FASAB Exposure Draft: Questions for Respondents due October 13, 2017
ASSIGNING ASSETS TO COMPONENT REPORTING ENTITIES

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm			
Federal Entity (user)			
Federal Entity (preparer)	X		
Federal Entity (auditor)			
Federal Entity (other)		If other, please specify:	
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Individual			

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization: OGA

Q1. The proposed Technical Bulletin (TB) provides that assets may be assigned by a reporting entity to its component reporting entities on a rational and consistent basis. For example, an asset may be assigned to a component reporting entity holding legal title, funding the asset, using the asset in its operations, or another rational and consistent basis. However, assets may only be assigned by a component reporting entity to its own sub-component reporting entities (such as bureaus, components, or responsibility segments within the same larger reporting entity or department).

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

Agree, with caveats. The DoD encounters many scenarios for which there are no practical accounting solutions that are either timely or cost effective. In these cases, flexibility is needed to develop consistent and cost-effective approaches to handle complexities (such as described in paragraph A4). DoD also acknowledges that imputed costs are challenging and that it needs more practical solutions or relaxation of requirements until it addresses simpler (and more fundamental) PP&E audit issues, such as completeness and valuation.

We are concerned that this flexibility will de-facto tell defense agencies and other sub-components of DoD that tracking expenditures for real property is unnecessary as these expenditures will be reported by the DoD Service (e.g. Army, Navy) responsible for the installation. This would ultimately impede DoD's audit progress for the following reasons:

1. No individual entity is likely to surrender budgetary authority currently used to procure and maintain assets. Since the entity will still have control over the funding, the sub-component will still procure the assets.
2. Even within an agency (e.g. an audit readiness team embedded in CIO, Facilities, etc.), it is challenging to track requirements and assets are often procured without reporting to

the HQ or responsible party (e.g. CIO for IT, or Facilities for real property). For relationships where no direct chain of command exists, (e.g. installations and defense agencies) it would be even harder to report.

3. Currently accounting documentation and PP&E reporting are priorities outside of the CFO/Comptroller organizations (and even there they compete with execution rates and other metrics). This culture is part of the reason DoD has struggled with auditability. Under this new guidance, if the assets are not part of the agency and do not directly impact that entity's financial statements, there will be no one in that organization that has a truly vested interest in obtaining documentation when compared to other mission objectives and regulatory compliance requirements (e.g. Federal Acquisition Regulation). Funds will almost certainly be commingled on projects in a manner that prevents obtaining a supported value for individual assets, and completion of asset packages will be minimal.
4. It is challenging even within the agency's CFO or embedded audit readiness office to gather documentation for assets. If the "parent" entity is responsible for gathering documentation, it will likely face numerous and unsurmountable system access issues (and may even introduce unintended access control issues as HR, training, and other systems would likely not "talk"). This would especially be the case for agencies, where efforts to establish common standards and exchange information on locations, projects, and dollars have struggled for years, even when guaranteed to be kept on classified accredited systems.

In order for DoD to be auditable, sub-components will still have to do all the work currently required under audit, but will have less incentive to do so. The requirement will no longer be aligned to those who are most able and accountable to report. In addition, it creates complex reporting/interface requirements (defense agencies may have to interface with multiple installations who all likely have different IT systems); and increases risk and audit scrutiny of support documentation that is already known for its poor traceability (e.g. Interagency Agreements are often out of date; DoD Construction Agents support documents provided with varying amounts of information). Relaxing this requirement will cause gains made within PP&E audit readiness to atrophy, and inhibit the overall goal of DoD auditability as the "minor" entities in aggregate likely have a material amount of real property.

Q2. The proposed TB requires reporting entities to disclose the policies used to assign significant assets.

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

Agree. Failure to disclose policy may result in a policy not being developed, or being insufficiently detailed. If a policy is lacking, it is likely that the assignment of assets and costs will not occur in a "rational and consistent basis". As real property is of substantial dollar value for most entities, the assignment of assets has a high probability of having a material impact even where the agency being assigned assets is much larger than the agency assigning assets. This information would be necessary for a reader of financial statements to understand and make comparisons between entities or trend across years to explain large changes in total assets.

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Q3. Staff plans to develop guidance regarding assignment of liabilities to components within a larger reporting entity. Thus far, the specific types of liabilities identified where it may be helpful to provide additional guidance are liabilities related to assets such as clean-up costs and possibly all government related events.

Should such guidance be limited to liabilities related to assets such as clean-up costs or also address all government-related events? Are there other types of liabilities for which guidance would be helpful? Please provide the rationale for your answer.

All liabilities associated with the asset should be assigned to the component so as not to make the reporting component's financial statements misleading. If funding for the liability is legally guaranteed, then the component reporting entity should disclose in its financial statements the identity of the guarantor and the nature of the agreement. If funding for liquidation of the liability will more likely than not be funded by another entity, such as the larger reporting entity, then the component reporting entity should treat this arrangement as a debt acquisition arrangement.