fund settlement, which is required for all entities) to business-type activities.

SUMMARY OF OUTREACH

- A16. FASAB issued the exposure draft (ED) *Amending Inter-entity Cost Provisions* on September 1, 2017, with comments requested by November 30, 2017.
- A17. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants Topics, the *CPA Journal*, *Government Executive*, the *CPA Letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).
- A18. FASAB received 16 responses from preparers, auditors, users of federal financial information, and professional associations. The Board did not rely on the number of respondents in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board

⁴ See (1) paragraphs 93-95 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, for the costs of employees' benefits, (2) paragraphs 74-76 of SFFAS 5, *Accounting for Liabilities of The Federal Government*, for the pension's costs subset for personnel benefits, and (3) Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5*, for Treasury Judgment Fund settlements.

considered each response and weighed the merits of the points raised. The respondents' comments are summarized below. The respondents identified certain issues that could be clarified within the Statement or addressed in the basis for conclusions.

- A19. The majority of respondents agreed with the proposal to revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and to rescind SFFAS 30 and Interpretation 6.
- A20. One respondent (the Department of Agriculture) disagreed because it believed recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. The respondent explained that the Commodity Credit Corporation (CCC) has no employees⁵ or facilities, and the imputed costs are roughly 10% of operating costs. With further evaluation and consideration of the scenario, the Board determined it may be appropriate to revise the proposed language to remove the word "limit" and allow non-business type activities the election to recognize other imputed costs.
- A21. Based on certain responses, there appeared to be confusion regarding the recognition of inter-entity costs by activities that are not business-type activities. The Board clarified the summary, standards, and basis for conclusions to ensure the language regarding recognition of inter-entity costs by activities that are not business-type activities was explicit.
- A22. The language explained that with the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, as amended will be restored to their original language. However, FASAB adjusted the standards to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. Notwithstanding, non-business-type activities may elect to recognize imputed costs and corresponding imputed financing for other types of inter-entity costs.
- A23. With the amendments presented in this Statement, the revised paragraphs 110-111 of SFFAS 4 are as follows:

Recognition

110. Implementation of this standard on inter-entity costing should be accomplished in a practical and consistent manner by federal entities. The Office of Management and Budget may issue guidance identifying additional inter-entity costs entities should recognize. The inter-entity costs should be specified in accordance with this standard including the recognition criteria presented in paragraphs 111 through 113.

111. Recognition of all significant inter-entity costs is important when those costs constitute inputs to government goods or services provided for a fee or user charge.

⁵ The Commodity Credit Corporation (CCC) is a Government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. ... CCC has no operating personnel. Its price support, storage, and reserve programs, and its domestic acquisition and disposal activities are carried out primarily through the personnel and facilities of the Farm Service Agency (FSA). (<https://www.fsa.usda.gov/about-fsa/structure-and-organization/commodity-credit-corporation/index>)

[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 by the federal government. Recognition of inter-entity costs supporting business-type activities [Footnote 33A] and recognition of inter-entity costs for non-business type activities that elect to do so should be made in accordance with implementation guidance provided by FASAB through one or more Technical Releases. Activities that are not business-type activities are not required to recognize inter-entity costs other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. Notwithstanding, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

[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 and Concepts for Reconciling Budgetary and Financial Accounting. (See also SFFAS 6, Accounting for Property, Plant, and Equipment, footnote 27.)]

- A24. While agreeing with the proposal, one respondent suggested certain provisions of the proposed statement appear to be in conflict. The respondent noted SFFAS 4 appears to 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. This respondent believed that certain elements of the proposal appear to contradict certain portions of SFFAS 4. The Board acknowledges the ambiguity created by the interrelation of the full cost and inter-entity standards contained in different sections of SFFAS 4. This ambiguity is further complicated if particular paragraphs or sentences of SFFAS 4 are read in isolation.
- A25. The focus of this Statement is narrow and the Board did not undertake a review of SFFAS 4 in its entirety. The Board addressed the ambiguity by adding clarifying language where appropriate which included a new footnote to an earlier section within SFFAS. The new footnote explains the recognition paragraphs (par. 110-113) should be considered in conjunction with other sections to provide a complete understanding regarding the implementation of inter-entity costing due to different recognition requirements for different types of activities.
- A26. The majority of respondents generally agreed that component reporting entities should provide a concise statement to acknowledge that significant services were received for which no cost is recognized. However, certain respondents suggested additional explanation and clarification regarding the disclosure. The respondents believed providing clarity in these areas would ensure consistency and reduce costs associated with preparation and audit. Certain respondents also suggested sample wording of the disclosure.
- A27. The Board believed the comments indicated concern regarding the “costs” of determining whether unreimbursed inter-entity costs are “significant” and whether the proposed disclosure, without details of specific costs excluded, provided a meaningful distinction between entities with and without “significant inter-entity costs”. Based on the comments, the Board determined the disclosure requirements should be revised. Component reporting

entities should disclose that only certain inter-entity costs are recognized for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. In addition, the Board included sample wording for the disclosure in the Statement. The Board believed the sample wording would provide the minimum disclosure and that if the reporting entity recognized other imputed costs, that fact should be disclosed as well.

A28. Although the Board concluded that the proposed Statement will reduce the reporting burden for agencies, it recognizes that any change in standards may require time to implement. Therefore, the Board changed the effective date to be effective for reporting periods beginning after September 30, 2018, with earlier implementation permitted.

A29. As explained in paragraph 12 of SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, “For the purposes of this standard, changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards.” Therefore, reporting entities follow the guidance in SFFAS 21 paragraph 13.a. – 13.c. for all changes in accounting principles:

- a. The cumulative effect of the change on prior periods should be reported as a “change in accounting principle.” The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.
- b. Prior period financial statements presented for comparative purposes should be presented as previously reported.
- c. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

Board Approval

A30. This Statement was **approved unanimously.** Written ballots are available for public inspection at FASAB’s offices.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
CCC	Commodity Credit Corporation
CFR	Consolidated Financial Report of the U.S. Government
DoD	Department of Defense
DSS	Defense Security Service
ED	Exposure Draft
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

Date: February 1, 2018

To: Members of the Board

From: Wendy M. Payne, Executive Director

Subject: **Ballot for Statement of Federal Financial Accounting Standards 55, *Amending Inter-Entity Cost Provisions***

The following is a ballot for SFFAS 55. Please enter your name in the space provided below and indicate your approval or disapproval. Please e-mail the ballot to me at paynew@fasab.gov. Alternatively, you may fax the signed ballot to 202 512-7366.

Ballots are due by February 22, 2018. (Longer time allows due date to correspond to Board meeting date.) Members not responding by February 28, 2018 will be considered to have abstained. If you decide to write a dissent, please notify staff immediately and provide your dissent as soon as possible but no later than February 8, 2018. Any dissents received will be circulated to other members as soon as possible so that they may consider the views of the dissenting member.

Board Member: _____

Date: _____

_____ I approve the subject SFFAS

_____ I do not approve the subject SFFAS