



Federal Accounting Standards Advisory Board

Clarification of Standards Relating to Inter-Entity Costs

***Federal Financial Accounting and Auditing
Technical Release 8***

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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, 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.

Section III. I (3) of FASAB's Rules of Procedure authorizes AAPC to issue technical releases related to existing federal accounting standards. Technical releases are intended to provide guidance on the specific application of Statements of Federal Financial Accounting Standards (SFFASs), Interpretations of SFFASs, and Technical Bulletins. AAPC's technical releases are in the third category of authoritative guidance in the Federal GAAP hierarchy as stated in the AICPA's Statement on Auditing Standards 91. AAPC may not amend existing standards or promulgate new standards.

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

- ◆ "Memorandum of Understanding among the General Accounting 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:

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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO) [formerly the General Accounting Office], the Chief Financial Officers' Council (CFOC), and the President's Council on Integrity and Efficiency (PCIE), as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). The mission of the FASAB is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of Federal financial information. The mission of the AAPC is to assist the Federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation, which are not specifically or fully discussed in Federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

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

- ◆ "Charter of the Accounting and Auditing Policy Committee"

- ◆ "Accounting and Auditing Policy Committee Operating Procedures"

Table of Contents

Table of Contents 4

Introduction 5

 Purpose 5

 Effective Date 5

Background 6

 Overview 6

 Related Accounting Literature 6

Technical Guidance 7

Appendix A: Basis for Conclusions 14

Introduction

Purpose

1. Statement of Federal Financial Accounting Standards (SFFAS) 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* requires full implementation of the inter-entity cost provision in SFFAS 4. The purpose of this technical release is to provide guidance to federal entities on three aspects of full costing specified in SFFAS 4: (1) guidance on costs that should be considered Broad and General for all entities, (2) guidance on *Directness of Relationship to the entity's operations* as used in determining if a transaction should be considered material to the receiving entity, and (3) guidance on *Identifiability* as used in determining if a transaction should be considered material to the receiving entity.

Scope

2. Readers of this technical release should first refer to the hierarchy of accounting standards in Statement on Auditing Standards (SAS) 91, Federal Generally Accepted Accounting Principles Hierarchy (or see AU411). This technical release supplements the relevant accounting standards, but is not a substitute for and does not take precedence over the standards.

Effective Date

3. SFFAS 30 requires full implementation of the inter-entity cost provision in SFFAS 4 for reporting periods beginning after September 30, 2008. Therefore, the effective date of this Technical Release is also for reporting periods beginning after September 30, 2008. Earlier implementation is encouraged.

Background

Overview

4. SFFAS 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, requires full implementation of the inter-entity cost provision in SFFAS 4 (paragraphs 105 -115). Fully implementing the provisions in SFFAS 4 will require adhering to 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)

SFFAS 4, par. 112, states "*in the context of deciding which inter-entity transactions are to be recognized, materiality, as used here, is directed to the individual inter-entity transaction rather than to all inter-entity transactions as a whole... In this context, then, materiality should be considered in terms of the importance of the inter-entity transaction to the receiving entity.*"

5. During its deliberations on SFFAS 30, the Federal Accounting Standards Advisory Board (FASAB or the Board) determined that there was a need for additional detailed, practical guidance on various issues related to the full implementation of inter-entity costing. Therefore, the Board requested that the Accounting and Auditing Policy Committee (AAPC) Inter-Entity Cost Task Force develop a Technical Release (TR) addressing implementation issues raised by respondents. This TR addresses three implementation issues.

Related Accounting Literature

6. The related accounting standards are as follows:

Federal Accounting Standards Advisory Board (FASAB) Accounting Standards:

- a. SFFAS 4, *Managerial Cost Accounting Standards and Concepts for the Federal Government*
- b. SFFAS 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*

Technical Guidance

7. This guidance is presented in response to three implementation issues identified by FASAB based on comments SFFAS 30 received from respondents.
8. Issue No. 1: Extensive evaluation of costs to determine which ones may be considered “Broad and General”¹ for all entities and, if possible, a list of the costs that should be considered Broad and General for all entities.
9. Criteria used for determining if costs should be considered Broad and General include, but are not necessarily limited to: whether the goods or services provided (1) can be used by various federal entities without being specifically tailored to each entity, or involve the establishment of policies and/or the provision of general guidance, (2) are provided to all or most federal reporting entities, (3) are not specifically or directly tied to outputs for most receiving entities, and (4) are not integral to the operations of most entities.
10. If any Broad and General goods or services are considered both integral and material to a receiving entity’s operations, the receiving entity should report such goods or services as inter-entity costs. In these cases it is incumbent on the receiving entity to request cost information from the providing entities. Examples of services that are integral to the operations of the receiving entity include check writing by the Department of Treasury (Treasury) for the Internal Revenue Service and the Social Security Administration. (See first example in Table I).
11. While not intended to be all-inclusive, Table 1: Example Broad and General Support Goods and Services, provides examples of goods and services that may be considered Broad and General for all entities and therefore generally not subject to inter-entity costing unless considered integral and material to the operations of a particular receiving entity.

¹ SFFAS 4, par. 112 states: Broad, general support -- Some entities provide broad, general support to many, if not all, reporting entities in the federal government. Most often this type of support involves the establishment of policies and/or the provision of general guidance. The costs of such broad services should not be recognized as an expense (or asset) by the receiving entities when there is no reimbursement of costs. Thus the standard does not apply when support is of a general nature provided to all or most entities of the federal government.

Table I: Example Broad and General Support Goods and Services	
Providing Entity	Description of Service Provided
Treasury	<p>Disbursing EFT and Check Payments</p> <p>Treasury’s payment function includes issuing and distributing check and electronic payments on behalf of other agencies. SFFAS 4 provided that check writing services, at least, should be considered Broad and General in nature, but should still be recognized if these services are integral to the operations of the receiving entity.</p>
Treasury	<p>Government-wide Accounting and Reporting Policy and Guidance</p> <p>Treasury’s Government-wide function provides the financial infrastructure for federal central accounting and government-wide reporting, the reconciliation of agency and bank reporting differences, and the generation of regular daily, monthly, and quarterly financial reports.</p>
Treasury	<p>Collection Services</p> <p>The collection function includes managing the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines, and proceeds from leases.</p>
Treasury	<p>Trust Fund Maintenance</p> <p>These administrative services include processing receipt, investment, and investment servicing transactions, as well as disbursement and redemption transactions. The Bureau of the Public Debt (BPD) also reports on the results of the transactions. BPD is reimbursed for the administrative services provided to 7 of the 18 Treasury-managed trust funds as required by legislation.</p>
DOJ	<p>Services for Criminal and Civil Litigation (non reimbursed)</p> <p>The Department of Justice (DOJ) provides legal representation, guidance and support to all federal agencies. For any agency that considers litigation activities an “integral” part of its operations, that fact is typically evidenced by a statute expressly giving that agency litigation authority.</p>
DOJ	<p>Debt Collection Activities</p> <p>The DOJ performs civil debt collection activities for those debts referred to the DOJ by all other agencies of the federal government. Costs incurred by the DOJ debt collection activities are paid from collections as authorized by Section 11013 of Public Law 107-273.</p>

GSA	<p>Real and Personal Property Disposal</p> <p>The General Services Administration (GSA) real property disposal functions include providing strategic direction and oversight for the development and administration of programs related to the utilization and disposal of federal excess and surplus property. Personal property disposal includes the same functions but for personal items and in accordance with specific legislation. Property disposal is being provided to multiple agencies.</p>
GSA	<p>Central Management Functions</p> <p>GSA is responsible for carrying out the policy and regulatory functions assigned to it by Congress, as one of the central management agencies of the federal government. GSA collaborates with customer agencies and stakeholders to develop policies for the implementation of federal laws, executive orders and other executive branch guidance.</p>
DOL	<p>Administration and Support Services for FECA (non reimbursable)</p> <p>Department of Labor (DOL) administers the Federal Employees' Compensation Act (FECA). FECA provides compensation, medical benefits and, if needed, job re-training to employees who suffer injuries and illnesses in performance of their federal duties. DOL bills the appropriate federal agencies for the amount of benefits paid on their behalf. DOL administers the FECA program on behalf of all federal agencies and funds the administrative costs of the program primarily through DOL appropriations.</p>
DOL	<p>Administration of Unemployment Compensation</p> <p>The DOL, in partnership with the state governments, administers the unemployment benefits for both non-federal and federal employees. The process for determining the eligibility, calculating the amount of benefit, and arranging for payments is indistinguishable for the non-federal and federal workforces.</p>
OPM	<p>Administration of Federal Employees Benefit Program (including pensions and post-retirement benefits)</p> <p>Office of Personnel Management (OPM) provides employee benefit programs to federal entities. These services are inherent to general government operations and not tied to an entity's outputs.</p>
EOP	<p>All Support Functions Performed by the Executive Office of the President (EOP)</p> <p>The predominant mission of the Executive Office of the President is to assist the President in overseeing the preparation of the federal budget and to supervise its administration in executive branch agencies. In helping to formulate the President's spending plans, the Office of Management and Budget (OMB) evaluates the effectiveness of agency programs, policies, and procedures, assesses competing funding demands among agencies, and sets funding priorities. OMB ensures that agency reports, rules, testimony, and proposed legislation are consistent with the</p>

	<p>President's Budget and with Administration policies.</p> <p>In addition, OMB oversees and coordinates the Administration's procurement, financial management, information, and regulatory policies. In each of these areas, OMB's role is to help improve administrative management, to develop better performance measures and coordinating mechanisms, and to reduce any unnecessary burdens on the public.</p>
GAO	<p>Accounting and Auditing Policy and Guidance</p> <p>The Government Accountability Office (GAO) evaluates federal programs and audits federal expenditures for all executive agencies. GAO establishes Government Auditing Standards and provides other audit guidance applicable to audits of federal entities.</p>

12. Issue No. 2: Develop additional guidance or discussion on the factor *Directness of relationship to entity's operations* used in determining if a transaction should be considered material to the receiving entity. Guidance may clarify the following comments provided by respondents from the SFFAS 30 exposure draft:
 - a. Clarity on the directness of the relationship to the entity's operations.
 - b. 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?

13. The directness of relationship to entity operations is generally determined by matching goods or services received to the output of the entity. SFFAS 4, par. 112 states "*Directness of relationship to the entity's operation – The good or service provided is an integral part of and necessary to the output produced by the entity.*" Check writing by Treasury for the Internal Revenue Service and the Social Security Administration are examples of services that are integral to the operations of the receiving entity. It is also important to determine if goods and services received are integral and necessary to outputs when setting cost for payments or selling services. SFFAS 4, par. 107 states "*Underlying this concept is the requirement that all costs be recognized in developing the price at which goods and services would be sold to other entities.*"

14. When considering the directness of relationship to entity operations to determine whether an inter-entity cost should be recognized, the needs of the users of cost information must be taken into account. As defined in SFFAS 4, the direct constituencies served are government program managers, Congress and federal executives, and citizens. Government managers are the primary users of cost information. They are responsible for carrying out program objectives with resources entrusted to them. Knowledge of full costs is important for use by the entity's top level management and by line managers in controlling and assessing the operating environment and in making decisions. SFFAS 4, par. 105 states "*Knowledge of these costs is helpful to top level management in controlling and*

assessing the operating environment. It is also helpful to other users in evaluating overall program costs and performance and in making decisions about resource allocations and changes in programs.”

15. In order to provide adequate cost information to these users for decision making, matching goods or services received to outputs should generally be performed at the responsibility segment level. SFFAS 4, par. 191, states “*The Board believes that accounting by segment will help provide information useful to program managers and other users of financial reports. Entity-wide financial reports provide information on the overall financial position and operating results of an entity in aggregate. Such reports, although useful for many purposes, are not sufficient for cost management. A fundamental undertaking of managerial cost accounting is to match costs with activities and outputs.*”
 16. For example: DoD or its major components receiving free rent on a building would not be considered integral or necessary to its overall mission. But free rent could be very material and integral to a commissary. A commissary is a supermarket for military personnel usually located on a military installation and maintained by the Defense Commissary Agency, an agency of the Department of Defense. If the commissary does not include the free rent as a cost, the cost of its outputs and activities provided to program managers for decision making purposes would be inaccurate and possibly misleading. Therefore, in this example the commissary should impute the cost of free rent.
 17. Consideration of whether costs need to be allocated before determining if they are integral should be based on criteria provided in SFFAS 4 pertaining to fully costing outputs. SFFAS 4, par. 89, states “*The full cost of a responsibility segment’s output is the total amount of resources used to produce the output. This includes direct and indirect costs that contribute to the output, regardless of funding sources. It also includes costs of supporting services provided by other responsibility segments or entities.*” Goods or services received from other responsibility segments or entities may contribute to more than one responsibility segment or output. Therefore, the cost of those goods or services may need to be allocated to more than one responsibility segment/output before attempting to determine whether the cost is integral to each particular output.
 18. Issue No. 3: Develop 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 the following comments provided by respondents:
 - a. If a cost cannot be assigned to a receiving entity by a provider with reasonable precision, it appears that the receiving entity is exempt from imputing the cost.
 - b. Who is doing the matching in the third criterion, the provider or the receiving entity? Depending on the circumstances, either the provider or receiving entity may provide more accurate data.
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19. "Identifiable" is reasonably matching the cost of goods or services to the receiving entity. SFFAS 4, par. 108 and 109, states "*If an entity provides goods or services to another entity... the full costs of the goods or services provided should also be reported to the receiving entity by the providing entity. The receiving entity should recognize in its accounting records the full cost of the goods or services it receives... The information on costs... should be available from the providing entity... if such cost information is not provided... a reasonable estimate may be used by the receiving entity.*" Therefore the receiving entity is not exempt from imputing the cost if the providing entity is unable to provide the information. "*The estimate should be of the cost of the goods or services received (the estimate may be based on the market value of the goods or services received if an estimate of the cost cannot be made).*" (SFFAS 4, par. 109).
20. For example, in accounting for real property, identity may be clear since there is an owner/custodian of a property and a tenant. However, the value of the property may not be clear due to the age of the property being beyond record retention requirements. As another example, a service from a providing entity may impact multiple outputs and responsibility segments of the receiving entity. The providing entity may be able to supply full cost to the receiving entity but not below the agency level. The receiving entity would need to determine the best way to allocate or distribute the full cost of the service to each responsibility segment or output benefiting from the service.
21. The requirement is for the provider to supply the receiving entity with information on the full cost of non-reimbursed or under-reimbursed inter-entity goods and services. But, if for some reason, the providing entity cannot or does not supply the cost information, the receiving entity has no way to recognize the cost other than through estimation. The Board anticipated this possibility and requires the receiving entity to use an estimate of the cost of goods and services if the actual amount is not provided. The estimate must be reasonable and should be aimed at determining realistic costs incurred by the providing entity. Therefore, it is vital that the providing and receiving entities share information and communicate. This is specifically required by SFFAS 4, par. 231, which states "*The standard places the responsibility on the providing entity to supply the receiving entity with information on the full costs of nonreimbursed or under-reimbursed inter-entity goods and services.*" In addition, SFFAS 4, par. 238, states "*Both providing and receiving entities should work closely with each other to resolve any costing problems just as they would to solve any non-accounting related situations.*"
22. SFFAS 4 states that "*materiality, as used here (in the standard), is directed to the individual inter-entity transaction rather than to all inter-entity transactions as a whole... materiality should be considered in terms of the importance of the inter-entity transaction to the receiving entity.*" (SFFAS 4 par.112) For example, an entity may process activity for another entity as a service bureau as defined under an inter-agency agreement (IAG) and/or a reimbursable agreement (RA). Preferably, the RA/IAG is fully costed. However, if it is not, the providing entity should communicate the full cost to the receiving entity. If the providing entity cannot supply the receiving entity with full cost, the receiving entity should make
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an estimate based on the best available data at the time the estimate is made. The receiving entity will then need to determine if the incremental costs are material for that particular good or service.

23. The receiving entity may have two or more distinct inter-entity services supporting one line of business (responsibility segment). The non-reimbursed portion of each inter-entity cost would need to be considered individually to determine whether it is material to and is an integral part of the output of the responsibility segment. Receiving entities should inform the providing entity of the costs imputed.

Except as otherwise noted in SFFAS 4 paragraph 112, the provisions of this Technical Release need not be applied to immaterial items.

Appendix A: Basis for Conclusions

- A1. On June 2, 2006, the FASAB Executive Director sent out the *Questionnaire Pertaining to the Full Implementation of Inter-Entity Costing* to the CFOs and IGs. The questionnaire provided a listing and description of services the AAPC's Inter-Entity Task Force (task force) believed were Broad and General costs, provided a series of questions pertaining to Broad and General costs, directness of relationship to the entity's operation, and identifiability of the good or service provided to the receiving entity, and asked for comments.
- A2. Based on responses to the questionnaire cited above, the task force summarized and reviewed the responses, and discussed and researched the available literature and practical aspects of implementation. As a result of this research, the task force issued an exposure draft of this technical release for comment.
- A3. The exposure draft, *Clarification of Standard Relating to Inter-Entity Costs*, was issued June 4, 2007 with comments requested by August 6, 2007. Fourteen comment letters were received from the following sources:

	FEDERAL (Internal)	NON- FEDERAL (External)
Users, academics, others	0	3
Auditors	1	0
Preparers and financial managers	10	0

- A4. The AAPC (or Committee) considered responses to the exposure draft at its September 27, 2007 AAPC meeting. The majority of the respondents agreed with the proposed guidance. Specific concerns were raised by several respondents related to the discussions pertaining to directness of relationship to entity operations and to identifiability. Clarifying language was added to these sections to address those concerns.
- A5. The task force also reviewed the responses received on the exposure draft. The task force discussed whether revisions to the technical release were needed, and made several recommendations to revise the technical release as determined appropriate. Following is a summary of the most significant comments.
- A6. Trust fund maintenance – Numerous responses were received both for and against reporting this service as a broad and general cost. The Committee agreed with the task force's belief that this service meets all of the criteria contained in this document for broad and general costs. Treasury manages all trust funds of the federal government. Legislation requires 7 of the 18 trust funds to reimburse Treasury. The Committee does not believe that legislative mandates providing for reimbursement of specific trust funds override the fact that the broad and general criteria is met for the majority of trust funds managed.

In addition, the task force notes that if the cost associated with trust fund maintenance is integral and material to the entities for which the other 11 funds are maintained they would be required to impute the costs under this guidance. Treating these costs as broad and general is also consistent with how administrative costs for FECA and pension benefit payments are treated in the technical release.

- A7. Maintenance of SSNs – One commenter responded that this service should be reported as a broad and general cost. The Committee does not agree. Maintenance of SSNs is a service provided to the public. While federal entities may receive a benefit from this service, the service is not provided directly to federal entities and therefore does not meet the definition of an inter-entity cost. A provided good or service must be an inter-entity cost before it can be considered to be recognized as a broad and general cost.
- A8. Criteria for broad and general costs – One commenter believed that the criteria should emphasize policies and the provision of general guidance as they pertain to the interest of the “general public.” Paragraph 112 of SFFAS 4, which provides the guidance for broad and general costs, is clear in identifying the provision of general guidance to “reporting entities in the federal government.” The standard does not address guidance to the general public. Therefore, the criteria were not changed.
- A9. Directness of relationship to entity operations – Numerous comments were received pertaining to the guidance in this area. The primary concerns centered on the relevance of the users of the cost information to this discussion, and the focus on sales and pricing situations rather than on the use of the cost information for decision making. The guidance pertaining to this area was revised to address these concerns.
- A10. Identifiability – Two commenters asked for clarity regarding the examples pertaining to inter-agency agreements and reimbursable agreements. The guidance was revised to address these concerns.
- A11. Reduced or free rent – Numerous commenters requested further information on how GSA administers reduced and free rent to other federal entities. GSA responded that free and reduced rent agreements are commonly tailored to each receiving agency and that free or reduced rent is provided on a limited basis. The task force concluded and the Committee agreed that neither the first nor the second criterion for broad and general costs were met and therefore the cost of free or reduced rent provide by GSA was eliminated from the broad and general cost category.

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