

# Federal Accounting Standards Advisory Board

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## NEWS RELEASE

### **FASAB NOTICE OF PUBLIC HEARING ON PUBLISHED EXPOSURE DRAFT ENTITLED *Inter-Entity Cost Implementation--Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts***

The Federal Accounting Standards Advisory Board (FASAB) will hold a public hearing on the recently published exposure draft (ED) *Inter-Entity Cost Implementation--Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, in conjunction with its December 2004 Board Meeting. Specifically, the public hearing will be held **December 16, 2004 from 9:00 AM to noon**. The public hearing will permit the Board to ask questions about information and points of view submitted by respondents. The ED is available on the FASAB website [www.fasab.gov](http://www.fasab.gov) under Exposure Drafts for your reference.

The proposed standard *Inter-Entity Cost Implementation--Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* would require full implementation of the inter-entity cost provision in SFFAS 4 by establishing a date certain for full implementation. Approximately half of the respondents did not support the Board's proposal, and instead, agreed with the Alternative View presented.

Based on comments received on the ED, the Board determined that there is a need for additional guidance in various issues related to the full implementation of inter-entity costing. Therefore, the Board plans to request the AAPC Inter-Entity Task Force to continue its work in this area by developing a Technical Release that will address various areas raised by respondents (and detailed in **Attachment 1, Draft Guidance Plan on Full Implementation of Inter-Entity Costing**). The Board has also suggested certain operational guidance to be issued by the OMB. It should be noted that the guidance does offer a venue for agencies to direct agency-specific questions.

In addition, the Board determined that the effective date for implementation should be delayed; implementation would be for periods beginning after September 30, 2008. This delay in the effective date would allow time for the issuance of the forthcoming Technical Release. Although the Board is interested in all testimony regarding the ED, the Board is particularly interested in hearing additional testimony about:

- Specific comments on Attachment 1, *Draft Guidance Plan on Full Implementation of Inter-Entity Costing*, including whether additional topic areas should be addressed; and
- Specific examples of potential costs and related implementation problems.

Any individual or organization may request to be heard at the public hearing. Submission of written comments or an outline of proposed oral presentation is encouraged and will be distributed to the members of the Board. Individuals or organizations wishing to be heard at the public hearing, should notify FASAB of their intent by December 1, 2004 by contacting Melissa Loughan at 202-512-5976, email [loughanm@fasab.gov](mailto:loughanm@fasab.gov) or Wendy Comes at 202-512-7350, email [comesw@fasab.gov](mailto:comesw@fasab.gov)

## **ABOUT FASAB**

The mission of the FASAB is to promulgate federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

Federal accounting standards and financial reporting play a role in fulfilling the Government's duty to be publicly accountable. Federal financial reports can help report users assess the government's accountability, efficiency, and effectiveness, including the consequences of the allocation and use of resources.

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### Draft Guidance Plan on Full Implementation of Inter-Entity Costing

The Exposure Draft (ED) *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* was issued on April 26, 2004. The ED proposes to require full implementation of the inter-entity cost provision in Statement of Federal Financial Accounting Standards (SFFAS) 4. When fully implemented, SFFAS 4 -- issued in July 1995 -- would require the following for inter-entity cost:

Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity. (Text preceding paragraph 105 of SFFAS 4)

Based on comments received on the ED, the Federal Accounting Standards Advisory Board (FASAB or the Board) determined that there is a need for additional detailed, practical guidance in various issues related to the full implementation of inter-entity costing. Therefore, the Board plans to request the Accounting and Auditing Policy Committee (AAPC) Inter-Entity Task Force to continue its work in this area by developing a Technical Release (TR) that will address various areas raised by respondents (and detailed below.) The Board has also suggested certain operational guidance to be issued by the Office of Management and Budget (OMB). It should be noted that the guidance does offer a venue for agencies to direct agency-specific questions.

In addition, the Board determined that the effective date for implementation should be delayed for periods beginning after September 30, 2008. This delay in the effective date will allow time for the issuance of the Technical Release as detailed with various milestone dates below.

#### **A. Guidance to be developed by the AAPC Task Force and Issued as a Technical Release**

The AAPC would be asked to continue the work begun by its task force. In addition, the AAPC would resolve individual cases raised by agencies.

The task force would be provided with an initial plan from FASAB staff to facilitate meeting key milestones and to suggest various means of communicating with the community. Communication during the development of the draft Technical Release would encourage identification of cases at individual agencies as well as soliciting feedback on draft guidance.

Target completion dates: Based on an effective date of FY2009 for full implementation of inter-entity costing--9/30/07 for the issues identified below to be included in the Technical Release. Note--Individual requests for guidance must be received by 6/30/07 for resolution by 6/30/08.

1. Extensive evaluation of costs to determine which ones may be considered “Broad and General” for all entities and if possible, a list of the costs that should be considered Broad and General for all entities will be developed.
2. Additional guidance or discussion on the factor *Directness of relationship to the entity’s operations* as used in determining if a transaction should be considered material to the receiving entity. Guidance may clarify some of the following comments provided by respondents:
  - o Clarity on the directness of the relationship to the entity’s operations?
  - o If the costs associated with the goods or services being provided are allocated to more than one program or output, is it still considered integral?
3. Additional guidance or discussion on the factor *Identifiability* as used in determining if a transaction should be considered material to the receiving entity. Guidance may clarify some of the following comments provided by respondents:
  - o If a cost cannot be assigned to a receiving entity by a provider, with reasonable precision, it appears that the receiving entity is exempted from imputing the cost. Is this correct? How is reasonable precision defined by FASAB? How will receiving entity auditors determine that the providing entity cannot identify the cost, with reasonable precision, for the receiving entity?
  - o Who is doing the matching in the third criterion, the provider or the receiver? Depending upon the circumstances, either the provider or the receiver may provide the most accurate data.
4. Technical Releases addressing – in logical groupings if feasible – individual inter-entity costs identified by preparers or auditors. The AAPC Task Force will collect individual inter-entity requests for guidance on specific cases and determine if general guidance in the area can be provided on the issue, and if so, the Technical Release will provide such clarifying guidance. The actual cases will be forwarded to OMB with the Task Force’s recommendation, which will reference the general guidance in the Technical Release. However, final disposition of the individual entity-specific cases will be determined by OMB.

This guidance may clarify some of the following comments provided by respondents:

- o At what level will costs be considered material? Will materiality occur at the appropriation/fund level or at the program level or at the transaction level? Another issue is whether materiality should be set at a particular threshold. This may more objectively contribute to making the determination as to whether a cost is material, but again, at which level should the threshold be applied?
- o Is materiality also determined by the importance of the goods or services provided to the receiving entity in completing the mission associated with a particular program or output?
- o The standard requires recognition of inter-entity costs when they are material to the receiver, but ignores inter-entity costs that are material to the provider. If a small Agency provides goods and services to a large Agency, the inter-entity costs may be immaterial to the receiver, but very material to the provider.

**B. Guidance to be developed by OMB:**

OMB, working through the CFO Council and in conjunction with the Department of Treasury where appropriate, would provide guidance on the operational and managerial aspects of implementation.

Target Completion Date: 9/30/05 for item 1. 9/30/07 for items 2 and 3. 6/30/08 for individual entity-specific cases.

1. Guidance detailing the responsibilities and deliverables of both the providing and receiving entity, establishing timelines for carrying out those responsibilities; and establishing a communication process between providing and receiving entities.
2. Guidance on elimination entries.
3. Guidance on documentation to support the audit process.
4. As detailed in Section A, point 4—the AAPC Task Force will collect individual inter-entity requests for guidance on specific cases for analysis. The cases will be forwarded to OMB with the Task Force’s recommendation, which will reference the general guidance in the Technical Release. However, final disposition of the individual entity-specific cases will be determined will 6/30/08 for individual cases. Note--Individual requests for guidance must be received by 6/30/07 for resolution by 6/30/08.

**Summary Timeline of actions on ED and forthcoming Guidance**

