Amending Inter-Entity Cost Provisions

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Please provide your name.

Name: David C. Horn

Please identify your organization, if applicable.

Organization: Department of Health and Human Services

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

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

a. SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*

b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

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

The Department of Health and Human Services (HHS) agrees with the proposal to revise SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, to limit recognition of inter-entity costs to business-type activities and those imputed costs specifically identified by the Office of Management and Budget. HHS agrees with the rescission of SFFAS 30 and Interpretation 6 to accomplish this objective.
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Like Defense, HHS is a very large and complex organization with eleven operating divisions and many subcomponents that work together to provide essential health and social services that protect and enhance the health and well-being of Americans. HHS does not have a formal cost accounting system and must use other cost finding techniques to compute detailed full cost information. It is unlikely that funding will be available in the future to build a complex cost accounting system that would meet the diverse needs of our operating divisions. This proposal will help HHS comply with SFFAS 4 and reduce the cost of financial reporting.

HHS uses interagency agreements to bill for exchange type transactions both internally and with other agencies. We agree that inter-entity business services should continue to reflect full cost.

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

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

HHS agrees with the proposed disclosure. The reader of the financial statements should be informed if there are significant costs that are not included in the reporting entity’s financial statements.

b) Do you believe the proposed disclosure would impose a greater cost or burden when compared to existing requirements? Please consider implementation challenges for both the preparer and auditor in formulating your opinion. Please provide the rationale for your answer.

No, since this standard allows a reduction of reporting requirements for recognizing or imputing inter-entity cost, HHS finds that the proposed disclosure would impose less cost or burden compared to existing requirements. For the preparer, a concise statement disclosing that there are significant costs that are not included in the financial statements should be easy to include in Note 1. For the auditor, this disclosure should be easier to verify than determining that all inter-entity costs have been correctly computed and included in the statements.