

Addendum #2 Memo Leases

February 15, 2023

To: Members of the Board
From: Ricky A. Perry, Jr., Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Letter from Tonya Johnson, Department of the Interior** (Topic E addendum #2)

On February 15, 2023, the Chairman received the enclosed letter from the Department of the Interior (Interior or “the Department”). Staff requests that members carefully study this cover memo and the enclosed letter.

The enclosed letter does not affect the implementation themes, observations, and conclusions reached by staff under Topic E. Interior was one of the eight CFO Act reporting entities interviewed by staff, as discussed in the methodology section of Topic E. The implementation activities, themes, and staff observations in Topic E are based in part on those discussions. Staff did not propose any tentative Board decisions or recommendations for reasons discussed therein. Staff hereby reaffirms this position.

Staff analysis of the enclosed letter:

1. Statement 54, *Leases*, was issued in April 2018 after extensive due process and deliberations. The Statement received unanimous Board approval. The Department commented on the exposure draft (ED) and concurred with the proposed effective date and transition requirements (see [p. 11-12 of comment letter, Q11-Q12](#)). As part of the due process, the Board duly considered comments from all interested parties, including those that expressed alternative views and disagreements with the proposals within the ED.
2. Statement 58, *Deferral of the Effective Date of SFFAS 54, Leases*, was issued in June 2020 after extensive due process and deliberations. The Statement received unanimous Board approval. As part of the due process, the Board duly considered ED comments that expressed alternative views, including the Department’s alternative view requesting an additional year for implementation.
3. The eight issues and concerns enumerated on pages 2-3 of the enclosure are consistent with the management challenges and themes summarized by staff under Topic E related to organizational change management, project management, and systems.
4. Management is responsible for implementing significant changes in accounting principles in accordance with transition requirements and the effective date of the

Board's final pronouncements. This entails project management and modifications to systems and controls.

5. The Board duly considered the costs and challenges of the standard. See SFFAS 54 paragraphs A23-A27, A33, A36, and A38-A41 for examples.

Closing staff remark:

The federal financial reporting objectives are “a framework for assessing the existing financial reporting systems of the federal government and for considering how new accounting standards might help to enhance accountability and decision-making in a cost-effective manner.”¹ Topic E materials highlight the anticipated benefits of Statement 54 and its expected contributions to the federal financial reporting objectives when the Statement becomes effective in fiscal year 2024.

Enclosure

¹ Statement of Federal Financial Accounting Concepts 1.



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

MEMORANDUM

To: George A. Scott
Chairman
Federal Accounting Standards Advisory Board (FASAB)

From: Tonya R. Johnson
Deputy Chief Financial Officer (DCFO), and
Director, Office of Financial Management (PFM)

Subject: Implementation Concerns with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard 54: Leases

The purpose of this memorandum is to identify the challenges and concerns the Department of the Interior (Department/DOI) has with the implementation of Statement of Federal Financial Accounting Standards (SFFAS 54): Leases. Since the initial issuance of SFFAS 54 in fiscal year (FY) 2018, DOI has actively engaged in planning, coordinating, and identifying potential courses of action for this highly technical standard. Unresolved complexities of the standard for Right to Use (RTU) leases are currently being evaluated by the Treasury working group. Currently, the federal financial community is awaiting final guidance from the Department of the Treasury (Treasury), which has caused delays in software development efforts with our financial management solution provider, SAP. Additionally, detailed 2024 disclosure requirements are unknown to date and have not been presented in the Office of Financial Management (OMB) A-136, *Financial Reporting Requirements*. As a result of the complex accounting and untimely issuance of sound guidance, DOI disagrees with the proposed implementation timeline.

DOI has received 26 consecutive unmodified audit opinions and strives for excellence in financial reporting. Due to significant system limitations, decentralized leasing functions and processes across the Department, and complexities of SFFAS 54, DOI will not have an automated solution ready for implementation in FY 2024. Reporting RTU leases in accordance with SFFAS 54 will require an extensive upgrade with required enhancements of the property modules in DOI's enterprise financial system, the Financial and Business Management System (FBMS). Full implementation of this standard will also require increased costs for departmentwide acquisitions, property, and finance training.

The audit risk associated with a rushed implementation of a standard this significant is a major concern for DOI. It is imperative that Departmentwide policy changes, and key controls designed throughout the development process are carefully formulated to ensure completeness and accuracy for continued unmodified audit opinions.

Since FY 2020, the Department has made progress in preparing systematically for the Standard, despite the current limitations. In FY 2020, a proof of concept with SAP was completed. At that time, it was noted that there was a need of a finalized posting model guidance model and a deep understanding of SFFAS 54 requirements. Although efforts to develop a solution for the SFFAS 54 Lease contract functionality were identified, the need for the final posting model and SFFAS 54 requirements

classifications continued in FYs 2021 and 2022. Development of core accounting solution is extremely complex and includes a two-year preparation window, to analyze a plan for the corresponding impacted areas, including data conversion, reporting, and training.

The Department estimates the full implementation of the current SFFAS 54 may cost more than \$27M in implementation costs and \$9M in annual recurring costs. It is understood through collaborative engagements with other Federal agencies, OMB, and Treasury that our challenges with implementing SFFAS 54 within the current timeline are shared.

DOI would like to propose a few options for the Boards consideration: 1) Delay full implementation until FY 2027, 2) Discuss a phased implementation approach – SFFAS 54 Intra-governmental leases in the first year of implementation – with the provision of a structured timeline from DOI, 3) Report RTU leases in the second year of implementation or, 4) rescind SFFAS 54.

In addition, it is DOI's recommendation that the Board initiate a secondary review of this standard now that agencies have had a chance to analyze their lease activity and system capabilities in detail as it applies to SFFAS 54. DOI believes the current lease standard does not fully consider the unique challenges that this will invoke on Federal agencies based on their respective current structures.

DOI does not believe that our financial statements will be materially misrepresented by delaying the implementation of SFFAS 54 to FY 2027. We believe the federal government and citizens of the United States would be better served by taking a step back and performing additional cost benefit analysis prior to agencies or service providers taking further action. In the absence of delayed implementation or changes to the requirement as proposed above, DOI will request a temporary waiver on implementation of the RTU leasing requirements until FY 2027.

Below highlights DOI's significant issues and concerns for SFFAS 54 implementation:

- 1) Complexities of the standard – SFFAS 54's requirement for Balance Sheet reporting on RTU leases is complicated and requires specific Treasury guidance for consistency in reporting across the government. While Treasury and the OMB have established recent governmentwide work groups (FY 2021), reporting guidance in these areas has not yet been finalized and published. Various issues have been identified in these workgroups that warrant finalized guidance. More collaborative governmentwide workgroups would benefit agencies in their efforts of implementing this standard.
- 2) Untimely Treasury/OMB guidance – This is a major factor in DOI's implementation status as DOI's software provider refused to move forward on extending their private sector real property module for Federal requirements without final guidance published by the federal government.
 - a. Intragovernmental lease requirements were finalized in late FY 2022.
 - b. RTU lease reporting guidance is still being finalized.
 - c. Funded vs. Unfunded liability reporting was just proposed in FY 2022.
 - d. Budgetary reporting questions are still outstanding – timing of delivered orders, etc.
 - e. Reporting expectations and guidance for rolling over asset/liability balances for leasing activity in annual/multi-year funds is still outstanding.
 - f. Standardized Lease identification checklist are outstanding.
 - g. Agencies have requested a specific lease BOC from OMB and Treasury for reporting purposes.
- 3) DOI's lease portfolio is not centralized – Significant workflow changes are necessary to ensure all leases are identified and captured appropriately to meet SFFAS 54 reporting guidelines for 11+ Bureaus and Offices.

- 4) Competing resources within DOI and our systems provider, SAP Software Solutions –
 - a. Significant System Upgrades - DOI has diligently been working with our systems provider, SAP, for the past 4 years to plan for a major system upgrade to their future Enterprise Resource Planning component, S4/HANA. This upgrade is scheduled for FY 2025. Delaying SFFAS 54 to FY 2027 would benefit DOI by eliminating duplicate efforts and costs associated with having to implement a new module prior to a major upgrade.
 - b. G-Invoicing – Significant resources within DOI and with our systems provider, SAP, have been spent the past few years working to meet the Treasury G-Invoicing mandate for FY 2022. DOI and SAP were not able to meet this mandate due to various reasons and are therefore still working diligently on this implementation.
 - c. SFFAS 59 Land Standard Implementation – This is a phased in implementation through FY 2026 and is significant for DOI.
- 5) DOI suggests audit guidance is developed for SFFAS 54 implementation, similar to what is being provided for SFFAS 59: Accounting and Reporting of Government Land.
- 6) DOI has been engaged with SAP since FY 2019 on this standard. So far, 10 significant gaps have been identified by DOI in the real property module SAP has built for the private sector that need to be addressed to meet Federal requirements. Gaps not addressed by SAP will require costly enhancements or internally developed solutions prior to implementation. Examples include budgetary reporting, funded vs unfunded liability reporting, leases crossing funds (Treasury Appropriation Fund Symbols).
- 7) Software provider collaboration - Stronger governmentwide collaboration among software providers (SAP/Oracle/Momentum, etc.) is recommended and necessary for an accounting standard implementation of this size and complexity. Agencies working individually with their software providers are not getting the attention or results needed to meet expectations.
- 8) Funding - Until the guidance is finalized, full development costs are unknown.

We sincerely appreciate the opportunity FASAB's has allowed for us to provide information on DOI's concern. We welcome the opportunity for continued collaboration to address these or other concerns with FASAB.

Attachments:

None

cc: Monica Valentine, Executive Director, FASAB
Andrea L. Brandon, Deputy Assistant Secretary- Budget, Finance and Acquisitions
Eric D. Still, Associate Chief Financial Officer Financial Operations Management & Deputy Director- FOM, PFM
Clarence Smith, Senior Advisor, PFM
Cynthia Snooks-Key, Chief of Staff, PFM