



August 6, 2015

Memorandum

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials: Comment Letters Received through 7/27/15<sup>1</sup> – Tab I**

**MEETING OBJECTIVE**

To review responses to the exposure draft, *Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials* and make decisions on issues raised.

**BRIEFING MATERIAL**

**Staff Summary:** This memorandum provides the staff summary. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. The summary presents:

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**Attachment 1- Comment letters**

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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.

## BACKGROUND

### SUMMARY OF OUTREACH EFFORTS

The exposure draft, *Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials*, was issued June 2, 2015 with comments requested by July 20, 2015. Upon release of the exposure draft in the FASAB Listserv, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) *The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive, and the CPA Letter*;
- d) The CFO Council, the Council of the Inspectors General on Integrity and Efficiency; and
- e) Committees of professional associations generally commenting on exposure drafts in the past.

This broad announcement was followed by direct mailings of the exposure draft to:

- a) Relevant congressional committees
  - a. House Appropriations- Sub-Committee on Defense
  - b. House Committee on Armed Services
  - c. House Committee on Oversight and Government Reform
  - d. House Committee on the Budget
  - e. House Committee on Veterans' Affairs
  - f. Senate Appropriations- Sub-Committee on Defense
  - g. Senate Committee on Armed Services
  - h. Senate Committee on Finance
  - i. Senate Committee on Homeland Security and Governmental Affairs
  - j. Senate Committee on the Budget
  - k. Senate Committee on Veterans' Affairs

We also contacted the Department of Defense and provided them a copy of the ED and explained the due process. In addition, to encourage responses, a reminder notice was provided on 7/7/2015 to our Listserv.

### RESULT

As of 7/27/15, we have received 11 responses from the following sources:

	<b>FEDERAL (Internal)</b>	<b>NON-FEDERAL (External)</b>
Users, academics, others		2
Auditors	2	1
Preparers and financial managers	6	

The full text of the comment letters is provided as Attachment 1. Attachment 1 includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before you read the staff summary below.

## **NEXT STEPS**

Staff will distribute the staff analysis and recommendations along with a Draft Statement in the next binder distribution.

## **QUESTIONS FOR THE BOARD**

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 [loughanm@fasab.gov](mailto:loughanm@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

## STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

### A. Tally of Responses By Question

QUESTION 1	AGREE	DISAGREE	NO ANSWER
<p>The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&amp;S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.</p> <p>The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, Accounting for Inventory and Related Property.</p> <p><b>Do you agree or disagree with the proposed standards?</b>  <b>Please provide your rationale.</b></p>	10	0	1

## STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

### B. Quick Table of Responses By Question

<b>RESPONDENT</b>	<p>The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&amp;S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.</p> <p>The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, Accounting for Inventory and Related Property.</p> <p><b>Do you agree or disagree with the proposed standards? Please provide your rationale.</b></p>
<b>#1 AGA</b>	<b>Agree</b>
<b>#2 KPMG</b>	<b>Agree (but provided several comments)</b>
<b>#3 GWSCPA FISC</b>	<b>Agree</b>
<b>#4 DOI OCFO</b>	<b>Agree</b>
<b>#5 DOC OCFO</b>	<b>Agree</b>
<b>#6 DOL OCFO</b>	<b>Did not specify agreement or disagreement</b>
<b>#7 HHS OCFO</b>	<b>Agree</b>
<b>#8 VA OCFO</b>	<b>Agree</b>
<b>#9 DoD OIG</b>	<b>Agree</b>
<b>#10 DoD OCFO</b>	<b>Agree</b>
<b>#11 DOL OIG</b>	<b>Agree</b>

## STAFF SUMMARY OF RESPONSES – Table C: Full Text of Answers and Comments by Question

### C. Full Text of Answers and Comments by Question and by Respondent

<p><b>QUESTION #1</b> The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&amp;S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.</p> <p>The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, Accounting for Inventory and Related Property.</p> <p><b>Do you agree or disagree with the proposed standards? Please provide your rationale.</b></p>	
<b>#1 AGA</b>	FMSB has reviewed the exposure draft and supports the adoption of this standard by the FASAB. In our view, allowing the use of deemed costs is a reasonable approach for establishing an initial value or after a period during which existing systems cannot provide the information necessary to produce GAAP-based financial statements. It provides an organization a cost effective and an expeditious method to move forward in implementing GAAP relating to the above asset balances. The use of the deemed cost approach for such circumstances is not without precedence. [See comments in D. Listing of Additional Comments and also in the AGA Letter at Attachment 1]
<b>#2 KPMG</b>	We agree, as discussed in the Basis for Conclusions, that there is a need within the Department of Defense (DoD) community for alternative valuation methods. However, there are certain aspects of the ED that are unclear, which will make implementation problematic, and in some instances will impact the auditability. [See comments in D. Listing of Additional Comments and also in the KPMG Letter at Attachment 1]
<b>#3 GWSCPA FISC</b>	The FISC supports the Board's views on the alternative valuation method, disclosures, and amendments to SFFAS 3. [See comments in D. Listing of Additional Comments and also in the GWSCPA FISC Letter at Attachment 1]
<b>#4 DOI OCFO</b>	The Department of the Interior to include all Bureaus and Departmental Offices concurs with the proposed standards; as it provides a cost beneficial way to comply with the accounting standard.

## STAFF SUMMARY OF RESPONSES – Table C: Full Text of Answers and Comments by Question

<b>#5 DOC OCFO</b>	The Department agrees with the proposed standard. The proposed standard is a cost-effective way of attaining compliance with SFFAS 3, <i>Accounting for Inventory and Related Property</i> for those reporting entities that did not have adequate systems in the past to capture such costs. The proposed standard will also allow a reporting entity to account for cost fluctuations driven by the market. Offering alternative valuation methods is practical since financial statements prepared under historical accounting systems may suffer from a number of limitations, such as ignoring changes in the market.
<b>#6 DOL OCFO</b>	Although DOL does not currently report in its financial statements Inventory, OM&S, or Stockpile Materials, DOL/OCFO appreciates the opportunity to provide comments. [See comments in D. Listing of Additional Comments and also in the DOL OCFO Letter at Attachment 1]
<b>#7 HHS OCFO</b>	<p>HHS agrees with the proposed standard. HHS has been preparing financial statements and reporting inventory, operating materials and supplies and stockpile materials based on historical cost for almost 18 years. However, Department of Defense and other agencies who are not currently preparing financial statements following GAAP may not have historical records available for use in establishing opening balances for the first period of reporting in compliance with GAAP. The concept of “deemed cost” set forth in this standard allows them acceptable options for moving forward and gives a basis for auditors to accept the methodology used for the opening balance.</p> <p>HHS agrees that this should be a one-time option. After establishing opening balances for the first reporting period with a GAAP assertion, all subsequent activity should comply with the established requirements in Statement of Federal Financial Accounting Standards (SFFAS) 3.</p>
<b>#8 VA OCFO</b>	VA has reviewed the exposure draft and supports the adoption of this standard by FASAB. However, historical records and systems employed by VA provide an adequate basis for determining the opening balance valuation of inventory and

## STAFF SUMMARY OF RESPONSES – Table C: Full Text of Answers and Comments by Question

	therefore will not be utilized by VA.
<b>#9 DoD OIG</b>	<p>We agree with the Board’s proposal to allow DoD to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&amp;S), and stockpile materials when presenting financial statements.</p> <p>The DoD OIG has identified—and DoD management has acknowledged—for many years that accounting for inventory, OM&amp;S, and stockpile materials, and controls over DoD financial management systems are material internal control weaknesses to the Department’s financial statements. DoD is generally unable to rely upon its financial management systems to produce accurate and timely historical cost data for several classes of assets, including inventory, OM&amp;S, and stockpile materials. If the Department is to meet its statutory requirement to prepare financial statements in accordance with GAAP, DoD requires a cost-effective alternative to SFFAS 3. The proposed standards should assist DoD in complying with GAAP reporting requirements while lessening the Department’s financial burden in recreating historical cost data that it has been unable to previously produce using its existing financial management systems. This proposed standard will assist DoD in its efforts to produce audit-ready financial statements.</p>
<b>#10 DoD OCFO</b>	Agree. Adoption of the alternative valuation process presented in this exposure draft should help to reduce the cost of audit readiness activities, while requiring the system and process changes necessary to produce accurate financial data moving forward.
<b>#11 DOL OIG</b>	We generally agree with this change. However there is an observation relating to this exposure draft. [See comments in D. Listing of Additional Comments and also in the DOL OIG Letter at Attachment 1]

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

### D. Listing Of Additional Comments from Respondents

<u>Respondent</u>	<u>Comment</u>
<b>#1 AGA</b>	<p>1. Obsolete Inventory</p> <p>Organizations implementing this standard may have an issue of obsolete inventories of supplies, materials and other stockpiled items and the FMSB believes that the standard should include guidance relative to this matter in the final standard. Organizations that implement this guidance may be inclined to assign a deemed cost of \$0 to obsolete items, which is inappropriate. To properly account for such items, we believe that the guidance should prohibit the organization from assigning a deemed cost of zero dollars to obsolete items to avoid a write-down in value. In such circumstances, a properly determined deemed cost should be established and if the items are obsolete, the loss should be recognized in the operating statement. This should be clarified in the final standard through either an addition to the body of the standard or in a footnote to the published standard.</p>
<b>#2 KPMG</b>	<p>2. Scope – Paragraph 4</p> <p>The Basis for Conclusions (paragraphs A1-A4, A9, and A13-A16) implies that the Board developed the alternative valuation methods of inventory, OM&amp;S, and stockpile materials for the DoD community. Therefore to avoid unintended application of this standard, we recommend adjusting paragraph 4 as follows (new content underscored):</p> <p style="padding-left: 40px;">This Statement applies when a <u>Department of Defense</u> reporting entity is presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method. The application of this Statement based on the second condition is available once per reporting entity.</p> <p>If the scope is not restricted to DoD entities, we recommend that the Board incorporate guidance after paragraph 4 to further clarify when the Statement is not applicable, such as what is done in the International Public Sector Accounting Standard (IPSAS), No. 33, <i>First-Time Adoption of Accrual Basis International Public Sector Accounting Standards</i>, paragraph 3(a)-(c), as follows:</p>

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

	<p>This Statement would not apply when a reporting entity:</p> <ul style="list-style-type: none"> <li>a. Stops presenting financial statements in accordance with GAAP after having previously presented in accordance with GAAP;</li> <li>b. Presented financial statements in previous period(s) in accordance with GAAP; or</li> <li>c. Presented financial statements in previous period in accordance with GAAP, even if the auditors issued a modified opinion.</li> </ul> <p>In addition, we believe it is unclear what is meant by the phrase “once per reporting entity” in the last sentence of paragraph 4. This could be interpreted to mean once per asset, once per asset type (inventory, OM&amp;S, and stockpile materials), or once for the entity as a whole. Therefore, we recommend that the Board add an additional paragraph to explain the intent of this sentence.</p>
<b>#2 KPMG</b>	<p>3. Scope – Paragraph 5</p> <p>Paragraph 5 uses the term “unreserved assertion” regarding the presentation of inventory, OM&amp;S, and stockpile materials in accordance with GAAP. The concept of an “unreserved assertion” does not exist in the professional literature (auditing and/or accounting – AICPA, GAO, FASAB). Therefore, the term “unreserved assertion” should be defined with objective/measurable criteria.</p> <p>In addition, the second sentence of paragraph 5 states that the alternative valuation methods may not be applied to transactions that increase the inventory, OM&amp;S, and stockpile materials balance after the opening balances are established. However, the alternative valuation methods should not be applied to any transactions (increases and decreases) after the opening balances are established. Therefore we recommend that the second sentence in paragraph 5 be adjusted as follows (deleted content strike-through):</p> <p style="padding-left: 40px;">The alternative valuation methods permitted in this Statement may not be applied <del>to transactions or events that increase the balance of inventory, OM&amp;S, and stockpile materials</del> after opening balances are established.</p>
<b>#2 KPMG</b>	<p>4. Alternative Valuation Method for Opening Balances – Paragraph 10</p> <p>Paragraph 10 states, “...deemed cost may be based on one of a combination of any of the following valuation methods...” The term “may” presents an auditability challenge because a reporting entity could use any of the methods noted in paragraph 10 as well as any other method that may lack objectivity/measurability. Therefore, we recommend that paragraph 10 be adjusted as follows (new content underscored; deleted content strike-through):</p>

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

	<p>Because the reporting entity may have multiple component reporting entities using various valuation methods simultaneously, deemed cost <u>should</u> <del>may</del> be based on one of or a combination of any of the following valuation methods, <u>which are alternatives to the valuation methods allowable in SFFAS No. 3:</u></p>
<b>#2 KPMG</b>	<p>5. Alternative Valuation Method for Opening Balances – Paragraph 10</p> <p>Further, paragraph 10 provides the following valuation methods:</p> <ul style="list-style-type: none"> <li>a. Standard price (selling price) or fair value</li> <li>b. Latest Acquisition Cost (LAC)</li> <li>c. Replacement cost</li> <li>d. Estimated historical cost (initial amount)</li> <li>e. Actual historical cost (initial amount)</li> </ul> <p>Statement of Federal Accounting Standards (SFFAS) No. 3, Inventory and Related Property, provides that:</p> <p>Inventory should be valued at historical cost or latest acquisition cost [paragraph 20];</p> <ul style="list-style-type: none"> <li>•OM&amp;S should be valued at historical cost [paragraph 42]; and</li> <li>•Stockpile materials should be valued at historical cost [paragraph 53].</li> </ul> <p>As a result, items “b” and “e” are already allowable as it relates to inventory and item “e” is already allowable as it relates to OM&amp;S and stockpile materials. If the Board’s intent was for the list in paragraph 10 to be valuations methods alternative to what is allowable under SFFAS No. 3, we recommend deleting item “e” and adjusting item “b”. In addition, it is not clear why the term “initial amount” is provided in parenthesis in item “d” and, as a result, we recommend that the Board remove “initial amount” or explain its purpose. Therefore, we recommend the list provided in paragraph 10 be adjusted as follows (new content underscored; deleted content strike-through):</p> <ul style="list-style-type: none"> <li>a. Standard price (selling price) or fair value</li> <li>b. Latest Acquisition Cost (LAC) Method <u>expanded to OM&amp;S and stockpile materials]</u></li> <li>c. Replacement cost</li> <li>d. Estimated historical cost <del>(initial amount)</del></li> <li>e. <del>Actual historical cost (initial amount)</del></li> </ul>

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

#2 KPMG	<p>6. Alternative Valuation Method for Opening Balances – Paragraph 10</p> <p>In addition, footnote 4 in paragraph 10 provides a definition of standard price (selling price). We recommend that standard price (selling price) be added to the definitions section of the Statement instead of defined in a footnote.</p> <p>Lastly, SFFAS No. 35, <i>Estimating the Historical Cost of General Property, Plant, and Equipment</i>, describes the concept of estimating historical cost regarding general property, plant, and equipment. We recommend that the Board incorporate guidance from SFFAS No. 35 or include a footnote reference to SFFAS No. 35 to provide a framework regarding estimating historical cost for inventory, OM&amp;S, and stockpile materials.</p>
#2 KPMG	<p>7. Alternative Valuation Method for Opening Balances – Paragraph 11</p> <p>The last sentence of paragraph 11 states, “No distinction of amounts arising from the opening balances is required.” We recommend that the Board clarify if this is meant to refer to opening balance in year of adoption, on a continuing basis, or both.</p>
#2 KPMG	<p>8. Disclosure Requirements – Paragraph 12</p> <p>Paragraph 12 requires that the reporting entity disclose the application of deemed cost in the first reporting period without mention of subsequent year disclosure requirements. However, we believe that paragraph A18 of the basis for conclusions expresses a different intent regarding paragraph 12. The second sentence of paragraph A18 states, “If reporting entities are able to document that turnover rates for inventory, OM&amp;S, and stockpile materials are such that the opening balance valuation is at historical cost, a reference to deemed cost would not be required.” This implies that it was the Board’s intent for a reporting entity to disclose the use of deemed cost in the first reporting period and subsequent periods until the valuation is at historical cost based upon the turnover rate. We have provided two example disclosures in appendix 1 to this letter that illustrate these two interpretations. Disclosure option 1 is based on paragraph 12 and disclosure option 2 is based on paragraph A18. We recommend that the Board consider these two options and adjust paragraphs 12 and/or A18 accordingly.</p>
#2 KPMG	<p>9. Effect on Existing Standards – Amendments to SFFAS 3, <i>Accounting for Inventory and Related Property</i> – Paragraph 14</p> <p>The information provided in paragraph 14 is not drafted as an amendment to SFFAS No. 3. Paragraph 14 adds a paragraph (56a) to SFFAS No. 3, which provides a reference to this proposed Statement and does not amend the guidance contained within SFFAS No. 3. If it was the Board’s intent to amend SFFAS No. 3, as we believe it should be, we recommend that the Board revisit the guidance provided in paragraphs 9-12 and use this guidance to amend paragraphs 20, 22, 35, 42, 44, 50, 53, and 56 of SFFAS No. 3. Following this approach, would be consistent with the treatment of SFFAS No. 35, which amended SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i>. If it is not the Board’s intent to amend SFFAS No. 3, we recommend deleting this section from the</p>

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

	Statement.
<b>#2 KPMG</b>	<p>10. Definitions – Paragraphs 7 and 8</p> <p>The definition of deemed cost (paragraph 7) should not include the phrase “as used in this Statement” because once a term is defined in FASAB literature it should be considered a universal term that could be used in future Statements. Therefore, we recommend deleting the phrase, “as used in this Statement.”</p> <p>The definition of opening balances (paragraph 8) contains a footnote that states that the definition is “adapted” from U.S. Auditing Standards-American Institute of CPAs (Clarified). The definition in paragraph 8 of the ED is identical to the definition provided in AU-C 510, <i>Opening Balances – Initial Audit Engagements, Including Reaudit Engagements</i>. Therefore, instead of implying that the definition was changed (“adapted”), we recommend that footnote 2 state, “Adopted from AU-C 510, <i>Opening Balances – Initial Audit Engagements, Including Reaudit Engagements</i> (AICPA Professional Standards).”</p>
<b>#2 KPMG</b>	<p>11. Basis for Conclusions</p> <p>We recommend that the Board clearly explain that the purpose of this Statement is to provide alternative valuation methods for opening balances, however, it does not eliminate the reporting entity’s responsibility to maintain evidential matter to support the valuation method(s) selected.</p>
<b>#3 GWSCPA FISC</b>	<p>12. Scope</p> <p>Several paragraphs in the Appendix, such as paragraphs A14 through A16, appear to limit the applicability of this Standard to the Department of Defense and its components. We suggest that this limitation not be included in the Standard since other U.S. Government agencies or organizations, perhaps through adoption of SFFAS 47, <i>Reporting Entity</i>, may be required to implement provisions of this Standard in the future.</p>
<b>#3 GWSCPA FISC</b>	<p>13. Paragraph 2</p> <p>In paragraph 2, FASAB refers to the “initial amount” measurement approach, stating that this approach is required by and defined in SFFAS 3. Since we could not find that specific term in SFFAS 3, we suggest that the Board define the “initial amount” measurement approach, perhaps in a footnote, and also include the paragraph(s) of SFFAS 3 that describe the “initial amount” measurement approach.</p>
<b>#3 GWSCPA FISC</b>	<p>14. Paragraph 14</p> <p>In paragraph 14, the modifying language to SFFAS 3 refers to the new Standard as “implementation guidance.” We</p>

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

	recommend that a different term be used since “implementation guidance” refers to a different level of the GAAP hierarchy.
<b>#3 GWSCPA FISC</b>	<p>15. Paragraph 12 Disclosures</p> <p>Paragraph 12 states that, “A reporting entity electing to apply deemed cost . . . should disclose this fact and describe the method used in the first period in which the reporting entity makes an unreserved assertion . . .” When presenting comparative information (e.g., in the year following adoption), generally accepted accounting principles would require that the organization provide additional disclosures that are necessary to make the financial statements more informative (SFFAC2, Paragraph 68; AU-C Section 700, paragraph .A43). We suggest that Paragraph 12 clarify whether this disclosure is required in the subsequent year when an agency is presenting comparative financial statements, or whether a phrase similar to what was included in SFFAS 21, paragraph 13(c) (“Financial statements of subsequent periods need not repeat this disclosure”) be included in the final Standard.</p>
<b>#6 DOL OCFO</b>	<p>16. Paragraph 4</p> <p>In paragraph 4, the circumstances are unclear with regard to presentation of one or more line items for the first time. DOL/OCFO believes that there could be a number of reasons that inventory, OM&amp;S, or stockpile materials may be reported when they have not been reported in the past. These could be circumstances such as:</p> <ul style="list-style-type: none"> <li>-- Change in mission</li> <li>-- Reorganization</li> <li>-- New activity</li> <li>-- An asset or activity that has been immaterial in the past has become material (either quantitatively or qualitatively material) for the current reporting period.</li> </ul> <p>DOL/OCFO believes that the standard should provide examples of the reasons that inventory, OM&amp;S, or stockpile materials may have first-time reporting.</p>
<b>#6 DOL OCFO</b>	<p>17. Effective date</p> <p>Paragraph 15 provides for an effective date of FY 2017 with earlier implementation encouraged. A material value for ending balances may only become apparent at the end of FY 2017. The standard as currently written would require an Agency to implement the standard in FY 2016 to determine the ending balance in FY 2016 to use as the opening balance for FY 2017 in the event that the ending balance of OM&amp;S was material at September 30, 2017. Furthermore, if the Agency’s mission, organization, or activities change in FY 2017 in a manner that requires that inventory, OM&amp;S, and stockpile materials be reported, then the Agency would be required to implement in a short</p>

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

	<p>period of time.</p> <p>If an Agency elected early implementation in FY 2016, then work for implementing the standard to obtain values as of September 30, 2015 should already be substantively complete.</p> <p>Agencies also need time to coordinate their reporting based on parent-child and other intragovernmental activities; for these types of activities, central guidance agencies may be involved in the coordination among Agencies.</p> <p>Based on the reasons provided above, DOL/OCFO believes that the implementation date should be no earlier than FY 2018 and that earlier implementation should be prohibited.</p>
<b>#6 DOL OCFO</b>	<p>18. Based on the multi-year nature of some Agencies' programs, the amounts of inventory, OM&amp;S, and stockpile materials held at September 30 may fluctuate from being higher in some years and lower in other years. In such cases, DOL/OCFO believes that, to assist in implementation, the standard should allow the opening balance to be calculated at a September 30 where the amounts held will be at the low point in the multi-year cycle.</p>
<b>#9 DoD OIG</b>	<p>19. Paragraph 5, 1<sup>st</sup> sentence</p> <p><b>Coordinator Comment:</b> Consider adding a definition for the term "unreserved assertion."</p> <p><b>Coordinator Justification:</b> To add clarity to the guidance.</p>
<b>#9 DoD OIG</b>	<p>20. Paragraph 12, 1<sup>st</sup> sentence</p> <hr/> <p><b>Coordinator Comment:</b> Consider adding an explanation regarding the term "first period" or "first reporting period."</p> <p><b>Coordinator Justification:</b> To add clarity to the guidance. The "first period in which the reporting entity makes an unreserved assertion" could be a quarterly (interim financial statement) versus a year-end financial statement. Further, the required disclosure and description of the method should be made in the notes for each of the interim financial statements applicable to the first period in which the reporting entity makes an unreserved assertion, in addition to the year-end financial statements.</p>

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

#9 DoD OIG	<p>21.Paragraph 12, last sentence</p> <p><b>Coordinator Comment:</b> Consider adding a requirement that the amount of the deemed inventory cost be disclosed in the first period in which the reporting entity makes an unreserved assertion. The amount should be disclosed in the notes for each of the interim financial statements applicable to the first period in which the reporting entity makes an unreserved assertion, in addition to the year-end financial statements.</p> <p><b>Coordinator Justification:</b> To provide useful information to financial statement users.</p>
# 11 DOL OIG	<p>22. Potential inconsistency between the ED and SFFAS 3</p> <p>There is a potential inconsistency between the exposure draft and the SFFAS 3.</p> <p><u>In SFFAS No. 3</u></p> <p>Inventory:                   (1) Historical cost or any other valuation methods which approximate historical cost  (2) Latest acquisition cost</p> <p>OM&amp;S                       Historical cost or any other valuation methods which approximate historical cost</p> <p>Stockpile materials    Historical cost or any other valuation methods which approximate historical cost</p> <p><u>In Exposure Draft</u></p> <p>Deemed cost may be based on one of or a combination of any one of the following valuation methods:</p> <ul style="list-style-type: none"> <li>a. Standard price (selling price) or fair value</li> <li>b. Latest Acquisition Cost (LAC) Method<sup>6</sup></li> <li>c. Replacement cost</li> <li>d. Estimated historical cost (initial amount)</li> <li>e. Actual historical cost (initial amount)</li> </ul> <p>Because SFFAS No. 3 included items b, d, and e as acceptable valuation methods, there should be a clarification to highlight that “deemed cost” should only be based on one of these five methods and the proposed standards</p>

## STAFF SUMMARY OF RESPONSES – Table D: Full Text of Other Comments From Respondents

	should clarify how the alternative method differs from other valuation methods which approximate historical cost as noted in SFFAS No. 3.

## Attachment 1- Comment Letters

## **Attachment I**

### **Table of Contents**

#### **Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials**

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July 7, 2015

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

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its June 2, 2015 exposure draft entitled *Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials*. The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed the exposure draft and supports the adoption of this standard by the FASAB. In our view, allowing the use of deemed costs is a reasonable approach for establishing an initial value or after a period during which existing systems cannot provide the information necessary to produce GAAP-based financial statements. It provides an organization a cost effective and an expeditious method to move forward in implementing GAAP relating to the above asset balances. The use of the deemed cost approach for such circumstances is not without precedence. For example, the Government Accounting Standards Board (GASB) allowed the use of deemed costs for certain items, when governments adopted the GASB 34 reporting model and the International Public Sector Accounting (IPSASB) has allowed the use of deemed costs for governments that are adopting the accrual method of accounting for the first time.

Organizations implementing this standard may have an issue of obsolete inventories of supplies, materials and other stockpiled items and the FMSB believes that the standard should include guidance relative to this matter in the final standard. Organizations that implement this guidance may be inclined to assign a deemed cost of \$0 to obsolete items, which is inappropriate. To properly account for such items, we believe that the guidance should prohibit the organization from assigning a deemed cost of zero dollars to obsolete items to avoid a write-down in value. In such circumstances, a properly determined deemed cost should be established and if the items are obsolete, the loss should be recognized in the operating statement. This should be clarified in the final standard through either an addition to the body of the standard or in a footnote to the published standard.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, AGA's staff liaison for the FMSB, at [ssossei@agacgfm.org](mailto:ssossei@agacgfm.org) or at 518-522-9968.

Sincerely,

A handwritten signature in black ink that reads "Lealan Miller". The script is cursive and fluid.

Lealan Miller, CGFM, CPA  
Chair - AGA Financial Management Standards Board

cc: William Miller, CGFM  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2015 – June 2016**

Lealan Miller, Chair  
Devi Bala  
Eric S. Berman  
Robert L. Childree  
Vanessa Davis  
Scott DeViney  
Jeanne B. Erwin  
Richard Fontenrose  
Melanie L. Geesaman  
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J. Dwight Hadley  
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Roger Von Elm  
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Ann M. Ebberts, Chief Executive Officer, (Ex-Officio Member) AGA  
Steven E. Sossei, Staff Liaison, AGA



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July 13, 2015

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

**RE: Proposed Statement of Federal Financial Accounting Standards, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials***

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Statement of Federal Accounting Standards, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* – the exposure draft (ED). We support the Board’s efforts to address alternative valuation methods for opening inventory, operating materials and supplies (OM&S), and stockpile materials. We agree, as discussed in the Basis for Conclusions, that there is a need within the Department of Defense (DoD) community for alternative valuation methods. However, there are certain aspects of the ED that are unclear, which will make implementation problematic, and in some instances will impact the auditability. Therefore, we provide the following comments, segregated between “key issues” and “other issues” for the Board’s consideration.

**Key Issues:**

1. Scope – Paragraph 4

The Basis for Conclusions (paragraphs A1-A4, A9, and A13-A16) implies that the Board developed the alternative valuation methods of inventory, OM&S, and stockpile materials for the DoD community. Therefore to avoid unintended application of this standard, we recommend adjusting paragraph 4 as follows (new content underscored):

This Statement applies when a Department of Defense reporting entity is presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method. The application of this Statement based on the second condition is available once per reporting entity.

If the scope is not restricted to DoD entities, we recommend that the Board incorporate guidance after paragraph 4 to further clarify when the Statement is not applicable, such as what is done in the International Public Sector Accounting Standard (IPSAS), No. 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards*, paragraph 3(a)-(c), as follows:

This Statement would not apply when a reporting entity:

Ms. Wendy M. Payne  
 FASAB Executive Director  
 July 13, 2015  
 Page 2 of 4

- a. Stops presenting financial statements in accordance with GAAP after having previously presented in accordance with GAAP;
- b. Presented financial statements in previous period(s) in accordance with GAAP; or
- c. Presented financial statements in previous period in accordance with GAAP, even if the auditors issued a modified opinion.

In addition, we believe it is unclear what is meant by the phrase “once per reporting entity” in the last sentence of paragraph 4. This could be interpreted to mean once per asset, once per asset type (inventory, OM&S, and stockpile materials), or once for the entity as a whole. Therefore, we recommend that the Board add an additional paragraph to explain the intent of this sentence.

## 2. Scope – Paragraph 5

Paragraph 5 uses the term “unreserved assertion” regarding the presentation of inventory, OM&S, and stockpile materials in accordance with GAAP. The concept of an “unreserved assertion” does not exist in the professional literature (auditing and/or accounting – AICPA, GAO, FASAB). Therefore, the term “unreserved assertion” should be defined with objective/measurable criteria.

In addition, the second sentence of paragraph 5 states that the alternative valuation methods may not be applied to transactions that increase the inventory, OM&S, and stockpile materials balance after the opening balances are established. However, the alternative valuation methods should not be applied to any transactions (increases and decreases) after the opening balances are established. Therefore we recommend that the second sentence in paragraph 5 be adjusted as follows (deleted content strike-through):

The alternative valuation methods permitted in this Statement may not be applied ~~to transactions or events that increase the balance of inventory, OM&S, and stockpile materials~~ after opening balances are established.

## 3. Alternative Valuation Method for Opening Balances – Paragraph 10

Paragraph 10 states, “...deemed cost may be based on one of a combination of any of the following valuation methods...” The term “may” presents an auditability challenge because a reporting entity could use any of the methods noted in paragraph 10 as well as any other method that may lack objectivity/measurability. Therefore, we recommend that paragraph 10 be adjusted as follows (new content underscored; deleted content strike-through):

Because the reporting entity may have multiple component reporting entities using various valuation methods simultaneously, deemed cost should ~~may~~ be based on one of or a combination of any of the following valuation methods, which are alternatives to the valuation methods allowable in SFFAS No. 3:

Further, paragraph 10 provides the following valuation methods:

- a. Standard price (selling price) or fair value
- b. Latest Acquisition Cost (LAC)
- c. Replacement cost
- d. Estimated historical cost (initial amount)
- e. Actual historical cost (initial amount)

Statement of Federal Accounting Standards (SFFAS) No. 3, *Inventory and Related Property*, provides that:

Ms. Wendy M. Payne  
 FASAB Executive Director  
 July 13, 2015  
 Page 3 of 4

- Inventory should be valued at historical cost or latest acquisition cost [paragraph 20];
- OM&S should be valued at historical cost [paragraph 42]; and
- Stockpile materials should be valued at historical cost [paragraph 53].

As a result, items “b” and “e” are already allowable as it relates to inventory and item “e” is already allowable as it relates to OM&S and stockpile materials. If the Board’s intent was for the list in paragraph 10 to be valuations methods alternative to what is allowable under SFFAS No. 3, we recommend deleting item “e” and adjusting item “b”. In addition, it is not clear why the term “initial amount” is provided in parenthesis in item “d” and, as a result, we recommend that the Board remove “initial amount” or explain its purpose. Therefore, we recommend the list provided in paragraph 10 be adjusted as follows (new content underscored; deleted content strike-through):

- a. Standard price (selling price) or fair value
- b. Latest Acquisition Cost (LAC) Method [expanded to OM&S and stockpile materials]
- c. Replacement cost
- d. Estimated historical cost ~~(initial amount)~~
- e. ~~Actual historical cost (initial amount)~~

In addition, footnote 4 in paragraph 10 provides a definition of standard price (selling price). We recommend that standard price (selling price) be added to the definitions section of the Statement instead of defined in a footnote.

Lastly, SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*, describes the concept of estimating historical cost regarding general property, plant, and equipment. We recommend that the Board incorporate guidance from SFFAS No. 35 or include a footnote reference to SFFAS No. 35 to provide a framework regarding estimating historical cost for inventory, OM&S, and stockpile materials.

#### 4. Alternative Valuation Method for Opening Balances – Paragraph 11

The last sentence of paragraph 11 states, “No distinction of amounts arising from the opening balances is required.” We recommend that the Board clarify if this is meant to refer to opening balance in year of adoption, on a continuing basis, or both.

#### 5. Disclosure Requirements – Paragraph 12

Paragraph 12 requires that the reporting entity disclose the application of deemed cost in the first reporting period without mention of subsequent year disclosure requirements. However, we believe that paragraph A18 of the basis for conclusions expresses a different intent regarding paragraph 12. The second sentence of paragraph A18 states, “If reporting entities are able to document that turnover rates for inventory, OM&S, and stockpile materials are such that the opening balance valuation is at historical cost, a reference to deemed cost would not be required.” This implies that it was the Board’s intent for a reporting entity to disclose the use of deemed cost in the first reporting period and subsequent periods until the valuation is at historical cost based upon the turnover rate. We have provided two example disclosures in appendix 1 to this letter that illustrate these two interpretations. Disclosure option 1 is based on paragraph 12 and disclosure option 2 is based on paragraph A18. We recommend that the Board consider these two options and adjust paragraphs 12 and/or A18 accordingly.

Ms. Wendy M. Payne  
FASAB Executive Director  
July 13, 2015  
Page 4 of 4

6. Effect on Existing Standards – Amendments to SFFAS 3, *Accounting for Inventory and Related Property* – Paragraph 14

The information provided in paragraph 14 is not drafted as an amendment to SFFAS No. 3. Paragraph 14 adds a paragraph (56a) to SFFAS No. 3, which provides a reference to this proposed Statement and does not amend the guidance contained within SFFAS No. 3. If it was the Board's intent to amend SFFAS No. 3, as we believe it should be, we recommend that the Board revisit the guidance provided in paragraphs 9-12 and use this guidance to amend paragraphs 20, 22, 35, 42, 44, 50, 53, and 56 of SFFAS No. 3. Following this approach, would be consistent with the treatment of SFFAS No. 35, which amended SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. If it is not the Board's intent to amend SFFAS No. 3, we recommend deleting this section from the Statement.

**Other Issues:**

1. Definitions – Paragraphs 7 and 8

The definition of deemed cost (paragraph 7) should not include the phrase “as used in this Statement” because once a term is defined in FASAB literature it should be considered a universal term that could be used in future Statements. Therefore, we recommend deleting the phrase, “as used in this Statement.”

The definition of opening balances (paragraph 8) contains a footnote that states that the definition is “adapted” from U.S. Auditing Standards-American Institute of CPAs (Clarified). The definition in paragraph 8 of the ED is identical to the definition provided in AU-C 510, *Opening Balances – Initial Audit Engagements, Including Reaudit Engagements*. Therefore, instead of implying that the definition was changed (“adapted”), we recommend that footnote 2 state, “Adopted from AU-C 510, *Opening Balances – Initial Audit Engagements, Including Reaudit Engagements* (AICPA Professional Standards).”

2. Basis for Conclusions

We recommend that the Board clearly explain that the purpose of this Statement is to provide alternative valuation methods for opening balances, however, it does not eliminate the reporting entity's responsibility to maintain evidential matter to support the valuation method(s) selected.

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or [aenelson@kpmg.com](mailto:aenelson@kpmg.com).

Sincerely,

**KPMG LLP**

**Disclosure Option 1** – Disclose use of deemed cost only in first reporting period (Paragraph 12)

First year:

During FY 201X, [Name of Entity] adopted Statement of Federal Accounting Standards (SFFAS) No. XX, *Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials*. The opening balances of inventory, operating materials and supplies, and stockpile materials are valued at deemed cost. The methods used to determine deemed cost was *[describe method using one or a combination of the methods from paragraph 10]*. Current year transactions are recorded at historical cost and/or latest acquisition cost.

Subsequent years:

Inventory, operating materials and supplies, and stockpile materials are recorded at historical cost and/or latest acquisition cost.

**Disclosure Option 2** – Disclose use of deemed cost in first reporting period and each subsequent year until inventory is valued at historical cost based upon turnover rate (Paragraphs 12 and A18).

First year:

During FY 201X, [Name of Entity] adopted Statement of Federal Accounting Standards (SFFAS) No. XX, *Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials*. The opening balances of inventory, operating materials and supplies, and stockpile materials are valued at deemed cost. The methods used to determine deemed cost was *[describe method using one or a combination of the methods from paragraph 10]*. Current year transactions are recorded at historical cost and/or latest acquisition cost.

Subsequent years (turnover such that inventory value still based on deemed cost):

During FY 201X, [Name of Entity] adopted Statement of Federal Accounting Standards (SFFAS) No. XX, *Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials*. Certain balances of inventory, operating materials and supplies, and stockpile materials are valued at deemed cost. The methods used to determine deemed cost was *[describe method using one or a combination of the methods from paragraph 10]*. FY 201X and 201Y transactions are recorded at historical cost and/or latest acquisition cost.

Subsequent years (turnover such that inventory is valued at historical cost):

Inventory, operating materials and supplies, and stockpile materials are recorded at historical cost and/or latest acquisition cost.

July 20, 2015

Wendy Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW – Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Opening Balances for Inventory, Operating Materials and Supplies (OM&S), and Stockpile Materials*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and also appreciate the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

Our response to the ED question follows.

Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, *Accounting for Inventory and Related Property*.

Do you agree or disagree with the proposed standards? Please provide your rationale.

A1. The FISC supports the Board's views on the alternative valuation method, disclosures, and amendments to SFFAS 3. We also offer the following suggestion:

- Several paragraphs in the Appendix, such as paragraphs A14 through A16, appear to limit the applicability of this Standard to the Department of Defense and its components. We suggest

that this limitation not be included in the Standard since other U.S. Government agencies or organizations, perhaps through adoption of SFFAS 47, *Reporting Entity*, may be required to implement provisions of this Standard in the future.

Other Comments:

1. In paragraph 2, FASAB refers to the “initial amount” measurement approach, stating that this approach is required by and defined in SFFAS 3. Since we could not find that specific term in SFFAS 3, we suggest that the Board define the “initial amount” measurement approach, perhaps in a footnote, and also include the paragraph(s) of SFFAS 3 that describe the “initial amount” measurement approach,
2. In paragraph 14, the modifying language to SFFAS 3 refers to the new Standard as “implementation guidance.” We recommend that a different term be used since “implementation guidance” refers to a different level of the GAAP hierarchy.
3. Paragraph 12 states that, “A reporting entity electing to apply deemed cost . . . should disclose this fact and describe the method used in the first period in which the reporting entity makes an unreserved assertion . . .” When presenting comparative information (e.g., in the year following adoption), generally accepted accounting principles would require that the organization provide additional disclosures that are necessary to make the financial statements more informative (SFFAC 2, Paragraph 68; AU-C Section 700, paragraph .A43). We suggest that Paragraph 12 clarify whether this disclosure is required in the subsequent year when an agency is presenting comparative financial statements, or whether a phrase similar to what was included in SFFAS 21, paragraph 13(c) (“Financial statements of subsequent periods need not repeat this disclosure”) be included in the final Standard.

\*\*\*\*\*

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Andrew C. Lewis  
FISC Chair

**From:** Washington, Diane  
**Sent:** Monday, July 20, 2015 3:11 PM  
**To:** FASAB  
**Cc:** Jennifer Denardo  
**Subject:** New Release - Exposure Draft: Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials

Good Afternoon,

This email serves as a response to FASAB's Exposure Draft: Opening Balances for Inventory, Operating Materials and Supplies.

Please find below a copy of the "Question for Respondents" and Interior's response typed in "blue" print.

### **Question for Respondents**

Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, *Accounting for Inventory and Related Property*.

**Do you agree or disagree with the proposed standards? Please provide your rationale.**

**The Department of the Interior to include all Bureaus and Departmental Offices concurs with the proposed standards; as it provides a cost beneficial way to comply with the accounting standard.**

Interior would like to thank FASAB for the opportunity to comment.

--

Diane L. Washington, CGFM

Department of the Interior  
Office of the Secretary (OS)  
Office of Financial Management (PFM)  
Financial Reporting Division (FRD)

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**UNITED STATES DEPARTMENT OF COMMERCE**  
**Chief Financial Officer and**  
**Assistant Secretary for Administration**  
Washington, D.C. 20230

JUL 20 2015

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the FASAB Exposure Draft, Opening Balances for Inventory, Operating Material and Supplies (OM&S) and Stockpile Materials, dated June 2, 2015.

Please find enclosed answers to the questions that were asked of respondents. If you have any questions, please contact me at (202) 482-1207 or [galston@doc.gov](mailto:galston@doc.gov) or Atisha Burks at (202) 482-2715 or [aburks@doc.gov](mailto:aburks@doc.gov).

Sincerely,

A handwritten signature in black ink, appearing to be "Gordon Alston", written over a horizontal line.

Gordon Alston  
Director, Financial Reporting and Internal  
Controls

Enclosure

cc: Lisa Casias  
Gordon Alston  
Diane Marston  
Shakira Ross  
Elleni Mekbeb

[Type text]

**Department of Commerce Response**  
**FASAB Exposure Draft, *Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials***

**Prepared by: Department of Commerce, Office of Financial Management**  
**Date Prepared: July 8, 2015**

**Questions and Answers**

Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements for one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method. The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, *Accounting for Inventory and Related Property*.

Do you agree or disagree with the proposed standards? Please provide your rationale.

**Department of Commerce Response:**

The Department agrees with the proposed standard. The proposed standard is a cost-effective way of attaining compliance with SFFAS 3, *Accounting for Inventory and Related Property* for those reporting entities that did not have adequate systems in the past to capture such costs. The proposed standard will also allow a reporting entity to account for cost fluctuations driven by the market. Offering alternative valuation methods is practical since financial statements prepared under historical accounting systems may suffer from a number of limitations, such as ignoring changes in the market.

**From:** Simpson, Cynthia - OCFO

**Sent:** Monday, July 20, 2015 10:50 AM

**To:** FASAB

**Cc:** Brown, Kevin L - OCFO; Tekleberhan, Karen - OCFO; Sacchetti, Dylan M - OCFO; Balin, Robert - OCFO; Simpson, Cynthia - OCFO

**Subject:** Comments on Exposure Draft, Statement of Federal Financial Accounting Standards, "Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials (June 2, 2015)"

Sent on behalf of

Mr. Kevin L. Brown  
U.S. Department of Labor  
Office of the Chief Financial Officer

~~~~~

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), on the exposure draft of proposed Statement of Federal Financial Accounting Standards, "Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials (June 2, 2015)." Comments were requested by July 20, 2015.

Although DOL does not currently report in its financial statements Inventory, OM&S, or Stockpile Materials, DOL/OCFO appreciates the opportunity to provide comments. If there are any questions, please contact me at brown.kevin.l@dol.gov or Cynthia Simpson at simpson.cynthia@dol.gov; both may be reached at 202-693-6800.

Regards,

Kevin L. Brown  
Office of the Chief Financial Officer  
U.S. Department of Labor  
(202) 693-6800

**U.S. Department of Labor  
Office of the Chief Financial Officer  
Comments on Exposure Draft, Statement of Federal Financial Accounting  
Standards,  
“Opening Balances for Inventory, Operating Materials and Supplies  
(OM&S) and Stockpile Materials (June 2, 2015)”**

**Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.**

**The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, *Accounting for Inventory and Related Property*.**

**Do you agree or disagree with the proposed standards? Please provide your rationale.**

DOL/OCFO Response:

1. In paragraph 4, the circumstances are unclear with regard to presentation of one or more line items for the first time. DOL/OCFO believes that there could be a number of reasons that inventory, OM&S, or stockpile materials may be reported when they have not been reported in the past. These could be circumstances such as:

- Change in mission
- Reorganization
- New activity
- An asset or activity that has been immaterial in the past has become material (either quantitatively or qualitatively material) for the current reporting period.

DOL/OCFO believes that the standard should provide examples of the reasons that inventory, OM&S, or stockpile materials may have first-time reporting.

2. Paragraph 15 provides for an effective date of FY 2017 with earlier implementation encouraged. A material value for ending balances may only become apparent at the end of FY 2017. The standard as currently written would require an Agency to implement the standard in FY 2016 to determine the ending balance in FY 2016 to use as the opening balance for FY 2017 in the event that

the ending balance of OM&S was material at September 30, 2017. Furthermore, if the Agency's mission, organization, or activities change in FY 2017 in a manner that requires that inventory, OM&S, and stockpile materials be reported, then the Agency would be required to implement in a short period of time.

If an Agency elected early implementation in FY 2016, then work for implementing the standard to obtain values as of September 30, 2015 should already be substantively complete.

Agencies also need time to coordinate their reporting based on parent-child and other intragovernmental activities; for these types of activities, central guidance agencies may be involved in the coordination among Agencies.

Based on the reasons provided above, DOL/OCFO believes that the implementation date should be no earlier than FY 2018 and that earlier implementation should be prohibited.

3. Based on the multi-year nature of some Agencies' programs, the amounts of inventory, OM&S, and stockpile materials held at September 30 may fluctuate from being higher in some years and lower in other years. In such cases, DOL/OCFO believes that, to assist in implementation, the standard should allow the opening balance to be calculated at a September 30 where the amounts held will be at the low point in the multi-year cycle.



## DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of the Secretary  
Washington, DC 20201

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

Dear Ms. Payne:

The Department of Health and Human Services (HHS) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's Exposure Draft: *Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials*.

The Board requested comments on the following question:

- Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, *Accounting for Inventory and Related Property*.

**Do you agree or disagree with the proposed standards? Please provide your rationale.**

### Response

HHS agrees with the proposed standard. HHS has been preparing financial statements and reporting inventory, operating materials and supplies and stockpile materials based on historical cost for almost 18 years. However, Department of Defense and other agencies who are not currently preparing financial statements following GAAP may not have historical records available for use in establishing opening balances for the first period of reporting in compliance with GAAP. The concept of "deemed cost" set forth in this standard allows them acceptable options for moving forward and gives a basis for auditors to accept the methodology used for the opening balance.

HHS agrees that this should be a one-time option. After establishing opening balances for the first reporting period with a GAAP assertion, all subsequent activity should comply with the established requirements in Statement of Federal Financial Accounting Standards (SFFAS) 3.

If you have any questions or would like additional information, please contact Yianting Lee, Director, Division of Financial Statements and Audit, at [Yianting.Lee@hhs.gov](mailto:Yianting.Lee@hhs.gov) (202-690-6441) or David Horn, Director, Financial Policy and Reporting, at [David.Horn@hhs.gov](mailto:David.Horn@hhs.gov) (202-260-9658).

Sincerely,

A handwritten signature in black ink, appearing to read 'Sheila Conley', with a stylized, cursive script.

Sheila Conley  
Deputy Assistant Secretary, Finance and  
Deputy Chief Financial Officer

Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile  
Materials

**Question for Respondents – MsWord Version**

- Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, *Accounting for Inventory and Related Property*.

**Do you agree or disagree with the proposed standards? Please provide your rationale.**

VA has reviewed the exposure draft and supports the adoption of this standard by FASAB. However, historical records and systems employed by VA provide an adequate basis for determining the opening balance valuation of inventory and therefore will not be utilized by VA.



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

July 21, 2015

MEMORANDUM FOR EXECUTIVE DIRECTOR, FEDERAL ACCOUNTING STANDARDS  
ADVISORY BOARD

SUBJECT: Proposed Statement of Federal Financial Accounting Standards "Opening Balances  
for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials"

We appreciate the opportunity to respond to the proposed Statement of Federal Accounting Standards, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials – the exposure draft (ED). We have reviewed the document as requested and we concur with comment as indicated in the attached matrix; the matrix also contains our response to the "Question to Respondents." Should you have any questions or require additional assistance, please contact me or Ms. Daniela Mahoney of my staff at 703-604-8912.

*Carolyn R. Hantz*  
Digitally signed by  
HANTZ, CAROLYN RAMONA.1232141464  
DN: cn=US, o=U.S. Government, ou=DoD,  
ou=PKI, ou=DDIG,  
cn=HANTZ, CAROLYN RAMONA.12321414  
64  
Date: 2015.07.21 17:03:06 -0400

Carolyn R. Hantz  
Acting Deputy Inspector General  
Policy and Oversight

| <b>COMMENT MATRIX</b><br><b>FASAB Exposure Draft, "Opening Balances for Inventory, Operating Materials and Supplies (OM&amp;S) and Stockpile Materials" and Response to the "Question for Respondents"</b> |       |                                                                   |        |                                    |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |       |
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| #                                                                                                                                                                                                          | CLASS | COMPONENT AND POC NAME, PHONE, AND E-MAIL                         | PAGE # | PARA #                             | COMMENT TYPE (C/S) | COMMENTS, JUSTIFICATION, AND ORIGINATOR JUSTIFICATION FOR RESOLUTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | A/R/P |
| 1                                                                                                                                                                                                          | U     | OIG DoD<br>Debie Alford<br>703-601-5396<br>debra.alford@dodig.mil | 5      | 5.<br>1 <sup>st</sup><br>Sentence  | S                  | <b>Coordinator Comment:</b> Consider adding a definition for the term "unreserved assertion."<br><br><b>Coordinator Justification:</b> To add clarity to the guidance.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |       |
| 2                                                                                                                                                                                                          | U     | OIG DoD<br>Debie Alford<br>703-601-5396<br>debra.alford@dodig.mil | 6      | 12.<br>1 <sup>st</sup><br>Sentence | S                  | <b>Coordinator Comment:</b> Consider adding an explanation regarding the term "first period" or "first reporting period."<br><br><b>Coordinator Justification:</b> To add clarity to the guidance. The "first period in which the reporting entity makes an unreserved assertion" could be a quarterly (interim financial statement) versus a year-end financial statement. Further, the required disclosure and description of the method should be made in the notes for each of the interim financial statements applicable to the first period in which the reporting entity makes an unreserved assertion, in addition to the year-end financial statements. |       |
| 3                                                                                                                                                                                                          | U     | OIG DoD<br>Debie Alford<br>703-601-5396<br>debra.alford@dodig.mil | 6      | 12.<br>Last<br>Sentence            | S                  | <b>Coordinator Comment:</b> Consider adding a requirement that the amount of the deemed inventory cost be disclosed in the first period in which the reporting entity makes an unreserved assertion. The amount should be disclosed in the notes for each of the interim financial statements applicable to the first period in which the reporting entity makes an unreserved assertion, in addition to the year-end financial statements.<br><br><b>Coordinator Justification:</b> To provide useful information to financial statement users.                                                                                                                  |       |
|                                                                                                                                                                                                            | U     | OIG DoD<br>Debie Alford<br>703-601-5396<br>debra.alford@dodig.mil |        |                                    |                    | <b>DoD OIG Response to "Question for Respondents"</b><br>Question 1.<br>The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating                                                                                                                                                                                                                                                                                                                                                                                                                                     |       |

| <b>COMMENT MATRIX</b><br><b>FASAB Exposure Draft, "Opening Balances for Inventory, Operating Materials and Supplies (OM&amp;S) and Stockpile Materials" and Response to the "Question for Respondents"</b> |       |                                                 |        |        |                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |               |
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| #                                                                                                                                                                                                          | CLASS | COMPONENT AND<br>POC NAME, PHONE,<br>AND E-MAIL | PAGE # | PARA # | COMMENT<br>TYPE (C/S) | COMMENTS, JUSTIFICATION, AND ORIGINATOR JUSTIFICATION FOR RESOLUTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | A/<br>R/<br>P |
|                                                                                                                                                                                                            |       |                                                 |        |        |                       | <p>materials and supplies (OM&amp;S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.</p> <p>The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, <i>Accounting for Inventory and Related Property</i>.</p> <p><b>Do you agree or disagree with the proposed standards? Please provide your rationale.</b></p> <p><b>OIG DoD Response:</b></p> <p>We agree with the Board's proposal to allow DoD to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&amp;S), and stockpile materials when presenting financial statements.</p> <p>The DoD OIG has identified—and DoD management has acknowledged—for many years that accounting for inventory, OM&amp;S, and stockpile materials, and controls over DoD financial management systems are material internal control weaknesses to the Department's financial statements. DoD is generally unable to rely upon its financial management systems to produce accurate and timely historical cost data for several classes of assets, including inventory, OM&amp;S, and stockpile materials. If the Department is to meet its statutory requirement to prepare</p> |               |

| <b>COMMENT MATRIX</b><br><b>FASAB Exposure Draft, "Opening Balances for Inventory, Operating Materials and Supplies (OM&amp;S) and Stockpile Materials" and</b><br><b>Response to the "Question for Respondents"</b> |       |                                                 |        |        |                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------------------------|--------|--------|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| #                                                                                                                                                                                                                    | CLASS | COMPONENT AND<br>POC NAME, PHONE,<br>AND E-MAIL | PAGE # | PARA # | COMMENT<br>TYPE (C/S) | COMMENTS, JUSTIFICATION, AND ORIGINATOR JUSTIFICATION FOR RESOLUTION                                                                                                                                                                                                                                                                                                                                                                                                              | A/<br>R/<br>P |
|                                                                                                                                                                                                                      |       |                                                 |        |        |                       | financial statements in accordance with GAAP, DoD requires a cost-effective alternative to SFFAS 3. The proposed standards should assist DoD in complying with GAAP reporting requirements while lessening the Department's financial burden in recreating historical cost data that it has been unable to previously produce using its existing financial management systems. This proposed standard will assist DoD in its efforts to produce audit-ready financial statements. |               |

**Word Version of Request for Comments****Opening Balances for Inventory, Operating Materials and Supplies (OM&S), and Stockpile Materials - Exposure Draft****Comments Requested by July 20, 2015**

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**Name of Respondent: Alaleh A. Jenkins****Organization Represented: Department of Defense**

**Q1.** The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

**Do you agree or disagree with the Board's proposal to no longer require condition reporting? Please provide the rationale for your answer.**

**Agree. Adoption of the alternative valuation process presented in this exposure draft should help to reduce the cost of audit readiness activities, while requiring the system and process changes necessary to produce accurate financial data moving forward.**

U.S. Department of Labor

Office of Inspector General  
Washington, D.C. 20210**JUL 24 2015**

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

Dear Ms. Payne:

On behalf of the Office of Audit, Office of Inspector General, U.S. Department of Labor enclosed is the response to the question posed in the exposure draft titled "Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials.

If you have any questions or need additional information, please contact Joseph L. Donovan, Jr., Audit Director, Financial Statement Audits, at 202-693-5248.

Sincerely,

A handwritten signature in black ink that reads "Elliot P. Lewis". The signature is fluid and cursive.

Elliot P. Lewis  
Assistant Inspector General for Audit

Enclosure

*Working for America's Workforce*

US Department of Labor  
Office of Inspector General  
Office of Audit

**Exposure Draft: Opening Balances for Inventory, Operating Materials and  
Supplies (OM&S) and Stockpile Materials**

**Question 1:** The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials, and supplies (OM&S), and stockpile materials when presenting financial statements or one or more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method, disclosures and amendments to SFFAS 3, Accounting for Inventor and Related Property.

Do you agree or disagree with the proposed Standards? Please provide your rational.

We generally agree with this change. However, there is an observation relating to this exposure draft.

There is a potential inconsistency between the exposure draft and the SFFAS No.3.

**In SFFAS No. 3**

|                                      |                                                                                                                     |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| For Inventory:                       | (1) Historical cost or any other valuation methods which approximate historical cost<br>(2) Latest acquisition cost |
| For Operating materials and supplies | Historical cost or any other valuation methods which approximate historical cost                                    |
| Stockpile materials                  | Historical cost or any other valuation method which approximates historical cost                                    |

**In Exposure Draft**

Deemed Cost may be based on one of or a combination of any of the following valuation methods:

- a. Standard price (selling price) or fair value
- b. Latest Acquisition Cost (LAC) Method
- c. Replacement Cost
- d. Estimated historical cost (initial amount)
- e. Actual historical cost (initial amount)

Because SFFAS No. 3 included items b, d, and e, as acceptable valuation methods, there should be a clarification to highlight that "deemed cost" should only be based on one of these five methods and the proposed standard should clarify how the alternative valuation method differs from other valuation methods which approximate historical cost as noted in SFFAS No. 3.