U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

DEC 1 1 2017

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Office of Audit, Office of Inspector General, Department of Labor, enclosed are our responses to questions posed in the exposure draft titled, "Amending Inter-Entity Cost Provisions."

If you have any questions or need additional information, please contact Joseph L. Donovan, Jr., Audit Director, Financial Statement Audits, at 202-693-5248.

Sincerely,

Elliot P. Lewis

Elliot P. Lewis
Assistant Inspector General for Audit

Enclosure

Amending Inter-Entity Cost Provisions

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)			
Federal Entity (auditor)	X		
Federal Entity (other)		If other, please specify:	
Association/Industry Organization			
Nonprofit organization/Foundation			
Other		If other, please specify:	
Individual			

Please provide *your name.*

Name: Elliot P. Lewis, Assistant Inspector General for Audit

Please identify your organization, if applicable.

Organization: US Department of Labor, Office of Inspector General

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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.

We agree with the proposal. However, certain provisions of the proposed statement appear to be in conflict. As noted above, the proposal would revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities. It further states in paragraph 4 of the proposal that inter-entity costs would not be imputed with the exception of recognition by business-type activities. This appears to imply that only inter-entity costs associated with business-type activities should be recognized. SFFAS 4 requires 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. It appears that certain elements of the proposal may contradict the requirements of SFFAS 4. FASAB should consider clarifying the language in the proposed statement so that reporting entities fully understand which costs are required to be reported.

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.**

We disagree with the proposal. A concise statement acknowledging significant services received for which no cost is recognized seems to contradict the original language of SFFAS 4, paragraph 111, which states, "Ideally, all significant inter-entity costs should be recognized." While paragraph 5 of the proposal would require an acknowledgement it does not require that the specific services be disclosed. The acknowledgement would be more beneficial to readers of the financial statements if specific services were disclosed. In addition, the proposed statement requires acknowledgement of "significant" services. Provisions of the proposed statement do not have to be applied to immaterial items so FASAB should consider removing the term significant or clarifying what is considered "significant" as that term is subjective.

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.**

We do not believe the proposed disclosure would impose a greater cost or burden when compared to existing requirements. We did note that the proposed change reinstates paragraph 110 of SFFAS 4, which states, "Therefore, the Office of Management and Budget, with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to begin recognizing." As no guidance exists for inter-entity costs not associated with personnel expense and the Treasury Judgement Fund, there could be confusion as to which costs should be included or disclosed. The confusion could result in disagreement between the entity and its auditor.