

Addendum #5 Memo Leases

February 17, 2023

To: Members of the Board
From: Ricky A. Perry, Jr., Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Letter from Karin Dasuki, Department of Energy** (Topic E addendum #5)

On February 17, 2023, the Chairman received the enclosed letter from the Department of Energy (Energy 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. Energy 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. Energy OCFO staff provided valuable expertise and feedback throughout the project. Energy OCFO also [commented on](#) the exposure draft (ED), generally concurring with its proposals while also providing insightful technical feedback and alternative views on certain technical matters and anticipated implementation challenges. As part of the due process, the Board duly considered comments from all interested parties, including those provided by the Department. The Board duly considered the costs and challenges of the standard. See SFFAS 54 paragraphs A23-A27, A33, A36, and A38-A41 for examples.
2. Statement 58, *Deferral of the Effective Date of SFFAS 54, Leases*, was issued in June 2020 after extensive due process and deliberations, including consultations with Energy OCFO.¹ The Statement received unanimous Board approval. Energy OCFO submitted a comment letter concurring with a proposed two-year deferral and stating the following: “The Department was on schedule to meet the initial implementation date for reporting periods occurring after September 30, 2020. The Department developed a process of implementing the standards two-years

¹ See October 2019 meeting materials, [Tab D, Attachment 2](#) and [meeting minutes, p. 6-9](#).

prior to the initial implementation date and conducted diligent work with Departmental elements, and national laboratories. The deferral will permit the Department to consider FASAB's implementation guidance and provide additional time to test transactions through DOE's accounting system. As a result, DOE agrees with deferring the implementation of SFFAS 54" (see [p. 1 of comment letter](#))

3. Energy summarized several management challenges in the enclosed letter. These are consistent with the management challenges and themes summarized by staff under Topic E related to organizational change management, project management, and systems.
4. Staff is not aware of any official Board statements or assertions on materiality as described in the enclosed letter. The Board's materiality concepts are not consistent with the information provided in the enclosed letter.² Mr. Dacey and staff have provided two trainings on leases and materiality. The training content was consistent with the Board's materiality concepts and the audit literature.
5. The Handbook and Handbook-by-Chapter versions of Statement 54 on FASAB.gov reflect the omnibus amendments from Statements 58 and 60. Practitioners need not reference Statements 58 and 60 when performing research.
6. Staff believes that the "accounting scenario guidance" discussed in the enclosed letter is referring to Treasury posting logic guidance currently under development.

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."³ Topic E and the issues discussed in this enclosed letter 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

² Statement of Federal Financial Accounting Concepts (SFFAC) 1, par. 164a-g.

³ SFFAC 1.



Department of Energy
Washington, DC 20585

February 10, 2023

MEMORANDUM FOR THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB)

FROM Karin Dasuki Digitally signed by Karin Dasuki
Date: 2023.02.08 10:10:45 -05'00'
Director, Office of Finance and Accounting
Department of Energy (DOE), Office of the Chief Financial Officer

SUBJECT Statement of Federal Financial Accounting Standards (SFFAS) 54
Implementation Concerns

The Department of Energy (DOE) has concerns about FASAB's new primary lease standard reporting requirements, SFFAS 54, which significantly changes Federal financial lease reporting beginning fiscal year 2024 on October 1, 2023.

SFFAS 54 results from FASAB's adoption of private-sector lease accounting practices and is irrelevant to most of the Federal agencies. The impact to DOE's financial statements and additional SFFAS 54 required disclosures, does not assist the typical readers of DOE's financial statements.

The federal government's implementation of SFFAS 54 imposes substantial costs on employee's time and needed changes to systems on many agencies without significant benefits to users of Federal financial reporting, and, therefore, should be rescinded.

DOE Implementation Concerns

- **FASAB Guidance**

Guidance requiring federal entities to account and report lease information spans across, five different standards: SFFAS 54, SFFAS 58, SFFAS 60, Technical Release (TR) 20, and TR 21. Non-financial personnel will need a complex set of crosswalks between SFFAS 54 and other standards (or conforming amendments) to comply with lease reporting requirements.

- **Materiality**
 - SFFAS 54 allows agencies to determine the materiality of the standard to their agency. However, FASAB indicated that not applying the standard to all leases would be a non-Generally Accepted Accounting Principle (GAAP) practice. FASAB's lack of guidance and clarity on this non-GAAP practice creates a potential audit risk for immaterial leases.
- **Present Value Calculation Requirement**
 - There are no Federal-wide readily available tools or accounting systems to calculate present value of the SFFAS 54 lease guidance due to the implementation complexity. The only commercial software tools available are for Accounting Standards Codification (ASC) 842 and Governmental Accounting Standards Board (GASB) 87, but they have not yet been fully developed, tested and ready for SFFAS 54 use. This will require DOE to be using spreadsheets to calculate and maintain the present values of the Department leases. This creates the opportunity for error and incorrect reporting. Furthermore, the standard has not been adequately coordinated with vendors to update approved Federal financial management systems
- **Accounting Scenarios and Financial Statement Reporting**
 - The accounting scenario guidance is subjective and unclear as to the entries needed due to the complexity of the new lease standard. It is cumbersome to maintain three separate ledgers as a result of the three right-to-use lease categories and these balances will not be in alignment. Due to the ledgers not being aligned, Federal entities will expend excessive time and effort to create needed manual journal entries that will subject them to even further scrutiny from auditors.
 1. Budgetary accounting: OMB Circular A-11 will still have the categorization of operating and capital leases. No changes are being made to align standards with the scoring process that continues to create an incongruity between budget users and financial users;
 2. Right-to-Use (capitalized) and proprietary lease accounting: Scenarios for straight line amortization of lease assets do not directly tie to lease payments;
 3. Liability: Separate entry to categorize funded versus unfunded for the lease liability.
 - The right-to-use lease Treasury accounting scenarios (finalized on January 24, 2023) are unclear due to the intricacies of SFFAS 54. Two scenarios remain as draft/unfinalized by Treasury.
 - The timeline for Federal agencies to test and implement Treasury scenarios requires effort and time to complete. For such a significant change to Federal lease accounting, Federal agencies will require the scenarios to be finalized at an earlier date.
 - The financial statement footnote requirements with illustrative examples tables are unavailable as of February 7, 2023. These tables are necessary for

agencies to determine the data stratification needed for the note disclosures that goes down to at a more detailed level collect mandatory lower-level disclosure information. The narrative from SFFAS 54 is not straightforward in explaining the requirements and are critical for implementation. Agencies cannot implement SFFAS 54 without this information.

Please contact Jeffrey Carr at Jeffrey.Carr@hq.doe.gov or 202-701-8531 with any questions regarding this response.