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Sent: Thursday, November 30, 2017 4:31 PM
To: FASAB
Cc: DiGiantommaso, Jennifer M. - OCFO; Wyes, Tesfaye T - OCFO; Maurer, Jennifer - OCFO; Sacchetti, Dylan M - OCFO; Polen, Chris P - OCFO; Tekleberhan, Karen - OCFO
Subject: US DOL/OCFO/FRD Comments on FASAB Exposure Draft, "Amending Inter-entity Cost Provisions"
Importance: High

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), Financial Reporting Division (FRD) on the exposure draft of proposed Statement of Federal Financial Accounting Standards, "Amending Inter-entity Cost Provisions (September 1, 2017)." Comments were requested by November 30, 2017. DOL/OCFO/FRD is a Federal entity preparer.

We appreciate the opportunity to provide comments. If there are any questions, please contact:
Cynthia Simpson, simpson.cynthia@dol.gov or
Jennifer DiGiantommaso, DiGiantommaso.Jen@dol.gov

Regards,

Cynthia D. Simpson
U.S. Department of Labor
Office of the Chief Financial Officer
Financial Reporting Division

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Office of the Chief Financial Officer
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Comments on FASAB Exposure Draft, "Amending Inter-entity Cost Provisions (September 1, 2017)"

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.

US DOL/OCFO/FRD Response: Disagree with the second sentence in paragraph 110; clarification is needed for imputed inter-entity non-production costs. The second sentence in paragraph 110 states: "Therefore, the Office of Management and Budget should identify the specific inter-entity costs for entities to recognize."

Disagree with the last sentence in paragraph 111; clarification is needed for imputed inter-entity non-production costs. The last sentence in paragraph 111 states: "Therefore, recognition of inter-entity costs supporting business-type activities should be made in accordance with implementation guidance provided by FASAB through one or more technical releases."

The sentences should be revised so that component reporting entities do not recognize inter-entity costs that are **imputed** non-production costs.

Rationale: Including non-production costs in the costs of goods and services would distort the costs of goods and services. Therefore, an **imputed** inter-entity non-production cost, if included in the costs of goods and services, would distort the costs of goods and services. Imputed inter-entity non-production costs would provide limited value to financial statement users because they are not included in the costs of goods and services; therefore, component reporting entities should not recognize imputed inter-entity non-production costs.

FASAB Handbook, SFFAS 4, Page 30, paragraph 104, provides the following definition of non-production costs (excerpt): A responsibility segment may incur and recognize costs that are linked to events other than the production of goods and services. Two examples of these non-production costs were discussed earlier: (1) OPEB costs that are recognized as expenses when an OPEB event occurs, and (2) certain property acquisition costs that are recognized as expenses at the time of acquisition. Other non-production costs include reorganization costs, and nonrecurring cleanup costs resulting from facility abandonments that are not accrued. Since these costs are recognized for a period in which a particular event occurs, assigning these costs to goods and service produced in that period would distort the production costs.

FASAB Handbook, Appendix E, Page 57, provides the following definition of OPEB: Forms of benefits provided to former or inactive employees, their beneficiaries, and covered dependents outside pension or ORB plans.

FASAB Handbook, SFFAS 5, Page 38, paragraph 94 provides the following examples of OPEB: OPEB are provided to former or inactive employees, their beneficiaries, and covered dependents outside pension or ORB plans. Inactive employees are those who are not currently rendering services to the employer but who have not been terminated, including those temporarily laid off or disabled. Postemployment benefits can include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment, workers' compensation, and veterans' disability compensation benefits paid by the employer entity.

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.

US DOL/OCFO/FRD Response: Disagree with paragraph 5; an additional sentence is needed. Paragraph 5 should also state that there is no requirement for positive confirmation; that is, component reporting entities should not be required to disclose that there are no significant services received for which a cost is not recognized.

Rationale: DOL discloses in its financial statement notes that management has determined that no subsequent events exist. For example, in the DOL FY 2017 Agency Financial Report, Note 24 (Subsequent events):

"Except for the USPS October 2017 reimbursement to the FECA Special Benefit Fund as disclosed in Note 4 and Note 23 and the disclosures for the social insurance financial statements in Note 1.W, management has determined that there are no subsequent events requiring accrual or disclosure through November 15, 2017 [emphasis added]."

By adding a sentence in paragraph 5 that component reporting entities are not required to disclose that there are no significant services received for which a cost is not recognized, then an Agency could avoid making a note disclosure such as, "management has determined that there are no significant services received for which a cost is not recognized."

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.

US DOL/OCFO/FRD Response: Refer to our response to Question 2, a). By adding a sentence in paragraph 5 that component reporting entities are not required to disclose that there are no significant services received for which a cost is not recognized, then this would assist implementation of the standard.