



Federal Accounting Standards Advisory Board

December 7, 2017

Memorandum

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: ***Amending Inter-entity Cost Provisions: Comment Letters¹ – Tab A***

MEMBER ACTIONS REQUESTED:

- Respond to staff question (p.7) by December 15

MEETING OBJECTIVE

To review responses to the exposure draft, *Amending Inter-entity Cost Provisions*, consider the staff analysis and vote on the proposed Statement.

BRIEFING MATERIAL

This memorandum provides the staff summary. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. This memo presents a Results & Analysis on page 2 along with:

A. Tally of Responses By Question	8
B. Quick Table of Responses By Question.....	10
C. Full Text of Answers and Comments by Question and by Respondent	12
D. Listing Of Additional Comments from Respondents.....	25

Attachment 1 provides the full text of each comment letter.

Attachment 2 provides the original Exposure Draft with suggested edits based upon comments received and staff recommendations.

Attachment 3 provides a clean version of the Proposed Statement

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

SUMMARY OF OUTREACH EFFORTS

The exposure draft, *Amending Inter-entity Cost Provisions* was issued September 1, 2017 with comments requested by November 30, 2017. Upon release of the exposure draft in the FASAB Listserv, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) *The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive, and the CPA Letter*;
- d) The CFO Council, the Council of the Inspectors General on Integrity and Efficiency; and
- e) Committees of professional associations generally commenting on exposure drafts in the past.

In addition, to encourage responses, a reminder notice was provided to our Listserv.

RESULTS AND ANALYSIS

As of December 7, 2017, we have received 15 responses from the following sources:

Association/Industry	2
Auditors	1
Preparers and financial managers	12

The full text of the comment letters is provided as Attachment 1. Attachment 1 includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before you read the staff summary below.

Staff determined the following from the comment letters:

- The majority of respondents (11 out of 15) generally agreed with the proposal to revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and to rescind SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.

Two respondents disagreed with the proposal.

- One respondent (Department of Agriculture) disagreed because they believe recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. They explained that the

Commodity Credit Corporation (CCC) has no employees² or facilities and the imputed costs are roughly 10%. CCC has no operating personnel. This is an interesting and unique scenario. However, it may be difficult to tailor a requirement to fit their scenario without imposing imputed costing on other agencies.

Staff believes the CCC is a unique case. Such cases were envisioned in the original standards for inter-entity cost which allowed OMB to identify specific inter-entity costs for entities to begin recognizing. OMB has the option to direct that these particular costs be imputed as allowed by the proposed SFFAS. Staff believes this option should be described in the basis for conclusions section that highlights responses and explains the Board's actions.

- DoD OIG disagreed and explained concerns relate to paragraph 110 which provided the OMB the authority to recognize which inter-entity costs should be recognized, and paragraph 111 which states that “ideally” all significant inter-entity costs should be recognized. The DoD OIG is concerned that giving OMB the authority to determine which costs should be recognized might conflict with the auditor's own materiality judgment of the significance of inter-entity costs. The proposed guidance may create circumstances in which the OMB's decisions conflict with the judgment of financial statement auditors. The proposed paragraph 111 states that ideally, all “significant” inter-entity costs should be recognized, and then concludes that recognition of inter-entity costs that specifically support business-type activities should be recognized. The DoD OIG also noted concern “that recognizing inter-entity costs from only business-type activities as defined by the footnote would require an entity auditor to review the other entity's financial information to assess whether significant exchange transactions occurred between the entities.”

Staff notes that the inter-entity cost provisions have been implemented as envisioned by most agencies. However, the effect of inter-entity costs other than those associated with personnel benefits and Treasury Judgment Fund activities has been significantly less than one percent of gross costs at most agencies, calling into question the cost benefit of the original standard. Further, based on the research performed, feedback received about imputed costs from representatives of the largest agencies at roundtables on streamlining financial reporting and responses received to the exposure draft, it appears that the proposed Statement will not have

² The Commodity Credit Corporation (CCC) is a Government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. CCC has no operating personnel. Its price support, storage, and reserve programs, and its domestic acquisition and disposal activities are carried out primarily through the personnel and facilities of the Farm Service Agency (FSA). (<https://www.fsa.usda.gov/about-fsa/structure-and-organization/commodity-credit-corporation/index>)

negative consequences to reporting entities and that its benefits will clearly exceed its costs for reporting entities that had not implemented inter-entity cost requirements. This will also reduce existing reporting burden for agencies that have been imputing such costs.

Further, with the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to the original language prior to the passage of SFFAS 30. As a result, business-type activities are still required to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

Staff held a conference call with DoD OIG staff related to certain points, such as the need for an entity auditor to review the other entity's financial information to assess whether significant exchange transactions occurred between the entities. During the call, we learned that certain comments were based on an incorrect reading and interpretation of the proposed standards. Staff has made certain clarifications and edits to the Statement to prevent this interpretation. These along with the other clarifications provided in the Statement will address their concerns. We also provided DoD OIG the opportunity to revise their letter or offer additional comments.

- The majority of respondents (10 out of 15) generally agreed that component reporting entities should provide a concise statement to acknowledge significant services received for which no cost is recognized. Three respondents disagreed with the disclosure requirement and one partially agreed. Further, the majority of respondents (8 out of 15) believed the proposed disclosure would not impose a greater cost or burden when compared to existing requirements. Two respondents didn't agree that the proposed disclosures wouldn't impose a greater cost, two partially agreed and two respondents did not answer the question.
 - Respondents that disagreed in this area (as well as some that agreed) suggested the Board provide additional explanation and clarification regarding the disclosure for a "concise statement acknowledging that significant services were received." The respondents believed providing clarity would ensure consistency and reduce costs associated with preparation and audit. Certain respondents also suggested that providing sample wording of the disclosure would be helpful.

Staff clarified the disclosure requirement language in the Statement by reiterating that no additional details beyond the acknowledgement need to be disclosed and provided additional information regarding the determination of significant services. In addition, sample wording for the disclosure was included in the Statement.

- Respondents provided other comments, minor suggestions and editorial comments that were incorporated into the final Statement or addressed in the basis for conclusions.
 - For example, based on certain responses, there appeared to be uncertainty regarding the recognition of inter-entity costs by activities that are not business-type activities. Staff added clarifying language to the Summary, Standards and Basis for Conclusion to ensure this was explicitly stated and clarified.

For example, the following language was added to the Executive Summary:

With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, Managerial Cost Accounting Standards and Concepts, will be restored to their original language prior to the passage of SFFAS 30. However, standards were adjusted to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

Staff Actions:

As noted above, the comment letters did not result in significant changes to the proposed Statement. In summary, staff made certain changes within the Statement to clarify the areas described above. Staff also added the following language in the basis for conclusions.

Summary of Outreach Efforts and Responses

FASAB issued the exposure draft (ED) *Amending Inter-entity Cost Provisions* on September 1, 2017 with comments requested by November 30, 2017.

Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants Topics, the *CPA Journal*, *Government Executive*, the *CPA Letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).

FASAB received 15 responses from preparers, auditors, users of federal financial information, and professional associations. The Board did not rely on the number

of respondents in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered each response and weighed the merits of the points raised. The respondents' comments are summarized below. The respondents identified certain issues that could be clarified within the Statement or addressed in the basis for conclusions.

The majority of respondents agreed with the proposal to revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and to rescind SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.

One respondent (Department of Agriculture) disagreed because they believe recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. The respondent explained that the Commodity Credit Corporation (CCC) has no employees³ or facilities and the imputed costs are roughly 10% of operating costs because CCC has no operating personnel. The Board recognizes that this is a unique and complex scenario. With further evaluation of the scenario, it may be appropriate for CCC to impute costs as allowed by paragraph 110 of the Statement.⁴ The Board does not believe this unique circumstance warrants changing the proposal because full cost information may be provided upon consolidation of CCC in the departmental financial statements.

The majority of respondents generally agreed that component reporting entities should provide a concise statement to acknowledge significant services received for which no cost is recognized. However, certain respondents suggested additional explanation and clarification regarding the disclosure of a "concise statement acknowledging that significant services were received." The respondents believed providing clarity in these areas would ensure consistency and reduce costs associated with preparation and audit. Certain respondents also suggested sample wording of the disclosure.

The Board clarified the disclosure requirement language in the Statement by reiterating that no additional details beyond the acknowledgement need to be disclosed and provided additional information regarding the determination of

³ The Commodity Credit Corporation (CCC) is a Government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. CCC has no operating personnel. Its price support, storage, and reserve programs, and its domestic acquisition and disposal activities are carried out primarily through the personnel and facilities of the Farm Service Agency (FSA). (<https://www.fsa.usda.gov/about-fsa/structure-and-organization/commodity-credit-corporation/index>)

⁴ Paragraph 110 states "Implementation of this standard on inter-entity costing should be accomplished in a practical and consistent manner by the various federal entities. Therefore, the Office of Management and Budget should identify the specific inter-entity costs for entities to recognize..."

significant services. In addition, sample wording for the disclosure was included in the Statement.

Based on certain responses, there appeared to be uncertainty regarding the recognition of inter-entity costs by activities that are not business-type activities. The Board added clarifying language to the summary, standards and basis for conclusion to ensure this was explicitly stated.

The language explained with the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. However, standards were adjusted to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

Board Approval

This Statement was [approved unanimously.] Written ballots are available for public inspection at FASAB's offices.

QUESTION FOR THE BOARD

Does the Board have any comments, questions or feedback on the comment letters or proposed Statement?

NEXT STEPS

Because there was overall support for the exposure draft and minimal changes, staff believes the document will be ready for vote in December. Staff requests members provide comments and feedback on the draft by **December 15, 2017**. If feedback is positive, staff will prepare a pre-ballot version for the meeting.

MEMBER FEEDBACK

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-5976 or by e-mail at batchelorm@fasab.gov with a cc to paynew@fasab.gov.

STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

A. Tally of Responses By Question

QUESTION	AGREE/YES	DISAGREE/NO	PARTIAL AGREEMENT	NO COMMENT
<p>Q1. The provisions of Statement of Federal Financial Accounting Standards (SFFAS) 4, <i>Managerial Cost Accounting Standard and Concepts</i>, 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.</p> <p>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:</p> <p>a. SFFAS 30, <i>Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts</i></p> <p>b. Interpretation 6, <i>Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4</i></p> <p>Do you agree or disagree? Please provide the rationale for your answer.</p>	11	2	1	1

STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

QUESTION	AGREE/YES	DISAGREE/NO	PARTIAL AGREEMENT	NO COMMENT
<p>Q2. The Board is proposing that component reporting entities provide a concise statement to acknowledge significant services received for which no cost is recognized.</p> <p>a) Do you agree or disagree? Please provide the rationale for your answer.</p>	10	4	1	0
<p>a) 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.</p> <p>[For purposes of counts-agreement/yes means the proposed disclosure <u>would not</u> impose a greater cost or burden when compared to existing requirements.]</p>	8	3	2	2

STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

B. Quick Table of Responses By Question A=Agree/Yes, PA=Partial Agree, D=Disagree/No, NA= No Answer

COMMENT LETTER #	Q1. Revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind SFFAS 30 & Inter 6?	Q2a. CRE provide a concise statement to acknowledge significant services received for which no cost is recognized?	Q2b. Agreement/yes means the proposed disclosure <i>would not</i> impose a greater cost or burden when compared to existing requirements?
#1 HHS	A	A	A
#2 OGA	PA ⁵	PA ⁶	PA ⁷
#3 SSA	A	A	PA ⁸
#4 HUD	A	A	A
#5 DoD	A	D ⁹	D ¹⁰
#6 DHS	A	A ¹¹	A
#7 DOJ-JMD	A	A	A
#8 GWSCPA	A	A	A
#9 DOI	A	A	A
#10 DOC	A	A	A
#11 USDA	D ¹²	A	A

⁵ OGA generally agreed but identified certain areas/exceptions.

⁶ OGA generally agreed but suggested more guidance on the disclosure statement.

⁷ OGA generally agreed but suggested more guidance would result in consistent application.

⁸ SSA concurs that a statement is good for transparency purposes; but they are concerned that the proposed additional disclosure could lead to increased costs or burdens on preparers and auditors.

⁹ DoD believes the proposed disclosure requirement contradicts the overall purpose of the standard by imposing additional costs and they are concerned about the sensitivity of information that could be included.

¹⁰ DoD believes the proposed disclosure requirement contradicts the overall purpose of the standard by imposing additional costs and they are concerned about the sensitivity of information that could be included.

¹¹ DHS noted agreement but recommended the Board to provide clear guidance on determining what is considered a significant service.

¹² USDA disagreed because they believe recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. For example, the Commodity Credit Corporation (CCC) has no employees or facilities and the imputed costs are roughly 10%.

STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

COMMENT LETTER #	Q1. Revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind SFFAS 30 & Inter 6?	Q2a. CRE provide a concise statement to acknowledge significant services received for which no cost is recognized?	Q2b. Agreement/yes means the proposed disclosure <u>would not</u> impose a greater cost or burden when compared to existing requirements?
#12 DOL	NA ¹³	D ¹⁴	NA ¹⁵
#13 AGA	A	A	NA ¹⁶
#14 DoD-OIG	D ¹⁷	D ¹⁸	D ¹⁹
#15 VA	A	D ²⁰	D ²¹
Totals			
A	11	10	8
D	2	4	3
PA	1	1	2
NA	1	0	2
Total	15	15	15

¹³ DOL did not answer this question directly, but instead offered sentences that they did not agree with or areas that should be clarified.

¹⁴ DOL stated the requirements 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.

¹⁵ DOL did not answer this question directly, but instead referred to the suggestions offered in the previous question.

¹⁶ AGA did not answer this question directly but they did note FASAB should provide clarification as well as an example of a concise statement and a significant service. Providing clarity relating to significant will reduce audit time since the auditors and the agency will have the same understanding of the definition of 'significant.'

¹⁷ DoD OIG noted concern that giving OMB the authority to determine which costs should be recognized might conflict with the auditor's own materiality judgment of the significance of inter-entity costs. They also noted concern that proposed paragraph 111 states that ideally, all "significant" inter-entity costs should be recognized, and then concludes that recognition of inter-entity costs that specifically support business-type activities should be recognized.

¹⁸ DoD OIG noted several concerns, including that the vagueness of what a "concise" statement would be could result in wide-ranging applications of this requirement and potentially cause disagreements between entities and auditors about how to apply the guidance properly.

¹⁹ DoD OIG noted several concerns, including that the vagueness of what a "concise" statement would be could result in wide-ranging applications of this requirement and potentially cause disagreements between entities and auditors about how to apply the guidance properly.

²⁰ VA disagreed and stated it is not clear what added value the disclosure requirement would provide.

²¹ VA disagreed and stated it is not clear what added value the disclosure requirement would provide.

STAFF SUMMARY OF RESPONSES – Table C: Full Text of Answers and Comments by Question

C. Full Text of Answers and Comments by Question and by Respondent-

<p>QUESTION #1 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.</p> <p>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:</p> <ul style="list-style-type: none"> 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 <p>Do you agree or disagree? Please provide the rationale for your answer.</p>	
<p>#1 HHS</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>#2 OGA</p>	<p>OGA generally agrees that proposed rescissions would provide relief to those struggling to meet the requirements and make compliance easier. Resources freed could be refocused towards other</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>FASAB / OMB / GAO / Treasury requirements and financial management improvements. Additionally, OMB guidance and designation of which material, identifiable costs to report will assist in providing uniformity and comparability across federal agencies, lending overall consistency to financial reporting.</p> <p>The areas in which OGA takes exception are noted below:</p> <ol style="list-style-type: none"> 1. Suggest eliminating reference to “significant inter-entity costs” to prevent confusion about whether and when such costs should be recorded. By using “significant” without defining the term or further elaborating, the proposed guidance leaves much open to interpretation and could result in the same inconsistent reporting and disclosures that plagued previous releases on imputed costs. Accordingly, we suggest the Board either: 2. <ul style="list-style-type: none"> • remove the sentence in par. 111 cited above and leave the guidance at the business-type activities level, or • expand the language to assist non-business-type entities in determining when and how to recognize and / or disclose inter-entity imputed costs. 3. The Board should provide illustrative language and specify where unrecognized inter-entity costs should be disclosed. Presumably this statement would be part of Note 1, Significant Accounting Policies. 4. The cost of assessing materiality and potentially recognizing imputed costs at the individual agency-level provides little value to the decision-makers who established such operational and funding arrangements. Generally, the impact of such arrangements is assessed at the Department and / or community level. 5. OGA takes exception to the required recognition of inter-entity costs by business-type activities based on the following scenario. Conditions that caused the Board to reconsider SFFAS 30 exist whether a cost relates to a good / service provided to a federal or nonfederal entity. For example, in paragraph A14, the Board recognized it may not be cost-effective to impute costs for the military services due to the complex and inter-related operations of DoD components. This would be true whether the customer was a federal entity or not. The cost of selling a DoD component to determine an amount that includes imputed costs from a variety of other DOD components that contributed to an end-product could exceed any fee ultimately charged to the nonfederal entity. <p>Paragraph 3 of the Exposure Draft has a footnote reference to OMB Circular A-25. However, it does</p>
--	---

STAFF SUMMARY OF RESPONSES – Table C

	<p>not address the exceptions listed to full-cost pricing in the OMB Circular. For example, when:</p> <ul style="list-style-type: none"> • the cost of collecting fees represents a large portion of the fee; • the sale is provided as a courtesy to a foreign government or international organization or a price is set at a reciprocal fee with such an organization; • the market price should be charged versus full-cost; • full cost would not be charged due to a legal requirement; or • charges are determined at the discretion of an agency head. <p>How should reporting entities reconcile these situations with the accounting and reporting requirements in this Exposure draft for business-type sales to nonfederal entities?</p> <p><i>Staff comments: There appears to be some confusion as to when non-business-type entities would need to impute costs. Going forward, inter-entity costs will be imputed for those reporting entities conducting business-type activities. However, the reporting of imputed personnel benefits and the Treasury Judgment Fund costs is still required by all because they are required by other SFFASs. Component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized. Staff clarified these points.</i></p>
#3 SSA	<p>We agree with the Board's proposal to rescind SFFAS 30 and Interpretation 6. In light of the general immateriality of non-business-type imputed costs, as well as the difficulties facing some agencies in the implementation of SFFAS 30, it seems reasonable to remove the burden of attempting to recognize all imputed costs.</p>
#4 HUD	<p>HUD agrees with FASAB's decision to rescind SFFAS 30 and Interpretation 6 of SFFAS 4. As stated in the exposure draft, there are certain reporting entities where the operating environment does not lend itself to full costing methodology as it relates to imputed inter-departmental and intra-departmental costs. Costs should instead be based on the realities of that particular reporting entity: its funding flows, specialized function, and management responsibilities.</p>
#5 DoD	<p><u><i>The DoD agrees with the Board's proposal [Or revision of the standards to provide for recognition of inter-entity costs by business-type activities and the rescission of SFFAS 30 and Interpretation 6.</i></u></p> <p>As the Board explicitly recognized in Paragraph A2 of the Basis of Conclusion in this ED, the DoD is a highly complex organization with specialized components that regularly provide services to other DoD components. Due to the organizational structure of the DoD and the manner in which missions are carried out with cooperation amongst several components, the cost to identify, quantify, and record all inter-entity and related imputed costs would be cost prohibitive and would not provide a</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>commensurate benefit to the users of the DoD's financial statements.</p> <p>The DoD does recognize the benefit of recognizing inter-entity costs for business type activities, especially those that have to calculate and charge a rate for goods or services provided and agrees that it is beneficial to all stakeholders to include management and outside users of the financial statements to capture and recognize these costs.</p>
#6 DHS	DHS agrees with the proposal to revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind SFFAS 30 and Interpretation 6. The proposed standard decreases the burden on those entities with immaterial imputed costs to report. Additionally, as the financial information is consolidated, the intragovernmental costs, including the imputed cost are eliminated, reducing the effect of imputed cost on consolidated financial statements.
#7 DOJ-JMD	We agree. We recognize inter-entity costs by business type activity. Based on current reporting, we don't have significant imputed costs other than personnel benefits and the Treasury Judgment Fund. Only one entity has reported anything under SFFAS 4 that doesn't fall under the personnel benefits and Judgement Fund reporting. Therefore, as far as our reporting is concerned, removing those standards wouldn't affect the reporting of the department. The proposed revision would allow OMB to decide later if there are additional areas that should be reported on.
#8 GWSCPA-FISC	The FISC agrees with the provisions of the ED. The cost-benefit considerations provided in paragraphs A15 and 16 of the ED provide a reasonable basis for the Board's position to rescind SFFAS 30 and Interpretation 6.
#9 DOI	Agree. The previous requirements for the reporting entity to recognize full costs of services from other federal reporting entities, even when there is no requirement to reimburse the providing reporting entity, do not justify the time and efforts for gathering the information, especially when the inter-entity costs are not significant. Full costing should be limited to business-type activities.
#10 DOC	The Department agrees with the proposed changes in a) revising SFFAS 4; and b) the rescinding of SFFAS 30 and Interpretation 6. The Department believes that the proposed changes will maintain appropriate financial reporting of costs, are appropriate from a cost versus benefits standpoint, and should not significantly increase the burden or costs of financial reporting requirements but may rather reduce this burden.
#11 USDA	We disagree because recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. For example, the Commodity Credit Corporation (CCC) has no employees or facilities. Thus, CCC executes its various programs using the manpower and facilities of other agencies, primarily the Farm Service Agency (FSA). The imputed financing consists of the costs of hired labor, opportunity costs of unpaid labor, capital recovery of machinery and equipment, opportunity costs of land, general overhead, payroll taxes, and insurance expended by FSA for work on CCC programs. For FY 17, CCC's imputed cost represented 10.05% of the total gross costs. An

STAFF SUMMARY OF RESPONSES – Table C

	<p>exception should be made for material items that are significant to the receiving entity and form an integral or necessary part of the receiving entity's output.</p> <p>Staff comments: <i>This is an interesting and unique scenario. However, it may be difficult to tailor a requirement to fit their scenario without imposing imputed costing on other agencies. Staff believes the CCC is an unusual and unique case. Note that information about the cost of personnel would be available when CCC is consolidated with USDA. In this situation, it may be appropriate for OMB to direct that these particular costs be imputed by CCC as allowed by the proposed SFFAS.</i></p>
#12 DOL	<p>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."</p> <p>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."</p> <p>The sentences should be revised so that component reporting entities do not recognize inter-entity costs that are imputed non-production costs.</p> <p>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.</p> <p>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</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>period would distort the production costs.</p> <p>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.</p> <p>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.</p> <p><i>Staff comments: There appears to be some confusion as to when non-business-type entities would need to impute costs. Going forward, inter-entity costs will be imputed for those reporting entities conducting business-type activities. However, the reporting of imputed personnel benefits and the Treasury Judgment Fund costs is still required by all because they are required by other SFFAS. Component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized. Staff clarified these points.</i></p>
#13 AGA	<p>We agree with the proposed changes as noted in the above question and agree that the cost of following the current standards regarding inter-entity costs outweighs the perceived and / or actual benefit from recognizing the inter-entity costs especially for non-business type activities. Members of our Board have noted that without the inter-entity costs they believe it would not create issues with incomplete or create gaps in reporting and that significant costs that were being recognized did not create a significant difference in reporting.</p>
#14 DoD-OIG	<p>The Department of Defense Office of Inspector General (DoD OIG) disagrees with the proposed guidance, as written.</p> <p>As stated in the exposure draft, if SFFAS 30 is rescinded in its' entirety, then the previous version of SFFAS 4 (with the proposed revisions to paragraphs 110 and 111) will be required again. Our main concerns relate to paragraph 110 which provided the Office of Management and Budget (OMB) the authority to recognize which inter-entity costs should be recognized, and paragraph 111 which states that "ideally" all significant entity costs should be recognized.</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>The DoD OIG is concerned that giving OMB the authority to determine which costs should be recognized might conflict with the auditor’s own materiality judgment of the significance of inter-entity costs. In addition, when applying auditing standards, there could be instances in which auditors may request disclosures related to inter-entity transactions that the auditor determines fundamental to user’s understanding of the financial statements. The proposed guidance may create circumstances in which the OMB’s decisions conflict with the judgment of financial statement auditors.</p> <p>The proposed paragraph 111 states that ideally, all “significant” inter-entity costs should be recognized, and then concludes that recognition of inter-entity costs that specifically support business-type activities should be recognized. Footnote 33 further defines a business-type activity as a significantly self-sustaining activity that finances its continuing cycle of operations through collection of exchange revenue. The DoD OIG is concerned that recognizing inter-entity costs from only business-type activities as defined by the footnote would require an entity auditor to review the other entity’s financial information to assess whether significant exchange transactions occurred between the entities. The DoD OIG recommends that the wording of the Standard clearly require entities to recognize material amounts of inter-entity costs, including “business-type” and “non-business-type” activities.</p> <p>Finally, the DoD OIG is concerned that the basis behind this decision is based on known reported amounts. Although the exposure draft acknowledges that the proposed policy changes are based on unaudited amounts provided to the Board, we question the reliance on this data for the conclusions reached. If there are significant unknown amounts that would be material to the financial statements, removing the requirement could prevent those from being accurately reported.</p> <p><i>Staff comments: Staff notes that the inter-entity cost provisions have been implemented as envisioned by most agencies. However, the effect of inter-entity costs other than those associated with personnel benefits and Treasury Judgment Fund activities has been significantly less than one percent of gross costs at most agencies, calling into question the cost benefit of the original standard. Further, staff believes that the proposed Statement will not have negative consequences to reporting entities and that its benefits will clearly exceed its costs for reporting entities that had not implemented inter-entity cost requirements as well as reduce the reporting burden for agencies that have been imputing such costs. With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, Managerial Cost Accounting Standards and Concepts, will be restored to their original language prior to the passage of SFFAS 30.</i></p>
#15 VA	Agree. The rescission of SFFAS 30 and Interpretation 6, should simplify the guidance.

STAFF SUMMARY OF RESPONSES – Table C

<p>QUESTION #2 The Board is proposing that component reporting entities provide a concise statement to acknowledge significant services received for which no cost is recognized.</p> <p>a) Do you agree or disagree? Please provide the rationale for your answer.</p> <p>a) 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.</p>	
#1 HHS	<p>a.) 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.</p> <p>b.) 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.</p>
#2 OGA	<p>a.) Acknowledgment of significant services received but not paid by the entity is an important disclosure for the financial statement reader's understanding of an entity's comprehensive financial position and all resources channeled toward the entity's mission. The proposed disclosure is a reasonable requirement. The disclosure is dependent on the materiality / significance of the resources involved. We believe disclosure would assist agencies and users / readers of the statements understand whether there are costs that were not and / or could not be included in the statements - and their materiality or significance.</p> <p>OGA generally agrees, with the exceptions noted below:</p> <ol style="list-style-type: none"> 1. Recommend the Board provide more focused guidance for the disclosure statement. An example of the Board's vision would be valuable. 2. To provide a disclosure acknowledging significant services were received for which no cost is recognized, reporting entities would still be required to perform formal assessments to identify and quantify such services to determine if they are "significant." An annual assessment would likely continue to be a standard deliverable to auditors to support the disclosure. In addition, disclosing significant services were received at no cost, when there is no detail explaining such significant services provides no additional value to financial statement users. Accordingly, the cost of an annual assessment would likely exceed the limited additional information provided.

STAFF SUMMARY OF RESPONSES – Table C

	<p>However, we have no objection if the Board authorizes a concise disclosure statement acknowledging the receipt of significant services. For example, if 100 persons supported the agency's mission in Year One of implementation, then a statement acknowledging that fact might be disclosed without the burden of the present language. In Year Two, if there was a 10% increase, then the 10% increase might be reported also.</p> <p>b.) OGA generally agrees, with the exceptions noted below:</p> <ol style="list-style-type: none"> 1. While we do not envision this will result in increased cost, more prescriptive guidance should lead to faster and more consistent adoption, with less confusion from the auditors in determining if / how the entity has complied with FASAB and GAAP requirements. Other considerations to assist in minimizing cost impact are: <ul style="list-style-type: none"> • the requirements do not include materiality as a requirement to record a cost vs make a disclosure statement; • the disclosure does not contain a dollar value; and • FASB and/or OMB providing guidance for the disclosure should make implementation uniform among Federal Agencies and add clarity to the reporting requirement. However, illustrative examples of acceptable disclosures from FASAB and OMB would be valuable. Such examples should include (a) when specific services are and / or should be disclosed; and (b) when specific services are not disclosed. 2. Absent direction from FASAB and/or OMB described above, agencies expend a great deal of time and manpower to comply. In that case, the additional cost burden could be the same as if existing provisions were unchanged. From the auditors' perspective, some additional costs would be incurred to substantiate the disclosure. Such costs - depending on the documentation required - would then be passed onto the agency. <p><i>Staff comments: Component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized. Staff clarified these points to state that no additional information would be required. Cost/benefit of providing additional information was considered by the Board in developing the disclosure considering the materiality of the items. The acknowledgment would inform readers but not impose a great cost or burden to the preparer or auditor communities.</i></p>
#3 SSA	<p>a) We agree with the proposal for entities to provide an acknowledgement of significant services received when no costs are recognized. Acknowledging such activities supports transparency and</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>provides a better understanding of an entity's financial environment. However, we suggest that it might be beneficial to provide more information besides just a statement of acknowledgement. For example, in the disclosure, include the specific services received for which no cost is recognized, as that provides the reader more meaningful information.</p> <p>b.) While we concur that a statement is good for transparency purposes, we are concerned that the proposed additional disclosure could lead to increased costs or burdens on preparers and auditors. The preparation of the note will cause agencies to incur costs for that preparation and for performing any research and documentation.</p> <p>In addition, while the proposed disclosure may appear simpler and less burdensome than existing requirements, if preparers and auditors disagree about what constitutes "significant" services, then they will have to devote time and resources to finding common ground, which also comes at a cost. This issue could potentially arise every time the entity changes auditors.</p> <p><i>Staff comments: Component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized. Staff clarified these points to state that no additional information would be required. Cost/benefit of providing additional information was considered by the Board in developing the disclosure considering the materiality of the items. The acknowledgment would inform readers but not impose a great cost or burden to the preparer or auditor communities.</i></p>
#4 HUD	<p>a.) HUD agrees with this proposal. If component reporting entities are not recognizing the full cost of services received from other reporting entities, they should disclose this in their notes to the financial statements. Users of the statements should be aware that not all costs are recognized by the reporting entity.</p> <p>b.) HUD believes this disclosure would not impose a greater cost when compared to the existing requirement. A note disclosure stating that certain intra-entity and inter-entity costs are not recognized in the statements will not require as much recordkeeping as the previous requirements in SFFAS 30 and Interpretation 6 of SFFAS 4.</p>
#5 DoD	<p><u><i>The DoD disagrees with the Board's proposal that reporting entities provide a concise statement to acknowledge significant services received (or which no cost is recognized).</i></u></p> <p>The DoD believes that the proposed disclosure requirement contradicts the overall purpose of the standard by imposing additional costs to disclose significant services for which no cost is recognized that does not provide a commensurate benefit to the users of the financial statements. Furthermore, the DoD is concerned about the sensitivity of information that could be included in the proposed</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>disclosure.</p> <p>Staff comments: Component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized. Staff clarified these points to state that no additional information would be required. Cost/benefit of providing additional information was considered by the Board in developing the disclosure considering the materiality of the items. The acknowledgment would inform readers but not impose a great cost or burden to the preparer or auditor communities.</p>
#6 DHS	<p>a.) DHS agrees with the proposal above as a concise statement may improve clarity of financial information used to identify and classify significant inter-entity business activity. However, DHS recommends the Board to provide clear guidance and/or a methodology on determining what is considered as significant services.</p> <p>b.) DHS does not believe the proposed disclosure would impose a greater cost or burden when compared to existing requirements as the proposed changes simplify the overall reporting requirements. In addition, DHS recommends the Board to provide detailed guidance for the proposed disclosure to ensure consistency.</p>
#7 DOJ-JMD	<p>a.) We agree with this change as it will not significantly alter our reporting. We only have one entity that would report under this provision and it is not material to the Department.</p> <p>b.) No, it will not impose a greater cost or burden, since we only have one entity this applies to, and a general statement should not be harder to prepare than actual imputed costs. This change would not have a significant impact on DOJ's financial reporting burden, as the majority of the information currently reported in the footnotes relates to personnel benefits and Judgement Fund reporting, which will continue to be reported under a different standard.</p>
#8 GWSCPA-FISC	<p>The FISC agrees that component reporting entities should provide a concise statement to acknowledge significant services received for which not cost is recognized. Such a statement would assist a reader's understanding of those significant services for which no cost is recognized, but would not impose a great cost or burden to the preparer or auditor communities.</p>
#9 DOI	<p>a.) Agree, as not disclosing significant services may impact fair presentation and affects comparability among agencies.</p> <p>b.) Disagree. The proposed disclosure would lessen the burden for reporting entities as insignificant inter-entity costs need not be recognized under the proposed standard.</p>
#10 DOC	<p>a.) The Department agrees with the proposal to have component reporting entities acknowledge, via a concise statement, significant services received for which no cost is recognized (in the financial</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>statements). The Department believes that this proposal will provide additional information to users of the financial statements about significant cost contributions from other federal entities towards an agency's mission that are not recognized in the agency's financial statements.</p> <p>b.) There would be a data collection process that would need to be implemented across the Department for the added footnote disclosure; however, the Department believes that this process should not be a significant additional burden for preparers, and that the overall proposed standard should be beneficial to agency preparers from a cost versus benefits standpoint.</p>
#11 USDA	<p>a.) We agree that component reporting entities should provide a concise statement to acknowledge significant services received for which no cost is recognized.</p> <p>b.) No, we do not believe the proposed disclosure would impose a greater cost or burden when compared to existing requirements.</p>
#12 DOL	<p>a.) 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.</p> <p>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.”</p> <p>b.) 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. Staff comment- the beginning of the paragraph states “if applicable” so that addresses the disclosure is only required when applicable. Staff provided additional clarifying language regarding the disclosures.</p>
#13 AGA	<p>We welcome the additional alignment to other levels of government and the proposed disclosure provides relevant information for the readers of the financial statements. As we were unsure as to the</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>FASAB’s meaning of ‘concise and significant services’, we believe that FASAB should provide clarification as well as an example of a concise statement and a significant service. For example, does ‘significant’ mean large dollar amounts? Or is the FASAB referring to significant qualitative measures? This will allow the reader to gauge the impact of the phrases clearer. We also suggest allowing for professional judgment in making this determination. Providing clarity relating to significant will reduce audit time since the auditors and the agency will have the same understanding of the definition of ‘significant.’</p> <p>Staff comments: Component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized. Staff clarified these points.</p>
#14 DoD-OIG	<p>The Department of Defense Office of Inspector General (DoD OIG) disagrees with the proposed guidance, as written.</p> <p>We are concerned that the vagueness of what a “concise” statement would be could result in wide-ranging applications of this requirement and potentially cause disagreements between entities and auditors about how to apply the guidance properly. We believe that FASAB could improve this requirement if it required the entity to form a conclusion regarding the materiality of the services received and provide a description of the services. In addition, requiring that entities prepare a blanket statement of a “concise” “acknowledgment” would not necessarily remove the need for auditors to obtain additional information and apply audit tests to the associated transactions. If auditors could not apply procedures, it could be considered a scope limitation. Each auditor needs to work with the entity to determine how much disclosure is needed so that readers have a fundamental understanding of the financial statements. In addition, auditors would determine the level of procedures necessary to confirm statements from the entity related to the materiality of services received.</p> <p>Staff comments: Cost/benefit of providing additional information was considered by the Board in developing the disclosure. The acknowledgment informs readers but does not impose a great cost or burden to the preparer or auditor communities. Component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized. Staff clarified these points.</p>
#15 VA	<p>a.) Disagree. The proposed disclosure requirement would impose a greater cost or burden when compared to existing requirements. It is not clear what added value the requirement would provide.</p> <p>b.) The proposed requirement to provide a statement of acknowledgement will impose additional burden on reporting entities. Most reporting entities already recognize imputed financing costs (on the Statement of Changes in Net Position) for the estimated costs of services paid by other entities. It is not clear what added value the proposed requirement will provide.</p>

STAFF SUMMARY OF RESPONSES – Table D: Listing of Additional Comments from Respondents

D. Listing Of Additional Comments from Respondents

<u>Respondent</u>	<u>Comment</u>
#2 OGA	<p>By rescinding SFFAS 30, paragraphs 110 and 111 of SFFAS 4 will be restored to their original language. Paragraph 110 states, “OMB should identify the specific inter-entity costs for entities to recognize. OMB should issue guidance identifying these costs.” OMB guidance should specify the costs that must be recognized, vs those that should. There is no mention of the impact on these changes on Technical Release 8 that was issued to clarify SFFAS 30. For Clarification and Consistency. In its implementation guidance, OMB should: specify how it will identify inter-entity costs that must vs should be recognized; and provide the applicable time period (e.g. annually, etc.).</p> <p>Technical Release 8 was issued to clarify SFFAS 30 which is now rescinded.</p> <p><i>Staff comments: As provided in an earlier draft, the intent is to amend Technical Release 8 immediately after the issuance of the proposed SFFAS. Suggested changes for Technical Release 8 were included in an earlier version for the Board’s reference – if the board approves – this would be in a separate ED issued by the AAPC because TRs are a different level GAAP</i></p> <p><i>A footnote was added to the Executive Summary: “Conforming amendments will be made to Technical Release 8, Clarification of Standards Relating to Inter-Entity Costs, after this Statement is approved.”</i></p>
#2 OGA	<p>The first two sentences of par.111 leave room for interpretation on whether significant non-business type activities should be imputed. Deleting the term "ideally" would clarify and focus attention requirement. For Clarification and Consistency. The statement "Ideally, all significant inter-entity costs should be recognized." contradicts paragraph 110. This requirement will increase the burden on each reporting agency by requiring agencies to analyze imputed cost estimates that are accurate, complete, supported by source documentation, and testable to determine if the cost is significant. If the cost is deemed significant, it will be reported in the entity's financial statements even when not specifically called out by OMB guidance (see Paragraph 110)</p> <p>The recommendation would narrow the specific types of imputed costs required, eliminating the need for extensive analysis for each type of existing imputed cost.</p> <p><i>Staff comments: Staff is unclear of the point—the statements are clear and accurate. One must consider the paragraphs fully and read in its entirety. However, staff believes there may be some uncertainty as to when non- business-type entities (versus business-type entities) would need to impute costs going forward. Staff added clarifying language to the Summary, Standards and Basis for Conclusion to ensure this was clear. Language was added to explain with the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, Managerial Cost Accounting Standards and Concepts, will be restored to their original language prior to the passage of SFFAS 30. However, the standards were revised to</i></p>

STAFF SUMMARY OF RESPONSES – Table C

	<p><i>require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.</i></p>
#2 OGA	<p>Include a statement that materiality should not be the only criteria for recognizing an inter- or intra-entity imputed cost. For Clarification. If the criteria for recognizing an imputed cost is only based on materiality or significance, and does not consider other factors, as stated in previous comment, agencies and external auditors will spend a disproportionate amount of time (and money) calculating and verifying the imputed cost estimate in order to determine significance. This will be no less burdensome than current practice.</p> <p><i>Staff comments: Staff is unclear of the point—the amendments are made to par. 110 & 111; however it is still within the framework of SFFAS 4. If approved, inter-entity costs will be imputed for those reporting entities conducting business-type activities. However, the reporting of imputed personnel benefits and the Treasury Judgment Fund costs is still required by all. In addition, non-business type entities component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized.</i></p>
#2 OGA	<p>"Clarify meaning of ""significant"". This entire statement is vague and open to misinterpretation. Recommend providing specific disclosure requirements. Additionally, the portion of the paragraph stating ""for which cost is not recognized"" may cause confusion; recommend adding the word ""imputed"" to that portion of the sentence."</p> <p>On one hand, the ED proposes to eliminate imputed/inter-entity cost recognition requirements for all entities other than those engaged in a business-type activity. However, the ED also states that all components should recognize "significant" costs. Without a definition of "significant", an illustrative example, or Board guidance, the end-state vision is unclear. By rescinding SFFAS 30 and Interpretation 6, the proposed language does not define significance, and result in inconsistent applications across Federal agencies.</p> <p><i>Staff comments- Staff notes that the proposed requirement is component reporting entities provide a concise statement to acknowledge significant services received for which no cost is recognized. It doesn't require recognition of such costs. The specific services need not be disclosed to meet the acknowledgement requirements.</i></p> <p><i>As noted above, staff clarified what expectations are going forward (inter-entity costs will be imputed for those reporting entities conducting business-type activities) and reporting of imputed personnel benefits and the Treasury Judgment Fund costs is still required by all. Staff also clarified disclosures.</i></p>

STAFF SUMMARY OF RESPONSES – Table C

#2 OGA	<p>Recommend adding specific language excluding intra-entity non-business type activities. Recommend FASAB further clarify “business-type activities” and “significantly self-sustaining.”</p> <p>Without specific mention of the exclusion of "intra-entity" in the guidance, the term "Inter-entity" may be misinterpreted. Examples of relevant activities would be useful to reporting entities in implementing this standard. For example, should imputed costs be recognized by a reporting entity that has a function to sell goods and/or services to a nonfederal entity, such as a foreign government, where the intent of the sale includes a political or military benefit to the U.S. (e.g., not a traditional business-like activity such as providing electrical power to the public)?</p> <p>Staff comments: This proposal relates to inter-entity cost. Intra-entity costing is accomplished through the costing methodology selected for use within the reporting entity since these costs are passed among responsibility segments.</p>
#2 OGA	<p>Paragraph 111 states, “Therefore, recognition of inter-entity costs supporting business-type activities made in accordance with implementation guidance provided by FASAB through one or more technical releases.” Does FASAB plan to issue subsequent technical releases?</p> <p>FASAB should identify which releases identify the costs to be recognized. To ensure timely and consistent application, recommend reference to and inclusion of any additional guidance that supplements this standard.</p> <p>Staff comments: As provided in an earlier draft, the intent is to amend Technical Release 8 immediately after the issuance of the proposed SFFAS. Suggested changes for Technical Release 8 were included in an earlier version for the Board’s reference – if the board approves – this would be in a separate ED issued by the AAPC because TRs are a different level GAAP</p> <p>A footnote was added to the Summary: “Conforming amendments will be made to Technical Release 8, Clarification of Standards Relating to Inter-Entity Costs, after this Statement is approved.” However, whether or not there may be additional Technical Releases or other guidance is not something that we can determine.</p>
#2 OGA	<p>Include illustrative examples of the disclosure statements and more definitive guidance on when this Statement applies/</p> <p>Such illustrative disclosure statements will enable consistency across Federal entities and facilitate compliance. In addition, greater clarity will increase the auditors' understanding of the criteria and determination of compliance.</p> <p>Staff comments: Staff clarified the disclosure section.</p>

STAFF SUMMARY OF RESPONSES – Table C

#2 OGA	<p>Include language in the effective date section that specifies this change in accounting principle should be recorded prospectively and prior period adjustments are not required.</p> <p>Inclusion of such language will assist agencies in correctly applying the standard - especially as it pertains to prior period adjustments.</p>
#2 OGA	<p>Document currently states "reporting of inter-entity coats" but should state reporting of inter-entity costs.</p> <p>Staff comments: This was corrected.</p>
#5 DoD	<p>Recommend that, if the effective date is other than "effective upon issuance," including the provision that "earlier implementation of this standard is allowed" to the effective date.</p> <p>Staff comments: The proposal has "the requirements of this Statement are effective for reporting periods beginning after September 30, 2017." If approved, the Statement would not be issued for approximately 90 days. Staff believes maintaining this language is reasonable as it allows implementation in this fiscal year.</p>
#5 DoD	<p>Recommend moving the following language from Paragraph A15 of the Basis for Conclusions to the body of the standard itself; " ... Personnel benefits and Treasury Judgment Fund settlements are required to be imputed by GAAP standards other than SFFAS 4, and those standards ensure they continue to be imputed ... "</p> <p>This is a piece of significant information and will be helpful to the reader of this standard.</p> <p>Staff comments: Reference made.</p>
#8 GWSCPAs- FISC	<p>Provide clarification in the Scope paragraph whether the ED applies solely to the costs within a department or whether it also applies to component reporting entities.</p> <p>Staff comments: Scope is clear that it applies to all.</p>
#8 GWSCPAs- FISC	<p>Include examples that are more inclusive of non-DoD entities.</p> <p>Staff comments: 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. This proposal will help HHS comply with SFFAS 4 and reduce the cost of financial reporting.</p> <p>Staff added a sentence to the BfC.</p>

STAFF SUMMARY OF RESPONSES – Table C

#10 DOC	<p>In the proposed standard (page 12), paragraph A15 does not provide specific references stating where the GAAP requirements reside for imputing costs for a) personnel benefits; and b) Treasury Judgment Fund settlements. The Department reached out to FASAB staff to obtain this information so that we could better evaluate the proposed standard. FASAB staff provided us with references to paragraphs 93-95 of SFFAS 4 for personnel benefits, SFFAS 5 (e.g. paragraphs 74-76 for the pensions costs subset of personnel benefits) for personnel benefits, and Interpretation 2 for Treasury Judgment Fund settlements.</p> <p>The Department respectfully recommends that FASAB include specific references to the relevant FASAB guidance for imputing costs for personnel benefits and Treasury Judgment Fund settlements in paragraph A15 of the proposed standard.</p> <p>Staff comments: Footnote added to par. A15</p>
#10 DOC	<p>The Department respectfully recommends that the first sentence of paragraph 5 (page 7) of the proposed standard be revised as follows:</p> <p style="padding-left: 40px;">5. If applicable, component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized in the component reporting entity's financial statements.</p> <p>Staff comments: Clarified sentence</p>
#13 AGA	<p>We also noted in paragraph A4 the “S” in COCOMS should be small and we also believe the paragraph can be simplified by removing the COCOMs background information.</p> <p>Staff comments: Streamlined/shortened this section.</p>

Attachment 1
Table of Contents
Comment Letters

Comment Letter #	Respondent	Page #
1	Health and Human Services	1
2	OGA	2
3	Social Security Administration	10
4	Housing and Urban Development	12
5	Department of Defense	14
6	Department of Homeland Security	17
7	Department of Justice-JMD	19
8	Greater Washington Society of CPAs-FISC	21
9	Department of Interior	23
10	Department of Commerce	25
11	Department of Agriculture	29
12	Department of Labor	31
13	Association of Government Accountants	34
14	Department of Defense-Office of Inspector General	37
15	Department of Veterans Affairs	40

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**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	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

- 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.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**Amending Inter-Entity Cost Provisions**

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.

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	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

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.

OGA generally agrees that proposed rescissions would provide relief to those struggling to meet the requirements and make compliance easier. Resources freed could be refocused towards other FASAB / OMB / GAO / Treasury requirements and financial management improvements. Additionally, OMB guidance and designation of which material, identifiable costs to report will

assist in providing uniformity and comparability across federal agencies, lending overall consistency to financial reporting.

The areas in which OGA takes exception are noted below:

1. Suggest eliminating reference to “significant inter-entity costs” to prevent confusion about whether and when such costs should be recorded. By using “significant” without defining the term or further elaborating, the proposed guidance leaves much open to interpretation and could result in the same inconsistent reporting and disclosures that plagued previous releases on imputed costs. Accordingly, we suggest the Board either:
2.
 - remove the sentence in par. 111 cited above and leave the guidance at the business-type activities level, or
 - expand the language to assist non-business-type entities in determining when and how to recognize and / or disclose inter-entity imputed costs.
3. The Board should provide illustrative language and specify where unrecognized inter-entity costs should be disclosed. Presumably this statement would be part of Note 1, Significant Accounting Policies.
4. The cost of assessing materiality and potentially recognizing imputed costs at the individual agency-level provides little value to the decision-makers who established such operational and funding arrangements. Generally, the impact of such arrangements is assessed at the Department and / or community level.
5. OGA takes exception to the required recognition of inter-entity costs by business-type activities based on the following scenario. Conditions that caused the Board to reconsider SFFAS 30 exist whether a cost relates to a good / service provided to a federal or nonfederal entity. For example, in paragraph A14, the Board recognized it may not be cost-effective to impute costs for the military services due to the complex and inter-related operations of DoD components. This would be true whether the customer was a federal entity or not. The cost of selling a DoD component to determine an amount that includes imputed costs from a variety of other DOD components that contributed to an end-product could exceed any fee ultimately charged to the nonfederal entity.

Paragraph 3 of the Exposure Draft has a footnote reference to OMB Circular A-25. However, it does not address the exceptions listed to full-cost pricing in the OMB Circular. For example, when:

- the cost of collecting fees represents a large portion of the fee;
- the sale is provided as a courtesy to a foreign government or international organization or a price is set at a reciprocal fee with such an organization;
- the market price should be charged versus full-cost;
- full cost would not be charged due to a legal requirement; or

- charges are determined at the discretion of an agency head.

How should reporting entities reconcile these situations with the accounting and reporting requirements in this Exposure draft for business-type sales to nonfederal entities?

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.

Acknowledgment of significant services received but not paid by the entity is an important disclosure for the financial statement reader's understanding of an entity's comprehensive financial position and all resources channeled toward the entity's mission. The proposed disclosure is a reasonable requirement. The disclosure is dependent on the materiality / significance of the resources involved. We believe disclosure would assist agencies and users / readers of the statements understand whether there are costs that were not and / or could not be included in the statements - and their materiality or significance.

OGA generally agrees, with the exceptions noted below:

1. Recommend the Board provide more focused guidance for the disclosure statement. An example of the Board's vision would be valuable.
2. To provide a disclosure acknowledging significant services were received for which no cost is recognized, reporting entities would still be required to perform formal assessments to identify and quantify such services to determine if they are "significant." An annual assessment would likely continue to be a standard deliverable to auditors to support the disclosure. In addition, disclosing significant services were received at no cost, when there is no detail explaining such significant services provides no additional value to financial statement users. Accordingly, the cost of an annual assessment would likely exceed the limited additional information provided. However, we have no objection if the Board authorizes a concise disclosure statement acknowledging the receipt of significant services. For example, if 100 persons supported the agency's mission in Year One of implementation, then a statement acknowledging that fact might be disclosed without the burden of the present language. In Year Two, if there was a 10% increase, then the 10% increase might be reported also.

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.

OGA generally agrees, with the exceptions noted below:

1. While we do not envision this will result in increased cost, more prescriptive guidance should lead to faster and more consistent adoption, with less confusion from the auditors in determining if / how the entity has complied with FASAB and GAAP requirements. Other considerations to assist in minimizing cost impact are:
 - the requirements do not include materiality as a requirement to record a cost vs make a disclosure statement;
 - the disclosure does not contain a dollar value; and
 - FASB and/or OMB providing guidance for the disclosure should make implementation uniform among Federal Agencies and add clarity to the reporting requirement. However, illustrative examples of acceptable disclosures from FASAB and OMB would be valuable. Such examples should include (a) when specific services are and / or should be disclosed; and (b) when specific services are not disclosed.
2. Absent direction from FASAB and/or OMB described above, agencies expend a great deal of time and manpower to comply. In that case, the additional cost burden could be the same as if existing provisions were unchanged. From the auditors' perspective, some additional costs would be incurred to substantiate the disclosure. Such costs - depending on the documentation required - would then be passed onto the agency.

FASAB EXPOSURE DRAFT
Amending Inter-Entity Cost Provisions
Due Date: 30 November 2017

Please update Header and Footer to Classify as Appropriate

Comment #	Page #	Section #	Line #	Comment Type	Comments	Rationale
				Indicate (S) for Substantive or (A) for Administrative		
1	6	Paragraph 3.110	1	S	By rescinding SFFAS 30, paragraphs 110 and 111 of SFFAS 4 will be restored to their original language. Paragraph 110 states, "OMB should identify the <u>specific</u> inter-entity costs for entities to recognize. OMB should issue guidance identifying these costs." OMB guidance should specify the costs that <u>must</u> be recognized, vs those that <u>should</u> . There is no mention of the impact on these changes on Technical Release 8 that was issued to clarify SFFAS 30.	For Clarification and Consistency. In its implementation guidance, OMB should: specify how it will identify inter-entity costs that <u>must</u> vs <u>should</u> be recognized; and provide the applicable time period (e.g. annually, etc.). Technical Release 8 was issued to clarify SFFAS 30 which is now rescinded.
2	6	Paragraph 3.111	1	S	The first two sentences leave room for interpretation on whether significant non-business type activities should be imputed. Deleting the term "ideally" would clarify and focus attention requirement.	For Clarification and Consistency. The statement "Ideally, all significant inter-entity costs should be recognized." contradicts paragraph 110. This requirement will increase the burden on each reporting agency by requiring agencies to analyze imputed cost estimates that are accurate, complete, supported by source documentation, and testable to determine if the cost is significant. If the cost is deemed significant, it will be reported in the entity's financial statements even when not specifically called out by OMB guidance (see Paragraph 110) The recommendation would narrow the specific types of imputed costs required , eliminating the need for extensive analysis for each type of existing imputed cost.
3	6	Paragraph 3.111	1	S	Include a statement that materiality should not be the only criteria for recognizing an inter- or intra-entity imputed cost	For Clarification. If the criteria for recognizing an imputed cost is only based on materiality or significance, and does not consider other factors, as stated in previous comment, agencies and external auditors will spend a disproportionate amount of time (and money) calculating and verifying the imputed cost estimate in order to determine significance. This will be no less burdensome than current practice.

4	6	Paragraph 3.111	1	S	Clarify meaning of "significant". This entire statement is vague and open to misinterpretation. Recommend providing specific disclosure requirements. Additionally, the portion of the paragraph stating "for which cost is not recognized" may cause confusion; recommend adding the word "imputed" to that portion of the sentence.	For Clarification and Consistency. On one hand, the ED proposes to eliminate imputed/inter-entity cost recognition requirements for all entities other than those engaged in a business-type activity. However, the ED also states that all components should recognize "significant" costs. Without a definition of "significant", an illustrative example, or Board guidance, the end-state vision is unclear. By rescinding SFFAS 30 and Interpretation 6, the proposed language does not define significance, and result in inconsistent applications across Federal agencies.
5	6	Paragraph 3.111	1	S	Recommend adding specific language excluding intra-entity non-business type activities. Recommend FASAB further clarify "business-type activities" and "significantly self-sustaining."	For Clarification and Consistency. Without specific mention of the exclusion of "intra-entity" in the guidance, the term "Inter-entity" may be misinterpreted. Examples of relevant activities would be useful to reporting entities in implementing this standard. For example, should imputed costs be recognized by a reporting entity that has a function to sell goods and/or services to a nonfederal entity, such as a foreign government, where the intent of the sale includes a political or military benefit to the U.S. (e.g., not a traditional business-like activity such as providing electrical power to the public)?
6	6	Paragraph 3.111	5	S	Paragraph 111 states, "Therefore, recognition of inter-entity costs supporting business-type activities made in accordance with implementation guidance provided by FASAB through one or more technical releases." Does FASAB plan to issue subsequent technical releases?	For Clarification and Consistency. FASAB should identify which releases identify the costs to be recognized. To ensure timely and consistent application, recommend reference to and inclusion of any additional guidance that supplements this standard.
8	7	Paragraph 5	1	S	Include illustrative examples of the disclosure statements and more definitive guidance on when this Statement applies/	For Clarification and Consistency. Such illustrative disclosure statements will enable consistency across Federal entities and facilitate compliance. In addition, greater clarity will increase the auditors' understanding of the criteria and determination of compliance.
7	7	Paragraph 6	1	S	Include language in the effective date section that specifies this change in accounting principle should be recorded prospectively and prior period adjustments are not required.	For Clarification and Consistency. Inclusion of such language will assist agencies in correctly applying the standard - especially as it pertains to prior period adjustments.

9	12	Paragraph A16	9	A	Document currently states "reporting of inter-entity coats " but should state reporting of inter-entity costs.	Typo - should be "costs", not "coats"
---	----	---------------	---	---	---	---------------------------------------

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**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	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Carla Krabbe, Deputy Chief Financial Officer

Please identify your organization, if applicable.

Organization: Social Security Administration

- 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:

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

SSA Response: We agree with the Board's proposal to rescind SFFAS 30 and Interpretation 6. In light of the general immateriality of non-business-type imputed costs, as well as the difficulties facing some agencies in the implementation of SFFAS 30, it seems reasonable to remove the burden of attempting to recognize all imputed costs.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**Amending Inter-Entity Cost Provisions**

- 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.

SSA Response: We agree with the proposal for entities to provide an acknowledgement of significant services received when no costs are recognized. Acknowledging such activities supports transparency and provides a better understanding of an entity's financial environment. However, we suggest that it might be beneficial to provide more information besides just a statement of acknowledgement. For example, in the disclosure, include the specific services received for which no cost is recognized, as that provides the reader more meaningful information.

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.

SSA Response: While we concur that a statement is good for transparency purposes, we are concerned that the proposed additional disclosure could lead to increased costs or burdens on preparers and auditors. The preparation of the note will cause agencies to incur costs for that preparation and for performing any research and documentation.

In addition, while the proposed disclosure may appear simpler and less burdensome than existing requirements, if preparers and auditors disagree about what constitutes "significant" services, then they will have to devote time and resources to finding common ground, which also comes at a cost. This issue could potentially arise every time the entity changes auditors.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**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	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

- 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.

HUD agrees with FASAB's decision to rescind SFFAS 30 and Interpretation 6 of SFFAS 4. As stated in the exposure draft, there are certain reporting entities where the operating environment does not lend itself to full costing methodology as it relates to imputed inter-departmental and intra-departmental costs. Costs should instead be based on the realities of that particular reporting entity: its funding flows, specialized function, and management responsibilities.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**Amending Inter-Entity Cost Provisions**

- 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.

HUD agrees with this proposal. If component reporting entities are not recognizing the full cost of services received from other reporting entities, they should disclose this in their notes to the financial statements. Users of the statements should be aware that not all costs are recognized by the reporting entity.

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.

HUD believes this disclosure would not impose a greater cost when compared to the existing requirement. A note disclosure stating that certain intra-entity and inter-entity costs are not recognized in the statements will not require as much recordkeeping as the previous requirements in SFFAS 30 and Interpretation 6 of SFFAS 4.



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

NOV 29 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:

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board on the proposed Exposure Draft (ED), *Amending Inter-Entity Cost Provisions*. The DoD understands the importance of providing useful, understandable information to users of the financial statements while considering the efficient use of resources within a reporting entity. The DoD partially agrees with the proposed ED and has provided detailed responses and input in our comments attached.

Thank you for considering the DoD's input.

Sincerely,

Alaleh A. Jenkins
Assistant Deputy Chief Financial Officer

Enclosure:
As stated



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.

DoD Response:

The DoD agrees with the Board's proposal for revision of the standards to provide for recognition of inter-entity costs by business-type activities and the rescission of SFFAS 30 and Interpretation 6.

As the Board explicitly recognized in Paragraph A2 of the Basis of Conclusion in this ED, the DoD is a highly complex organization with specialized components that regularly provide services to other DoD components. Due to the organizational structure of the DoD and the manner in which missions are carried out with cooperation amongst several components, the cost to identify, quantify, and record all inter-entity and related imputed costs would be cost prohibitive and would not provide a commensurate benefit to the users of the DoD's financial statements.

The DoD does recognize the benefit of recognizing inter-entity costs for business type activities, especially those that have to calculate and charge a rate for goods or services provided and agrees that it is beneficial to all stakeholders to include management and outside users of the financial statements to capture and recognize these costs.

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 a rationale for your answer.**
- 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 a rationale for your answer.

DoD Response:

The DoD disagrees with the Board's proposal that reporting entities provide a concise statement to acknowledge significant services received for which no cost is recognized.

The DoD believes that the proposed disclosure requirement contradicts the overall purpose of the standard by imposing additional costs to disclose significant services for which no cost is recognized that does not provide a commensurate benefit to the users of the financial statements. Furthermore, the DoD is concerned about the sensitivity of information that could be included in the proposed disclosure.

Additional DoD Comments

- A. Recommend that, if the effective date is other than "effective upon issuance," including the provision that "earlier implementation of this standard is allowed" to the effective date.
- B. Recommend moving the following language from Paragraph A15 of the Basis for Conclusions to the body of the standard itself; " ... Personnel benefits and Treasury Judgment Fund settlements are required to be imputed by GAAP standards other than SFFAS 4, and those standards ensure they continue to be imputed ... "
This is a piece of significant information and will be helpful to the reader of this standard.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**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	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Mary E. Peterman, Deputy Director

Please identify your organization, if applicable.

Organization: Department of Homeland Security – Office of the Chief Financial Officer

- 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.

DHS Response: DHS agrees with the proposal to revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind SFFAS 30 and Interpretation 6. The proposed standard decreases the burden on those entities with immaterial imputed costs to report. Additionally, as the financial information is

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**Amending Inter-Entity Cost Provisions**

consolidated, the intragovernmental costs, including the imputed cost are eliminated, reducing the effect of imputed cost on consolidated financial statements.

- 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.**

DHS Response: DHS agrees with the proposal above as a concise statement may improve clarity of financial information used to identify and classify significant inter-entity business activity. However, DHS recommends the Board to provide clear guidance and/or a methodology on determining what is considered as significant services.

- 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.**

DHS Response: DHS does not believe the proposed disclosure would impose a greater cost or burden when compared to existing requirements as the proposed changes simplify the overall reporting requirements. In addition, DHS recommends the Board to provide detailed guidance for the proposed disclosure to ensure consistency.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**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	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input checked="" type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

- 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. We recognize inter-entity costs by business type activity. Based on current reporting, we don't have significant imputed costs other than personnel benefits and the Treasury Judgment Fund. Only one entity has reported anything under SFFAS 4 that

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**Amending Inter-Entity Cost Provisions**

doesn't fall under the personnel benefits and Judgement Fund reporting. Therefore, as far as our reporting is concerned, removing those standards wouldn't affect the reporting of the department. The proposed revision would allow OMB to decide later if there are additional areas that should be reported on.

- 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 agree with this change as it will not significantly alter our reporting. We only have one entity that would report under this provision and it is not material to the Department.

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, it will not impose a greater cost or burden, since we only have one entity this applies to, and a general statement should not be harder to prepare than actual imputed costs. This change would not have a significant impact on DOJ's financial reporting burden, as the majority of the information currently reported in the footnotes relates to personnel benefits and Judgement Fund reporting, which will continue to be reported under a different standard.



November 30, 2017

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standard *Amending Inter-Entity Cost Provisions*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

Our responses to the ED questions are included below.

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.

Ms. Payne, Federal Accounting Standards Advisory Board

November 30, 2017

- A1. The FISC agrees with the provisions of the ED. The cost-benefit considerations provided in paragraphs A15 and 16 of the ED provide a reasonable basis for the Board's position to rescind SFFAS 30 and Interpretation 6. However, the FISC members suggest that the Board:
- a. Provide clarification in the Scope paragraph whether the ED applies solely to the costs within a department or whether it also applies to component reporting entities.
 - b. Include examples that are more inclusive of non-DoD entities.
- 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.
 - 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.
- A2. The FISC agrees that component reporting entities should provide a concise statement to acknowledge significant services received for which not cost is recognized. Such a statement would assist a reader's understanding of those significant services for which no cost is recognized, but would not impose a great cost or burden to the preparer or auditor communities.

The Board may also consider correcting a typographical error ("coats" versus "costs") in the last sentence of paragraph A16.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Andrew C. Lewis
FISC Chair

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**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	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

- 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.

Agree. The previous requirements for the reporting entity to recognize full costs of services from other federal reporting entities, even when there is no requirement to reimburse the providing reporting entity, do not justify the time and efforts for gathering the information, especially when the inter-entity costs are not significant. Full costing should be limited to business-type activities.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**Amending Inter-Entity Cost Provisions**

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.

Agree, as not disclosing significant services may impact fair presentation and affects comparability among agencies.

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.

Disagree. The proposed disclosure would lessen the burden for reporting entities as insignificant inter-entity costs need not be recognized under the proposed standard.



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

NOV 30 2017

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft — *Amending Inter-Entity Cost Provisions*, dated September 1, 2017.

Please find enclosed answers to the questions that were asked of respondents and two additional comments. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gordon T. Alston", is written over the typed name.

Gordon T. Alston
Director of Financial Reporting and Internal Controls

Enclosure

cc: Kristin Salzer
Bruce Henshel
Eric Carter

FASAB Exposure Draft: Questions for Respondents due November 30, 2017
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	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

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.

Department of Commerce Response:

The Department agrees with the proposed changes in a) revising SFFAS 4; and b) the rescinding of SFFAS 30 and Interpretation 6. The Department believes that the proposed changes will maintain appropriate financial reporting of costs, are appropriate from a cost versus benefits standpoint, and should not significantly increase the burden or costs of financial reporting requirements but may rather reduce this burden.

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.

Department of Commerce Response:

The Department agrees with the proposal to have component reporting entities acknowledge, via a concise statement, significant services received for which no cost is recognized (in the financial statements). The Department believes that this proposal will provide additional information to users of the financial statements about significant cost contributions from other federal entities towards an agency's mission that are not recognized in the agency'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.

Department of Commerce Response:

There would be a data collection process that would need to be implemented across the Department for the added footnote disclosure; however, the Department believes that this process should not be a significant additional burden for preparers, and that the overall proposed standard should be beneficial to agency preparers from a cost versus benefits standpoint.

Additional Department of Commerce Comments:

1. In the proposed standard (page 12), paragraph A15 does not provide specific references stating where the GAAP requirements reside for imputing costs for a) personnel benefits; and b) Treasury Judgment Fund settlements. The Department reached out to FASAB staff to obtain this information so that we could better evaluate the proposed standard. FASAB staff provided us with references to paragraphs 93-95 of SFFAS 4 for personnel benefits, SFFAS 5 (e.g. paragraphs 74-76 for the pensions costs subset of personnel benefits) for personnel benefits, and Interpretation 2 for Treasury Judgment Fund settlements.

The Department respectfully recommends that FASAB include specific references to the relevant FASAB guidance for imputing costs for personnel benefits and Treasury Judgment Fund settlements in paragraph A15 of the proposed standard.

2. The Department respectfully recommends that the first sentence of paragraph 5 (page 7) of the proposed standard be revised as follows:
 5. If applicable, component reporting entities should provide a concise statement acknowledging that significant services were received for which cost is not recognized in the component reporting entity's financial statements.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**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	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

- 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 disagree because recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. For example, the Commodity Credit Corporation (CCC) has no employees or facilities. Thus, CCC executes its various programs using the manpower and facilities of other agencies, primarily the Farm Service Agency (FSA). The imputed financing consists of the costs of hired labor, opportunity costs of unpaid labor, capital recovery of machinery and equipment,

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**Amending Inter-Entity Cost Provisions**

opportunity costs of land, general overhead, payroll taxes, and insurance expended by FSA for work on CCC programs. For FY 17, CCC's imputed cost represented 10.05% of the total gross costs. An exception should be made for material items that are significant to the receiving entity and form an integral or necessary part of the receiving entity's output.

- 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 agree that component reporting entities should provide a concise statement to acknowledge significant services received for which no cost is 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.

No, we do not believe the proposed disclosure would impose a greater cost or burden when compared to existing requirements.

From: Simpson, Cynthia - OCFO [<mailto:Simpson.Cynthia@dol.gov>]

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

%%%%%%%%%

**U.S. Department of Labor
Office of the Chief Financial Officer
Financial Reporting Division
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.



November 30, 2017

Ms. 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 Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft of *Amending Inter-Entity Cost Provisions*. The FMSB is comprised of 23 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

We appreciate the FASAB's continued effort in setting and providing clarification of the standards relating to the Federal Government. We have reviewed the Exposure Draft and agree with the conclusion and FASAB's rationale as presented in the Basis for Conclusion. We have provided our responses below based on the questions in the Exposure Draft and have provided additional comments.

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 proposed changes as noted in the above question and agree that the cost of following the current standards regarding inter-entity costs outweighs the perceived and / or actual benefit from recognizing the inter-entity costs especially for non-business type activities. Members of our Board have noted that without the inter-entity costs they believe it would not create issues with incomplete or create gaps in reporting and that significant costs that were being recognized did not create a significant difference in reporting.

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.

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 welcome the additional alignment to other levels of government and the proposed disclosure provides relevant information for the readers of the financial statements. As we were unsure as to the FASAB's meaning of 'concise and significant services', we believe that FASAB should provide clarification as well as an example of a concise statement and a significant service. For example, does 'significant' mean large dollar amounts? Or is the FASAB referring to significant qualitative measures? This will allow the reader to gauge the impact of the phrases clearer. We also suggest allowing for professional judgment in making this determination. Providing clarity relating to significant will reduce audit time since the auditors and the agency will have the same understanding of the definition of 'significant.'

We also noted in paragraph A4 the "S" in COCOMS should be small and we also believe the paragraph can be simplified by removing the COCOMs background information. In paragraph A16 we noted a "coat" instead of a "costs".

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, Chair at lmiller@eidebailly.com or at 208-383-4756.

Sincerely,



Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: James "Jim" R. Arnette, Jr. CGFM, CISA, AGA National President

Association of Government Accountants

Financial Management Standards Board
July 2017 – June 2018

Lealan Miller, Chair
Eric Baltas
Eric S. Berman
Robert L. Childree
Vanessa Davis
Scott DeViney
Richard Fontenrose
Melanie L. Geesaman
Stephen Gilbride
J. Dwight Hadley
David C. Horn
Drummond Kahn
Simcha Kuritzky
Jude Lui
Craig M. Murray, Vice Chair
Suesan R. Patton
Eric Scheetz
Kenneth Smith
Roger Von Elm
Sheila Weinberg
Brittney Williams
Stephen Wills
Ann M. Ebberts, Chief Executive Officer, (Ex-Officio Member) AGA



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 30, 2017

MEMORANDUM FOR EXECUTIVE DIRECTOR, FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD

SUBJECT: Proposed Exposure Draft Statement of Federal Financial Accounting Standards,
"Amending Inter-Entity Cost Provisions"

We appreciate the opportunity to respond to the proposed Exposure Draft Statement of Federal Financial Accounting Standards, "Amending Inter-Entity Cost Provisions." We have reviewed the document as requested, below is our response to the "Questions for Respondents." Should you have any questions or require additional assistance, please contact me or Ms. Debie Alford of my staff at debra.alford@dodig.mil or 703-601-5396.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Department of Defense Office of Inspector General Comments on the Draft Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards

“Amending Inter-Entity Cost Provisions”

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 Defense Office of Inspector General (DoD OIG) disagrees with the proposed guidance, as written.

As stated in the exposure draft, if SFFAS 30 is rescinded in its' entirety, then the previous version of SFFAS 4 (with the proposed revisions to paragraphs 110 and 111) will be required again. Our main concerns relate to paragraph 110 which provided the Office of Management and Budget (OMB) the authority to recognize which inter-entity costs should be recognized, and paragraph 111 which states that “ideally” all significant entity costs should be recognized.

The DoD OIG is concerned that giving OMB the authority to determine which costs should be recognized might conflict with the auditor's own materiality judgment of the significance of inter-entity costs. In addition, when applying auditing standards, there could be instances in which auditors may request disclosures related to inter-entity transactions that the auditor determines fundamental to user's understanding of the financial statements. The proposed guidance may create circumstances in which the OMB's decisions conflict with the judgment of financial statement auditors.

The proposed paragraph 111 states that ideally, all “significant” inter-entity costs should be recognized, and then concludes that recognition of inter-entity costs that specifically support business-type activities should be recognized. Footnote 33 further defines a business-type activity as a significantly self-sustaining activity that finances its continuing cycle of operations through collection of exchange revenue. The DoD OIG is concerned that recognizing inter-entity costs from only business-type activities as defined

by the footnote would require an entity auditor to review the other entity's financial information to assess whether significant exchange transactions occurred between the entities. The DoD OIG recommends that the wording of the Standard clearly require entities to recognize material amounts of inter-entity costs, including "business-type" and "non-business-type" activities.

Finally, the DoD OIG is concerned that the basis behind this decision is based on known reported amounts. Although the exposure draft acknowledges that the proposed policy changes are based on unaudited amounts provided to the Board, we question the reliance on this data for the conclusions reached. If there are significant unknown amounts that would be material to the financial statements, removing the requirement could prevent those from being accurately 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.**

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.**

DoD OIG Response:

The Department of Defense Office of Inspector General (DoD OIG) disagrees with the proposed guidance, as written.

We are concerned that the vagueness of what a "concise" statement would be could result in wide-ranging applications of this requirement and potentially cause disagreements between entities and auditors about how to apply the guidance properly. We believe that FASAB could improve this requirement if it required the entity to form a conclusion regarding the materiality of the services received and provide a description of the services. In addition, requiring that entities prepare a blanket statement of a "concise" "acknowledgment" would not necessarily remove the need for auditors to obtain additional information and apply audit tests to the associated transactions. If auditors could not apply procedures, it could be considered a scope limitation. Each auditor needs to work with the entity to determine how much disclosure is needed so that readers have a fundamental understanding of the financial statements. In addition, auditors would determine the level of procedures necessary to confirm statements from the entity related to the materiality of services received.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**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	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

- 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.

VA - Agree. The rescission of SFFAS 30 and Interpretation 6, should simplify the guidance.

FASAB Exposure Draft: Questions for Respondents due November 30, 2017**Amending Inter-Entity Cost Provisions**

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.

VA - Disagree. The proposed disclosure requirement would impose a greater cost or burden when compared to existing requirements. It is not clear what added value the requirement would provide.

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.

VA - The proposed requirement to provide a statement of acknowledgement will impose additional burden on reporting entities. Most reporting entities already recognize imputed financing costs (on the Statement of Changes in Net Position) for the estimated costs of services paid by other entities. It is not clear what added value the proposed requirement will provide.



Federal Accounting Standards Advisory Board

AMENDING INTER-ENTITY COST PROVISIONS

Statement of Federal Financial Accounting Standards XX

Month Day, Year

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board," exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters](#), and other items of interest are posted on FASAB's website at: www.fasab.gov

Copyright Information

This is a work of the U. S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

Contact us:

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548
Telephone 202-512-7350
FAX 202-512-7366
www.fasab.gov

SUMMARY

Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts* (including Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*) required reporting entities to recognize the full costs of services received from other federal reporting entities even if there was no requirement to reimburse the providing reporting entity for the full cost of such services.

Information regarding full cost is essential for those reporting entities conducting business-type activities. However, it may not be essential for other reporting entities. For example, large, complex departments such as the Department of Defense have numerous sub-components that perform specialized functions to support other sub-components that are not distinct for performance purposes. Component reporting entities that successfully applied the inter-entity cost provisions of SFFAS 4, as amended, in fiscal year 2016 typically showed a less than one percent increase in gross costs attributable to imputed costs other than those associated with personnel benefits and the Treasury Judgment Fund.

These facts led to the Federal Accounting Standards Advisory Board's reconsideration of the inter-entity cost provisions. This Statement revises SFFAS 4 to provide for the continued recognition of significant inter-entity costs by business-type activities and rescinds the following:

- a. SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*¹
- b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. However, standards were adjusted to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

Materiality

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

¹ Conforming amendments will be made to Technical Release 8, *Clarification of Standards Relating to Inter-Entity Costs* to acknowledge the rescission of SFFAS 30.

Deleted: EXECUTIVE

Deleted: WHAT IS THE BOARD PROPOSING?¶

Deleted: s

Deleted: is

Deleted: Consideration of the Department of Defense's implementation challenges and the experiences of other federal reporting entities led the Federal Accounting Standards Advisory Board to reconsider the inter-entity cost provisions for all federal reporting entities. ¶

Deleted: Where the outcome of operations requires many sub-components to work together in a matrixed environment, relating cost to performance of each sub-component would be challenging. ¶
In addition, c

Deleted: implemented

Deleted: have shown

Deleted: Therefore,

Deleted: the proposal would

Deleted: HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?¶

Deleted: This proposal would This Statement facilitates reporting for large and complex organizations so that cost information aligns with their operations. For example, cost would be assigned to component reporting entities based on the complex decisions made by officials regarding funding flows, specialized functions (such as security or transportation), and managerial responsibilities (such as property management). Given the complex responsibilities and relationships among the components of large departments charged with missions such as national defense, this proposal would Statement results in less costly financial reporting by aligning reporting with established funding and governance structures. ¶ This proposal wouldIt also reduces the barriers to and cost of adopting generally accepted accounting principles. The revisions would not alter existing requirements applicable to business-type activities.¶

TABLE OF CONTENTS

Summary	1
Standards.....	3
Scope.....	3
Revising SFFAS 4, <i>Managerial Cost Accounting Standards and Concepts</i> and Rescinding SFFAS 30, <i>Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts</i>.....	3
Rescission of Interpretation 6, <i>Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4</i>.....	4
Disclosure Requirements.....	4
Effective Date	5
Appendix A: Basis for Conclusions	6
Appendix B: Abbreviations	13

STANDARDS

Deleted: PROPOSED

SCOPE

1. This Statement applies when a reporting entity is presenting general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

REVISING SFFAS 4, *MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS* AND RESCINDING SFFAS 30, *INTER-ENTITY COST IMPLEMENTATION: AMENDING SFFAS 4, MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS*

2. This paragraph rescinds SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, in its entirety. In doing so, this removes the broad requirement to recognize certain inter-entity costs.
3. With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. The following ~~revises~~ paragraphs 110 and 111 of SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and other minor updates:

Deleted: paragraph

110. Implementation of this standard on inter-entity costing should be accomplished in a practical and consistent manner by the various federal entities. Therefore, the Office of Management and Budget, ~~with assistance from the FASAB staff,~~ should identify the specific inter-entity costs for entities to ~~recognize. begin recognizing.~~ OMB should then issue guidance identifying these costs. These particular inter-entity costs should be specified in accordance with this standard including the recognition criteria presented below. The OMB should consider information and advice from Treasury, GAO, and other agencies in developing the implementation guidance. ~~It is anticipated that the largest and most important inter-entity costs will be identified first. As entities gain experience in the application of the standard, recognition of other inter-entity costs may be specified in future guidance or required by future standards.~~

111. Ideally, all significant inter-entity costs should be recognized. This is especially important when those costs constitute inputs to government goods or services provided to non-federal entities for a fee or user charge. The fees and user charges should recover the full costs of those goods and services. [Footnote 33] Thus, the cost of inter-entity goods or services needs to be recognized by the receiving entity in order to determine fees or user charges for goods and services sold outside the federal government. Therefore, recognition of inter-entity costs supporting business-type activities^{33A} ~~Such recognition, however, should be~~

made in accordance with ~~the~~ implementation guidance provided by FASAB through one or more technical releases, issued by OMB as discussed above.

[Footnote 33: OMB Circular A-25 addresses user charges by federal entities.]
[Footnote 33A: Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue as defined in SFFAS 7, *Accounting for Revenue and Other Financing Sources*. (See also SFFAS 6, footnote 27.)]

4. As a result of the above changes, business-type activities are still required to recognize inter-entity costs. However, recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

RESCISSION OF INTERPRETATION 6, ACCOUNTING FOR IMPUTED INTRA-DEPARTMENTAL COSTS: AN INTERPRETATION OF SFFAS 4

5. This paragraph rescinds Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, in its entirety.

Deleted:

Deleted: As a result, with the exception of recognition by business-type activities, inter-entity costs would not be imputed.

DISCLOSURE REQUIREMENTS

COMPONENT REPORTING ENTITY DISCLOSURES

6. If applicable, component reporting entities should provide a concise statement acknowledging that significant services² were received for which cost is not recognized in the component reporting entity's financial statements. No additional details (such as specific services) need to be disclosed to meet the acknowledgement requirements. For example, the following would be sufficient:

Deleted: The specific services

Deleted: not

Significant services were provided to the entity by other entities of the federal government without reimbursement. Consistent with accounting standards, costs associated with employee benefits (such as pensions and other post-employment benefits) and claims to be settled by the Treasury Judgment Fund are included even though reimbursement of the full cost is not required. However, the unreimbursed costs of services other than those identified above are not included in our financial statements.

² The determination of whether significant services were received requires the use of professional judgment but should be limited to services the cost of which likely would have been material to the reporting entity consistent with concepts and standards provided in SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.

EFFECTIVE DATE

7. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

Department of Defense Implementation Guidance Request Project

- A1. Since 2014, the Department of Defense (DoD) has requested the Federal Accounting Standards Advisory Board's (FASAB or "the Board") consideration of several financial reporting areas of concern and related audit challenges. While DoD continues its efforts to comply with the Chief Financial Officers Act of 1990 (as amended), it has noted certain challenges in satisfying existing standards. SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, is one such existing Statement. Through its goals to associate costs with the related operating activities, SFFAS 4 creates special challenges to a large, complex and matrixed organization such as DoD.
- A2. There are many complex relationships among the components of DoD, such as the military services, as well as between DoD and other related departments, such as the U.S. Coast Guard. Many specialized components provide services to other components of DoD. Generally, the DoD operates in a matrixed environment. It shares resources such as employees and assets across sub-components having different functional disciplines to accomplish a given assignment or mission. Often this is done without removing the resources and associated cost from the sub-component. Because of the extensive sharing of resources, implementing the inter-entity costing requirements would be more challenging and costly at DoD than at other departments.
- A3. For example, the Defense Security Service's (DSS) mission includes a variety of security functions for DoD. While it may be obvious that the security functions are for the benefit of all DoD reporting entities, Congress appropriates the funding to DSS and the cost is primarily (but not always) assumed by DSS. Financial accounting requirements seek to associate the costs of security functions with the activities that benefit from them. For example, the military services request security services but may not be required by law or management practices to fund those security services. Under existing accounting standards, the cost of services would be associated with each military service through an imputed cost. However, given the complexity of DoD's components and operations, it may

not be cost effective to impute costs for such services. In addition, the benefit of doing so may be reduced at DoD in comparison to other federal departments and agencies due to the challenge of identifying outputs and associating outputs with a single reporting entity.

- A4. Further, today's command structure makes full cost information by military service infeasible. For example, the DoD operates with "unified combatant commands" charged with executing military operations in different parts of the world and combining the capabilities of two or more military services. A Combatant Command (COCOM) is a military command with broad continuing missions under a single commander and composed of significant assigned components of two or more military departments. The COCOMs have responsibility for the military's operations in their respective area of responsibility during both peacetime and war.

Deleted: There are currently nine Combatant Commands.

Deleted: There are six regionally focused COCOMs, which operate in clearly delineated areas of operation and have a distinctive regional military focus. There are also three "functional" COCOMs, which operate worldwide across geographic boundaries and provide unique capabilities to geographic combatant commands and the services.³

Generally Accepted Accounting Principles History

- A5. FASAB issued SFFAS 4 in July of 1995, and it became effective in fiscal year (FY) 1998. However, the requirement for imputing inter-entity costs that are not reimbursed or are under-reimbursed was not immediately effective in FY1998. The Board explained this in the SFFAS 4 basis for conclusions as follows:

248. As discussed above, the Board realizes that there may be problems in implementing the standard on inter-entity costing. Recognition of non-reimbursed or under-reimbursed inter-entity costs is a new concept to federal entities and involves a new way of thinking about costs. There is concern that application of the standard may be inconsistent among federal entities. In addition, there could be problems, particularly at first, in developing estimates of costs; in revising accounting systems and procedures to accommodate these requirements; and in training personnel to accomplish the task. Furthermore, the Board recognizes the concern that some have about the elimination of inter-entity cost transactions for consolidated reporting since the accounting procedures may be complicated.

249. As a result of these problems and concerns, the Board has expressed the need to take a measured, step-by-step, practical approach to implementation of this standard. Therefore, the Board has decided that, in implementing the standard, it recommends that OMB, with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to begin recognizing and OMB should then issue guidance identifying those costs. OMB should consider the requirements of the standard including the recognition criteria in developing the guidance and it should also consider suggestions and information provided by Treasury, GAO, and other agencies. The Board anticipates the largest and most important inter-entity costs will be identified first, followed by others as entities gain experience in the application of the standard. This approach is seen as a practical way to ensure uniformity in the application and implementation of the standard and to provide time and experience in overcoming any other practical problems which may arise. Also, the Board may recommend specific inter-entity costs for recognition in possible future recommended standards.

- A6. In April 2003, the Board issued Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4*, requiring implementation of inter-entity costing for costs between reporting entities that are part of the same department of a larger reporting entity. The requirement was effective for FY 2005.
- A7. In August 2005, the Board issued SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, requiring full implementation of the inter-entity cost provision in FY 2009. SFFAS 30 followed extensive research on inter-entity costs by an Accounting and Auditing Policy Committee (AAPC) task force. The results were described in the *Report of the AAPC Inter-Entity Costs Task Force* as follows:

The AAPC Inter-entity Cost Task Force (task force) was formed and initial research was conducted beginning in July 2000. The task force reported its research findings and recommendations to the AAPC at its May 2003 meeting. The task force noted that the current limitation in recognizing inter-entity costs was an impediment to progress towards full costing. The task force did not recommend changes to the current limitations in the application of SFFAS 4 inter-entity costs provisions. However, the task force did not find material non-reimbursed or under-reimbursed inter-entity costs for which government-wide guidance was warranted. The task force report is available on the AAPC website at <http://files.fasab.gov/pdf/files/aapciectfreport.pdf>.

- A8. As provided in paragraphs 28-30 of the basis for conclusions in SFFAS 30, half the respondents disagreed with SFFAS 30:

28. Approximately one-half of the respondents agreed with the Board's proposal that the inter-entity cost provisions of SFFAS 4 should be fully implemented. In other words, approximately one-half of the respondents disagreed with the Board's proposal and agreed with the alternative view proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis.

29. Approximately one-half of the respondents believed that there were non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS 4. Additionally, a majority of respondents believed that federal entities would seek additional reimbursable agreements or modify existing agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized.

30. Approximately one-half of the respondents believed that additional guidance was needed to apply the factors in determining whether an inter-entity cost is material to the receiving entity and that additional guidance was needed to apply the broad and general support exception.

A9. In summary, in its due process of SFFAS 30, the Board determined the main concerns identified by respondents included (1) the lack of implementation guidance and (2) costs not being recognized consistently across agencies. These concerns also supported the task force findings. Therefore, the Board determined that there was a need for additional guidance, which led to the development of TR 8, *Clarification of Standards Relating to Inter-Entity Costs*. The Board believed the standards, along with the issuance of TR 8, balanced the concerns expressed by the task force and the ultimate goals of SFFAS 4. The majority of the Board determined SFFAS 30 was essential to attain the full cost accounting envisioned by SFFAS 4.

Existing Practices (Current SFFAS 4 Imputed Costs)

A10. The goal of SFFAS 4, as amended, to identify full cost is critical to improving performance measurement. This Board understands the previous Board's reasons for issuing SFFAS 30 because paragraphs 34-36 of SFFAS 4 explain the following:

34. Measuring performance is a means of improving program efficiency, effectiveness, and program results. One of the stated purposes of the GPRA of 1993 is to "...improve the confidence of the American people in the capability of the federal government, by systematically holding federal agencies accountable for achieving program results."

35. *Measuring costs is an integral part of measuring performance in terms of efficiency and cost-effectiveness.* Efficiency is measured by relating outputs to inputs. It is often expressed by the cost per unit of output. While effectiveness in itself is measured by the outcome or the degree to which a predetermined objective is met, it is commonly combined with cost information to show "cost-effectiveness." Thus, the service efforts and accomplishments of a government entity can be evaluated with the following measures:

- (1) Measures of service efforts which include the costs of resources used to provide the services and non-financial measures;
- (2) Measures of accomplishments which are outputs (the quantity of services provided) and outcomes (the results of those services); and
- (3) Measures that relate efforts to accomplishments, such as cost per unit of output or cost-effectiveness. (emphasis added)

36. Thus ... performance measurement requires both financial and non-financial measures. *Cost is a necessary element for performance measurement, but is not the only element.* (emphasis added)

A11. Currently, the inter-entity cost provisions have been implemented as envisioned by most agencies. However, the effect of inter-entity costs other than those associated with personnel benefits and Treasury Judgment Fund activities has been significantly less than one percent of gross costs at most agencies, calling into question the cost benefit of the original standard. Additional feedback was received about imputed costs from representatives of the largest agencies at roundtables on streamlining financial reporting. The comments were consistent with the results that imputed costs are often immaterial at the departmental level. [In addition, feedback was consistent that where the outcome of](#)

[operations requires many sub-components to work together in a matrixed environment—not only for DoD but other Departments such as Health and Human Services, relating cost to performance of each sub-component is challenging.](#)

A12. In addition, ongoing implementation efforts at DoD are expected to be very costly given the complex operating relationships among the sub-components of DoD. [Consideration of the Department of Defense's implementation challenges and the experiences of other federal reporting entities \(described above\)](#) led to the Board's reconsideration of the requirements contained within SFFAS 4 and SFFAS 30.

Deleted: This additional cost

A13. Board members agree inter-entity cost must be imputed for those reporting entities conducting business-type activities because the information is directly tied to rates. However, there are certain reporting entities or departments where the operating environment does not lend itself to full cost. For example, there are large, complex departments that may have sub-components that are not distinct for performance purposes. Therefore, the ability to relate cost to performance is more challenging for certain organizations than for others.

A14. For example, within DoD, under existing accounting standards, the full cost of inter-entity services would be associated with each military service through an imputed cost. However, given the complexity of DoD's components and operations, it may not be cost effective to impute costs for such services. In addition, the benefit of doing so may be reduced due to the challenge of identifying outputs and associating outputs with a single reporting entity such as a military service.

A15. Based on a government-wide review of (unaudited) percentages of gross cost attributable to imputed costs other than those for personnel benefits and Treasury Judgment Fund settlements, the Board observed the imputed costs are often immaterial at the department level. Personnel benefits and Treasury Judgment Fund settlements are required to be imputed by GAAP standards other than SFFAS 4, and those standards ensure they continue to be imputed.⁴ The modifications proposed herein restore the option for future recognition of other inter-entity costs if the Office of Management and Budget decides to do so.

A16. The Board carefully considered the cost—benefits, operating environments, current reporting, and what must be accomplished for those reporting entities that had not implemented the requirements. After careful consideration, the Board concluded that the proposed standard will not have negative consequences to reporting entities and that its benefits will clearly exceed its costs for reporting entities that had not implemented inter-entity cost requirements as well as reduce the reporting burden for agencies that have been imputing such costs. Therefore, based on research and the current costs to comply with existing standards, the Board decided to amend existing standards by limiting the reporting of inter-entity costs [\(other than those associated with personnel benefits and the Treasury Judgment Fund settlement\)](#) to business-type activities.

Deleted: a

⁴ See paragraphs 93-95 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 5, *Accounting for Liabilities of The Federal Government*, paragraphs 74-76 of SFFAS 5 (for the pension's costs subset) for personnel benefits, and Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5 for Treasury Judgment Fund settlements*.

SUMMARY OF OUTREACH

A17. FASAB issued the exposure draft (ED) *Amending Inter-entity Cost Provisions* on September 1, 2017 with comments requested by November 30, 2017.

A18. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants Topics, the *CPA Journal*, *Government Executive*, the *CPA Letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).

A19. FASAB received 15 responses from preparers, auditors, users of federal financial information, and professional associations. The Board did not rely on the number of respondents in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered each response and weighed the merits of the points raised. The respondents' comments are summarized below. The respondents identified certain issues that could be clarified within the Statement or addressed in the basis for conclusions.

A20. The majority of respondents agreed with the proposal to revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and to rescind SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.

A21. One respondent (Department of Agriculture) disagreed because they believe recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. The respondent explained that the Commodity Credit Corporation (CCC) has no employees or facilities and the imputed costs are roughly 10% of operating costs because CCC has no operating personnel. The Board recognizes that this is a unique and complex scenario. With further evaluation of the scenario, it may be appropriate for CCC to impute costs as allowed by paragraph 110 of the Statement. The Board does not believe this unique circumstance warrants changing the proposal **because full cost information may be provided upon consolidation of CCC in the departmental financial statements.**

A22. The majority of respondents generally agreed that component reporting entities should provide a concise statement to acknowledge significant services received for which no cost is recognized. However, certain respondents suggested additional explanation and clarification regarding the disclosure of a "concise statement acknowledging that significant services were received." The respondents believed providing clarity in these areas would ensure consistency and reduce costs associated with preparation and audit. Certain respondents also suggested sample wording of the disclosure.

A23. **The Board** clarified the disclosure requirement language in the Statement by reiterating that no additional details beyond the acknowledgement need to be disclosed and provided additional information regarding the determination of significant services. In addition, sample wording for the disclosure was included in the Statement.

A24. Based on certain responses, there appeared to be uncertainty regarding the recognition of inter-entity costs by activities that are not business-type activities. **The Board** added

clarifying language to the summary, standards, and basis for conclusion to ensure this was explicitly stated.

A25. The language explained with the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. However, standards were adjusted to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

Board Approval

A26. This Statement was [approved unanimously.] Written ballots are available for public inspection at FASAB's offices.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
CFR	Consolidated Financial Report of the U.S. Government
DoD	Department of Defense
DSS	Defense Security Service
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General Purpose Federal Financial Report
GPRA	Government Performance and Results Act
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards

FASAB Board Members

D. Scott Showalter, Chair

[R. Scott Bell](#)

Gila J. Bronner

Robert F. Dacey

George A. Scott

Michael H. Granof

[Patrick McNamee](#)

Mark Reger

Graylin E. Smith

Deleted: Christina Hoff

FASAB Staff

Wendy M. Payne, Executive Director

Melissa L. Batchelor, Assistant Director

Federal Accounting Standards Advisory Board

441 G Street NW, Suite 6814

Mail Stop 6H19

Washington, DC 20548

Telephone 202-512-7350

FAX 202-512-7366

www.fasab.gov



Federal Accounting Standards Advisory Board

AMENDING INTER-ENTITY COST PROVISIONS

Statement of Federal Financial Accounting Standards XX

Month Day, Year

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board," exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters,](#) and other items of interest are posted on FASAB's website at: www.fasab.gov

Copyright Information

This is a work of the U. S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

Contact us:

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548
Telephone 202-512-7350
FAX 202-512-7366
www.fasab.gov

SUMMARY

Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts* (including Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*) required reporting entities to recognize the full costs of services received from other federal reporting entities even if there was no requirement to reimburse the providing reporting entity for the full cost of such services.

Information regarding full cost is essential for those reporting entities conducting business-type activities. However, it may not be essential for other reporting entities. For example, large, complex departments such as the Department of Defense have numerous sub-components that perform specialized functions to support other sub-components that are not distinct for performance purposes. Component reporting entities that successfully applied the inter-entity cost provisions of SFFAS 4, as amended, in fiscal year 2016 typically showed a less than one percent increase in gross costs attributable to imputed costs other than those associated with personnel benefits and the Treasury Judgment Fund.

These facts led to the Federal Accounting Standards Advisory Board's reconsideration of the inter-entity cost provisions. This Statement revises SFFAS 4 to provide for the continued recognition of significant inter-entity costs by business-type activities and rescinds the following:

- a. SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*¹
- b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. However, standards were adjusted to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

Materiality

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

¹ Conforming amendments will be made to Technical Release 8, *Clarification of Standards Relating to Inter-Entity Costs* to acknowledge the rescission of SFFAS 30.

TABLE OF CONTENTS

Summary	1
Standards.....	3
Scope.....	3
Revising SFFAS 4, <i>Managerial Cost Accounting Standards and Concepts</i> and Rescinding SFFAS 30, <i>Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts</i>.....	3
Rescission of Interpretation 6, <i>Accounting for Imputed Intra-Departmental Costs: An Interpretation of SFFAS 4</i>	4
Disclosure Requirements.....	4
Effective Date	5
Appendix A: Basis for Conclusions	6
Appendix B: Abbreviations	13

STANDARDS

SCOPE

1. This Statement applies when a reporting entity is presenting general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

REVISING SFFAS 4, *MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS* AND RESCINDING SFFAS 30, *INTER-ENTITY COST IMPLEMENTATION: AMENDING SFFAS 4, MANAGERIAL COST ACCOUNTING STANDARDS AND CONCEPTS*

2. This paragraph rescinds SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, in its entirety. In doing so, this removes the broad requirement to recognize certain inter-entity costs.
3. With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. The following revises paragraphs 110 and 111 of SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and other minor updates:

110. Implementation of this standard on inter-entity costing should be accomplished in a practical and consistent manner by the various federal entities. Therefore, the Office of Management and Budget, ~~with assistance from the FASAB staff,~~ should identify the specific inter-entity costs for entities to recognize. ~~begin recognizing.~~ OMB should then issue guidance identifying these costs. These particular inter-entity costs should be specified in accordance with this standard including the recognition criteria presented below. The OMB should consider information and advice from Treasury, GAO, and other agencies in developing the implementation guidance. ~~It is anticipated that the largest and most important inter-entity costs will be identified first. As entities gain experience in the application of the standard, recognition of other inter-entity costs may be specified in future guidance or required by future standards.~~

111. Ideally, all significant inter-entity costs should be recognized. This is especially important when those costs constitute inputs to government goods or services provided to non-federal entities for a fee or user charge. The fees and user charges should recover the full costs of those goods and services. [Footnote 33] Thus, the cost of inter-entity goods or services needs to be recognized by the receiving entity in order to determine fees or user charges for goods and services sold outside the federal government. Therefore, recognition of inter-entity costs supporting business-type activities^{33A} ~~Such recognition, however,~~ should be

made in accordance with ~~the~~ implementation guidance provided by FASAB through one or more technical releases, issued by OMB as discussed above.

[Footnote 33: OMB Circular A-25 addresses user charges by federal entities.]
[Footnote 33A: Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue as defined in SFFAS 7, *Accounting for Revenue and Other Financing Sources*. (See also SFFAS 6, footnote 27.)

4. As a result of the above changes, business-type activities are still required to recognize inter-entity costs. However, recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

RESCISSION OF INTERPRETATION 6, *ACCOUNTING FOR IMPUTED INTRA-DEPARTMENTAL COSTS: AN INTERPRETATION OF SFFAS 4*

5. This paragraph rescinds Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, in its entirety.

DISCLOSURE REQUIREMENTS

COMPONENT REPORTING ENTITY DISCLOSURES

6. If applicable, component reporting entities should provide a concise statement acknowledging that significant services² were received for which cost is not recognized in the component reporting entity's financial statements. No additional details (such as specific services) need to be disclosed to meet the acknowledgement requirements. For example, the following would be sufficient:

Significant services were provided to the entity by other entities of the federal government without reimbursement. Consistent with accounting standards, costs associated with employee benefits (such as pensions and other post-employment benefits) and claims to be settled by the Treasury Judgment Fund are included even though reimbursement of the full cost is not required. However, the unreimbursed costs of services other than those identified above are not included in our financial statements.

² The determination of whether significant services were received requires the use of professional judgment but should be limited to services the cost of which likely would have been material to the reporting entity consistent with concepts and standards provided in SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.

EFFECTIVE DATE

7. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

Department of Defense Implementation Guidance Request Project

- A1. Since 2014, the Department of Defense (DoD) has requested the Federal Accounting Standards Advisory Board's (FASAB or "the Board") consideration of several financial reporting areas of concern and related audit challenges. While DoD continues its efforts to comply with the Chief Financial Officers Act of 1990 (as amended), it has noted certain challenges in satisfying existing standards. SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, is one such existing Statement. Through its goals to associate costs with the related operating activities, SFFAS 4 creates special challenges to a large, complex and matrixed organization such as DoD.
- A2. There are many complex relationships among the components of DoD, such as the military services, as well as between DoD and other related departments, such as the U.S. Coast Guard. Many specialized components provide services to other components of DoD. Generally, the DoD operates in a matrixed environment. It shares resources such as employees and assets across sub-components having different functional disciplines to accomplish a given assignment or mission. Often this is done without removing the resources and associated cost from the sub-component. Because of the extensive sharing of resources, implementing the inter-entity costing requirements would be more challenging and costly at DoD than at other departments.
- A3. For example, the Defense Security Service's (DSS) mission includes a variety of security functions for DoD. While it may be obvious that the security functions are for the benefit of all DoD reporting entities, Congress appropriates the funding to DSS and the cost is primarily (but not always) assumed by DSS. Financial accounting requirements seek to associate the costs of security functions with the activities that benefit from them. For example, the military services request security services but may not be required by law or management practices to fund those security services. Under existing accounting standards, the cost of services would be associated with each military service through an imputed cost. However, given the complexity of DoD's components and operations, it may

not be cost effective to impute costs for such services. In addition, the benefit of doing so may be reduced at DoD in comparison to other federal departments and agencies due to the challenge of identifying outputs and associating outputs with a single reporting entity.

- A4. Further, today's command structure makes full cost information by military service infeasible. For example, the DoD operates with "unified combatant commands" charged with executing military operations in different parts of the world and combining the capabilities of two or more military services. A Combatant Command (COCOM) is a military command with broad continuing missions under a single commander and composed of significant assigned components of two or more military departments. The COCOMs have responsibility for the military's operations in their respective area of responsibility during both peacetime and war.

Generally Accepted Accounting Principles History

- A5. FASAB issued SFFAS 4 in July of 1995, and it became effective in fiscal year (FY) 1998. However, the requirement for imputing inter-entity costs that are not reimbursed or are under-reimbursed was not immediately effective in FY1998. The Board explained this in the SFFAS 4 basis for conclusions as follows:

248. As discussed above, the Board realizes that there may be problems in implementing the standard on inter-entity costing. Recognition of non-reimbursed or under-reimbursed inter-entity costs is a new concept to federal entities and involves a new way of thinking about costs. There is concern that application of the standard may be inconsistent among federal entities. In addition, there could be problems, particularly at first, in developing estimates of costs; in revising accounting systems and procedures to accommodate these requirements; and in training personnel to accomplish the task. Furthermore, the Board recognizes the concern that some have about the elimination of inter-entity cost transactions for consolidated reporting since the accounting procedures may be complicated.

249. As a result of these problems and concerns, the Board has expressed the need to take a measured, step-by-step, practical approach to implementation of this standard. Therefore, the Board has decided that, in implementing the standard, it recommends that OMB, with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to begin recognizing and OMB should then issue guidance identifying those costs. OMB should consider the requirements of the standard including the recognition criteria in developing the guidance and it should also consider suggestions and information provided by Treasury, GAO, and other agencies. The Board anticipates the largest and most important inter-entity costs will be identified first, followed by others as entities gain experience in the application of the standard. This approach is seen as a practical way to ensure uniformity in the application and implementation of the standard and to provide time and experience in overcoming any other practical problems which may arise. Also, the Board may recommend specific inter-entity costs for recognition in possible future recommended standards.

A6. In April 2003, the Board issued Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4*, requiring implementation of inter-entity costing for costs between reporting entities that are part of the same department of a larger reporting entity. The requirement was effective for FY 2005.

A7. In August 2005, the Board issued SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, requiring full implementation of the inter-entity cost provision in FY 2009. SFFAS 30 followed extensive research on inter-entity costs by an Accounting and Auditing Policy Committee (AAPC) task force. The results were described in the *Report of the AAPC Inter-Entity Costs Task Force* as follows:

The AAPC Inter-entity Cost Task Force (task force) was formed and initial research was conducted beginning in July 2000. The task force reported its research findings and recommendations to the AAPC at its May 2003 meeting. The task force noted that the current limitation in recognizing inter-entity costs was an impediment to progress towards full costing. The task force did not recommend changes to the current limitations in the application of SFFAS 4 inter-entity costs provisions. However, the task force did not find material non-reimbursed or under-reimbursed inter-entity costs for which government-wide guidance was warranted. The task force report is available on the AAPC website at <http://files.fasab.gov/pdffiles/aapciectfreport.pdf>.

A8. As provided in paragraphs 28-30 of the basis for conclusions in SFFAS 30, half the respondents disagreed with SFFAS 30:

28. Approximately one-half of the respondents agreed with the Board's proposal that the inter-entity cost provisions of SFFAS 4 should be fully implemented. In other words, approximately one-half of the respondents disagreed with the Board's proposal and agreed with the alternative view proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis.

29. Approximately one-half of the respondents believed that there were non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS 4. Additionally, a majority of respondents believed that federal entities would seek additional reimbursable agreements or modify existing agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized.

30. Approximately one-half of the respondents believed that additional guidance was needed to apply the factors in determining whether an inter-entity cost is material to the receiving entity and that additional guidance was needed to apply the broad and general support exception.

A9. In summary, in its due process of SFFAS 30, the Board determined the main concerns identified by respondents included (1) the lack of implementation guidance and (2) costs not being recognized consistently across agencies. These concerns also supported the task force findings. Therefore, the Board determined that there was a need for additional guidance, which led to the development of TR 8, *Clarification of Standards Relating to Inter-Entity Costs*. The Board believed the standards, along with the issuance of TR 8, balanced the concerns expressed by the task force and the ultimate goals of SFFAS 4. The majority of the Board determined SFFAS 30 was essential to attain the full cost accounting envisioned by SFFAS 4.

Existing Practices (Current SFFAS 4 Imputed Costs)

A10. The goal of SFFAS 4, as amended, to identify full cost is critical to improving performance measurement. This Board understands the previous Board's reasons for issuing SFFAS 30 because paragraphs 34-36 of SFFAS 4 explain the following:

34. Measuring performance is a means of improving program efficiency, effectiveness, and program results. One of the stated purposes of the GPRA of 1993 is to "...improve the confidence of the American people in the capability of the federal government, by systematically holding federal agencies accountable for achieving program results."

35. *Measuring costs is an integral part of measuring performance in terms of efficiency and cost-effectiveness.* Efficiency is measured by relating outputs to inputs. It is often expressed by the cost per unit of output. While effectiveness in itself is measured by the outcome or the degree to which a predetermined objective is met, it is commonly combined with cost information to show "cost-effectiveness." Thus, the service efforts and accomplishments of a government entity can be evaluated with the following measures:

- (1) Measures of service efforts which include the costs of resources used to provide the services and non-financial measures;
- (2) Measures of accomplishments which are outputs (the quantity of services provided) and outcomes (the results of those services); and
- (3) Measures that relate efforts to accomplishments, such as cost per unit of output or cost-effectiveness. (emphasis added)

36. Thus ... performance measurement requires both financial and non-financial measures. *Cost is a necessary element for performance measurement, but is not the only element.* (emphasis added)

A11. Currently, the inter-entity cost provisions have been implemented as envisioned by most agencies. However, the effect of inter-entity costs other than those associated with personnel benefits and Treasury Judgment Fund activities has been significantly less than one percent of gross costs at most agencies, calling into question the cost benefit of the original standard. Additional feedback was received about imputed costs from representatives of the largest agencies at roundtables on streamlining financial reporting. The comments were consistent with the results that imputed costs are often immaterial at the departmental level. In addition, feedback was consistent that where the outcome of

operations requires many sub-components to work together in a matrixed environment—not only for DoD but other Departments such as Health and Human Services, relating cost to performance of each sub-component is challenging.

- A12. In addition, ongoing implementation efforts at DoD are expected to be very costly given the complex operating relationships among the sub-components of DoD. Consideration of the Department of Defense's implementation challenges and the experiences of other federal reporting entities (described above) led to the Board's reconsideration of the requirements contained within SFFAS 4 and SFFAS 30.
- A13. Board members agree inter-entity cost must be imputed for those reporting entities conducting business-type activities because the information is directly tied to rates. However, there are certain reporting entities or departments where the operating environment does not lend itself to full cost. For example, there are large, complex departments that may have sub-components that are not distinct for performance purposes. Therefore, the ability to relate cost to performance is more challenging for certain organizations than for others.
- A14. For example, within DoD, under existing accounting standards, the full cost of inter-entity services would be associated with each military service through an imputed cost. However, given the complexity of DoD's components and operations, it may not be cost effective to impute costs for such services. In addition, the benefit of doing so may be reduced due to the challenge of identifying outputs and associating outputs with a single reporting entity such as a military service.
- A15. Based on a government-wide review of (unaudited) percentages of gross cost attributable to imputed costs other than those for personnel benefits and Treasury Judgment Fund settlements, the Board observed the imputed costs are often immaterial at the department level. Personnel benefits and Treasury Judgment Fund settlements are required to be imputed by GAAP standards other than SFFAS 4, and those standards ensure they continue to be imputed.³ The modifications proposed herein restore the option for future recognition of other inter-entity costs if the Office of Management and Budget decides to do so.
- A16. The Board carefully considered the cost –benefits, operating environments, current reporting, and what must be accomplished for those reporting entities that had not implemented the requirements. After careful consideration, the Board concluded that the proposed standard will not have negative consequences to reporting entities and that its benefits will clearly exceed its costs for reporting entities that had not implemented inter-entity cost requirements as well as reduce the reporting burden for agencies that have been imputing such costs. Therefore, based on research and the current costs to comply with existing standards, the Board decided to amend existing standards by limiting the reporting of inter-entity costs (other than those associated with personnel benefits and the Treasury Judgment Fund settlement) to business-type activities.

³ See paragraphs 93-95 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 5, *Accounting for Liabilities of The Federal Government*, paragraphs 74-76 of SFFAS 5 (for the pension's costs subset) for personnel benefits, and Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5* for Treasury Judgment Fund settlements.

SUMMARY OF OUTREACH

- A17. FASAB issued the exposure draft (ED) *Amending Inter-entity Cost Provisions* on September 1, 2017 with comments requested by November 30, 2017.
- A18. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants Topics, the *CPA Journal*, *Government Executive*, the *CPA Letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).
- A19. FASAB received 15 responses from preparers, auditors, users of federal financial information, and professional associations. The Board did not rely on the number of respondents in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered each response and weighed the merits of the points raised. The respondents' comments are summarized below. The respondents identified certain issues that could be clarified within the Statement or addressed in the basis for conclusions.
- A20. The majority of respondents agreed with the proposal to revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and to rescind SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.
- A21. One respondent (Department of Agriculture) disagreed because they believe recognition of inter-entity costs that are not fully reimbursed should not be limited to business-type activities. The respondent explained that the Commodity Credit Corporation (CCC) has no employees or facilities and the imputed costs are roughly 10% of operating costs because CCC has no operating personnel. The Board recognizes that this is a unique and complex scenario. With further evaluation of the scenario, it may be appropriate for CCC to impute costs as allowed by paragraph 110 of the Statement. The Board does not believe this unique circumstance warrants changing the proposal because full cost information may be provided upon consolidation of CCC in the departmental financial statements.
- A22. The majority of respondents generally agreed that component reporting entities should provide a concise statement to acknowledge significant services received for which no cost is recognized. However, certain respondents suggested additional explanation and clarification regarding the disclosure of a "concise statement acknowledging that significant services were received." The respondents believed providing clarity in these areas would ensure consistency and reduce costs associated with preparation and audit. Certain respondents also suggested sample wording of the disclosure.
- A23. The Board clarified the disclosure requirement language in the Statement by reiterating that no additional details beyond the acknowledgement need to be disclosed and provided additional information regarding the determination of significant services. In addition, sample wording for the disclosure was included in the Statement.
- A24. Based on certain responses, there appeared to be uncertainty regarding the recognition of inter-entity costs by activities that are not business-type activities. The Board added

clarifying language to the summary, standards, and basis for conclusion to ensure this was explicitly stated.

A25. The language explained with the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, will be restored to their original language prior to the passage of SFFAS 30. However, standards were adjusted to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities will be limited to inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise required by the Office of Management and Budget.

Board Approval

A26. This Statement was [approved unanimously.] Written ballots are available for public inspection at FASAB's offices.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
CFR	Consolidated Financial Report of the U.S. Government
DoD	Department of Defense
DSS	Defense Security Service
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General Purpose Federal Financial Report
GPRA	Government Performance and Results Act
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards

FASAB Board Members

D. Scott Showalter, Chair

R. Scott Bell

Gila J. Bronner

Robert F. Dacey

George A. Scott

Michael H. Granof

Patrick McNamee

Mark Reger

Graylin E. Smith

FASAB Staff

Wendy M. Payne, Executive Director

Melissa L. Batchelor, Assistant Director

Federal Accounting Standards Advisory Board

441 G Street NW, Suite 6814

Mail Stop 6H19

Washington, DC 20548

Telephone 202-512-7350

FAX 202-512-7366

www.fasab.gov