Federal Accounting Standards Advisory Board

Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4

Interpretation of Federal Financial Accounting Standards

Interpretation Number 6

April 18, 2003

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General in October 1990. It 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.

An accounting standard is 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 standard is 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 standard, 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 Interpretations and also 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 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," Amended December 20, 2002.*
- *"Mission Statement: Federal Accounting Standards Advisory Board"*

Exposure drafts, Statements of Federal Accounting Standards and Concepts, Interpretations, FASAB newsletters, and other items of interest are posted on FASAB's website, at www.fasab.gov.

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EXECUTIVE SUMMARY

a. Par. 110 of SFFAS No. 4, 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 (OMB), with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to begin recognizing. OMB should then issue guidance identifying these costs…"

b. Some of those involved with preparing and auditing financial statements for part of a department or larger reporting entity have asked whether par. 110 of SFFAS No. 4, when considered in conjunction with section 4.3 of OMB Bulletin 01-09, *Form and Content of Agency Financial Statements,* limits the recognition of imputed intra-departmental costs, i.e. costs between reporting entities that are part of the same department or larger reporting entity (other than the U.S. government as a whole).

c. This interpretation clarifies that par. 110 of SFFAS No. 4 does not limit the recognition of imputed intra-departmental costs. This interpretation further explains that reporting entities should account for imputed intra-departmental costs in accordance with the full cost provisions of SFFAS No. 4. To account for the full cost of a program and its output(s), reporting entities should recognize imputed intra-departmental costs.

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Interpretation Number 6
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Table of Contents

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Introduction

1. Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts,* specifies that "each entity's full cost should incorporate the full cost of goods and services that it receives from other entities." (SFFAS No. 4, text box immediately preceding par. 105) SFFAS No. 4 refers broadly to the costs of goods and services provided between entities as "inter-entity costs."

2. SFFAS No. 4 explains that for some inter-entity costs, the provider will be reimbursed by the recipient for the full cost. Therefore, the full cost of these inter-entity goods and services will be recognized in the recipient entity's accounts through the normal recording of transactions. SFFAS No. 4 also specifies that inter-entity costs not fully reimbursed by the receiving entity should be recognized at full cost. To accomplish this recognition, the receiving entity should recognize an imputed financing source (SFFAS No. 4, par. 109 and SFFAS No. 7, par. 73) for the difference between the actual payment (if any) and the full cost. To facilitate discussion of the issue addressed in this interpretation, we will refer to costs that are not fully reimbursed as "imputed costs" whether or not recognized by the recipient.[1]

3. Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display,* and SFFAS No. 4 use the term "inter-entity"; they do not use the terms "intra-departmental" and "inter-departmental." To facilitate the understanding of the inter-departmental definition and relationship, this interpretation uses "department" to refer to any department, agency, administration or other financial reporting entity[2] that is not a part of a larger financial reporting entity other than the Government as a whole. Thus "department" in this context includes entities such as the General Services Administration, the National Science Foundation, and the Environmental Protection Agency, as well as executive branch departments such as Defense, Agriculture, Treasury, et al.

[1] Recognition of imputed costs is determined by accounting standards (see par. 14 and 30 of this interpretation for additional explanation.) General criteria to help in determining imputed costs that should be recognized are detailed in par. 112-113 and 239-243 of SFFAS No.4.

[2] Reporting entity as used in this interpretation refers to any entity that issues general purpose financial statements as discussed in par. 29 of SFFAC No. 2, *Entity and Display.*

4. Activities between reporting entities that are not part of the same department or larger reporting entity other than the U.S. government as a whole are considered inter-departmental. Activities between reporting entities that are part of the same department or larger reporting entity (such as bureaus, components or responsibility segments within a department) are considered intra-departmental. Appendix B provides an illustration of inter-departmental and intra-departmental relationships.

Summary of Issue

5. Par. 110 of SFFAS No. 4, 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 (OMB), with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to begin recognizing. OMB should then issue guidance identifying these costs…”

6. OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, Section 4.3, second par. states “Reporting entities are required to recognize the following costs…To ensure consistency, agencies should not recognize costs other than those listed until OMB provides further guidance.”

7. Some of those involved with preparing and auditing financial statements for part of a department or larger reporting entity have asked whether par. 110 of SFFAS No. 4, when considered in conjunction with section 4.3 of OMB Bulletin 01-09, limits the recognition of imputed intra-departmental costs, i.e. costs between reporting entities that are part of the same department or larger reporting entity (other than the U.S. government as a whole).

8. This interpretation clarifies that par. 110 of SFFAS No. 4 does not limit the recognition of imputed intra-departmental costs. This interpretation further explains that reporting entities should account for imputed intra-departmental costs in accordance with the full cost provisions of SFFAS No. 4. To account for the full cost of a program and its output(s), reporting entities should recognize imputed intra-departmental costs.

Interpretation

9. Although par. 110 of SFFAS No. 4, when considered in conjunction with section 4.3 of OMB Bulletin 01-09, does limit the recognition of inter-entity costs to those costs that OMB has identified for recognition, this limitation applies solely to imputed inter-departmental costs. Par. 110 of SFFAS No. 4 does not limit the recognition of imputed intra-departmental costs.

10. **Imputed inter-departmental costs** are the unreimbursed (i.e. non-reimbursed and under-reimbursed) portion of the full costs of goods and services received by the entity from a providing entity that is not part of the same department or larger reporting entity other than the U.S. government as a whole.

11. **Imputed intra-departmental costs** are the unreimbursed portion of the full costs of goods and services received by the entity from a providing entity that is part of the same department or larger reporting entity (i.e. other bureaus, components or responsibility segments within the department or larger reporting entity).

12. Appendix B provides an illustration of inter-departmental and intra-departmental relationships.

13. Reporting entities should account for and recognize imputed intra-departmental costs in accordance with the full cost provisions of SFFAS No. 4. To account for the full cost of a program and its output(s), reporting entities should recognize imputed intra-departmental costs.

14. The recognition criteria in par. 112-113 of SFFAS No. 4 (which provides general criteria to determine which costs should be recognized) apply to both imputed intra-departmental and inter-departmental costs. Accounting and reporting for imputed intra-departmental and inter-departmental costs that are recognized should be consistent and in accordance with par. 108-109 and 114-115 of SFFAS No. 4, which provide specific accounting examples.

15. Reporting entities should disclose on the face of the financials or in the notes to the financial statements, which are an integral part of the basic financial statements, both imputed intra-departmental and inter-departmental financing sources that are recognized.

Scope of Interpretation

16. This interpretation applies to imputed inter-entity costs accounted for in accordance with SFFAS No. 4. Specifically, this interpretation clarifies that par. 110 of SFFAS No. 4 does not limit the recognition of imputed intra-departmental costs.

Effective Date

17. This interpretation is effective for periods beginning after September 30, 2004. Earlier implementation is encouraged.

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

Appendix A: Basis for Conclusions

This appendix summarizes some of the considerations deemed significant by the Board in reaching the conclusions in this Interpretation. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others.

Summary of Issue

18. Par. 110 of SFFAS No. 4 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 (OMB), with assistance from the FASAB staff, should identify the specific inter-entity costs for entities to begin recognizing. OMB should then issue guidance identifying these costs…"

19. OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, section 4.3, second par. states "Reporting entities are required to recognize the following costs…To ensure consistency, agencies should not recognize costs other than those listed until OMB provides further guidance."

20. Some of those involved with preparing and auditing financial statements for part of a department or larger reporting entity have interpreted par. 110 of SFFAS No.4, when considered in conjunction with section 4.3 of OMB Bulletin 01-09, as limiting departmental management's ability to recognize imputed costs among reporting entities within the department. This is not the Board's intent.

Interpretation and Explanation, Including Definition of Terms

21. Although par. 110 of SFFAS No. 4, when considered in conjunction with section 4.3 of OMB Bulletin 01-09, does limit the recognition of inter-entity costs to those costs that OMB has identified for recognition[3], this limitation applies solely to imputed inter-departmental costs. Par. 110 of SFFAS No. 4 does not limit the recognition of imputed intra-departmental costs.

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[3] With respect to the limitations on recognition of imputed inter-departmental costs, par. 110 of SFFAS No. 4 indicates that OMB will provide guidance. Specifically, OMB Bulletin No. 01-09 provides such guidance and states the following costs should be recognized: (1) employees' pension, post-retirement health and life insurance benefits, (2) other post-employment benefits for retired, terminated, and inactive employees which includes unemployment and workers compensation under the Federal Employees' Compensation Act, and (3) losses in litigation proceedings. Currently, a task force of the Accounting and Auditing Policy Committee is identifying other potential inter-departmental costs for recognition and related guidance that should lead to consistency among departments recognizing inter-entity costs.

22. The limitation is necessary with respect to imputed inter-departmental costs, because government-wide guidance is necessary to assure that imputed inter-departmental costs are accounted for and recognized in a practical and consistent manner. This limitation is not necessary with respect to the recognition of imputed intra-departmental costs. Department management can define responsibility segments for a department, and it can determine and implement comparable and consistent cost accounting policy in accordance with SFFAS No. 4 within the department. It does not need external guidance to set policy or external authority to enforce it.

23. Imputed intra-departmental costs are the unreimbursed portion of the full costs of goods and services received by the entity from a providing entity that is part of the same department or larger reporting entity (ie. other bureaus, components or responsibility segments within the same department or larger reporting entity.) An example of an imputed intra-departmental cost would be within the Department of Justice, the Drug Enforcement Agency (DEA) may perform drug processing (lab testing, results, etc.) for the Federal Bureau of Investigation without reimbursement.

24. Imputed inter-departmental costs are the unreimbursed portion of the full costs of goods and services received by the entity from a providing entity that is not part of the same department or larger reporting entity other than the government as a whole. An example of an imputed inter-departmental cost would be for drug processing provided by DEA to the U.S. Customs Service (which is not a part of the Department of Justice) without reimbursement.[4]

25. Appendix B provides an illustration of intra-departmental and inter-departmental relationships.

26. SFFAS No. 4 requires reporting entities to measure and report the full costs of their outputs (products and services) in general purpose financial reports. SFFAS No. 4 further defines the full cost of an output produced by a responsibility segment as the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, regardless of funding sources and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities.

[4] Although the example is an imputed inter-departmental cost, current OMB guidance does not include this particular cost as one to be recognized. See footnote 3 for additional detail regarding the current OMB guidance and the project to identify other costs for recognition.

27. SFFAS No. 4 par. 108 reads:

> If an entity provides goods or services to another entity, regardless of whether full reimbursement is received, the providing entity should continue to recognize in its accounting records the full cost of those goods or services. The full costs of the goods or services provided should also be reported to the receiving entity by the providing entity.

28. Further support of the Board's intent is found in SFFAS No. 4's basis for conclusions. Specifically, par. 224-249, indicate that the Board considered the inter-entity issue as involving inter-departmental costs. In particular, footnote 50 in SFFAS No. 4, reads:

> Full cost, as discussed in the full cost standard, contemplates both intra-entity costs and inter-entity costs applicable to a responsibility segment. This standard elaborates on inter-entity costs. Intra-entity costing is accomplished through the costing methodology selected for use within the reporting entity since these costs are passed among responsibility segments.

29. This indicates that the Board intended intra-departmental costs to be assigned, allocated, or imputed as determined by department management in accordance with the full cost standard. Reporting entities should account for intra-departmental costs in accordance with the full cost provisions of SFFAS No. 4. To account for the full cost of a program and its output(s), reporting entities should recognize imputed intra-departmental costs.

Accounting and Implementation

30. The recognition criteria in par. 112-113 of SFFAS No. 4 apply to both imputed intra-departmental and inter-departmental costs. The standard explains that the determination of whether the cost of non-reimbursed or under-reimbursed goods and services should be recognized requires the use of judgment. Ultimately, the decision should be "based on the specific facts and circumstances of each case, with consideration of the degree to which inclusion or exclusion would change or influence the actions and decisions of reasonable persons relying on the information." (SFFAS No. 4, par. 113)

31. Accounting and reporting for imputed intra-departmental and inter-departmental costs that are recognized should be consistent and in accordance with par. 108-109 and par.114-115 of SFFAS No. 4 which provide specific accounting examples. The standard requires that the receiving entity recognize the full cost

of the goods or services that it receives. To the extent that reimbursement is less than full cost, the receiving entity should recognize the difference as a financing source.

32. Reporting entities should disclose both imputed intra-departmental and inter-departmental financing sources that are recognized. This will allow the readers of the financial statements to understand how much a reporting entity is subsidized by other reporting entities within the department or larger reporting entity, versus those outside of the department. Additionally, it would be of particular importance when the reporting entity is producing stand-alone financial statements, as the intra-departmental costs and financing sources would not be eliminated. However, intra-departmental costs and financing sources would be eliminated for any consolidated financial statement covering both reporting entities, which is consistent with par. 109 of SFFAS No. 4, but disclosure of such financing sources should be included in the notes to the financial statements. Par. 244-246 of SFFAS No. 4 provides additional discussion of consolidated financial reports that include both the providing entity and the receiving entity.

Results of Questionnaire to Executive Agencies

33. Prior to the Board's deliberation on the issue, staff obtained information regarding current practices related to the accounting for imputed intra-departmental costs by distributing a questionnaire to the Chief Financial Officers and Inspector Generals of the Executive Departments. The responses to the questionnaire indicated that most Departments do not recognize imputed intra-departmental costs. Also, respondents indicated that there may be a need for guidance on various issues within SFFAS No. 4, such as materiality and acceptable methodologies.

34. The Board did consider the issues identified by respondents, but believed the issues were much broader than the scope of the interpretation. Additionally, the Board noted that there is existing guidance available related to cost accounting. Specifically, the CFO Council's Cost Accounting Implementation Guide and the Joint Financial Management Improvement Program's System Requirements for Managerial Cost Accounting, among others, are good sources of information on cost accounting.

Responses to the Exposure Draft (ED)

35. The Board issued the Exposure Draft *"Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4"* in November 2002. The Board received twelve responses on the exposure draft from the following sources:

	FEDERAL (internal)	NONFEDERAL (external)
Users, academics, others		2
Auditors	2	2
Preparers and financial managers	6	

All but two of the respondents supported the interpretation. One respondent commented that the proposed action goes beyond an interpretation of an existing standard. Many respondents (eight) did not agree with the Board's proposed effective date.

36. It is important to note that the Board did not rely on the number in favor of or opposed to a given position. Information about the majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The respondents' comments are summarized below.

Respondents Supporting the ED

37. All but two of the respondents supported the interpretation and agreed that reporting entities should recognize imputed intra-departmental costs. One respondent stated that entities should be able to determine intra-departmental costs and apply consistent internal cost methodologies in accordance with SFFAS No. 4. Another respondent elaborated that including these costs will inform readers of the financial statements of significant costs and ensure full and complete information for decision makers.

38. Although the majority of respondents supported the interpretation, most did not agree with the proposed effective date in the ED--for reporting periods beginning after September 30, 2002 (FY 2003.) Since most departments do not currently recognize imputed intra-departmental costs and the interpretation will not be finalized until the middle of FY 2003, the respondents indicated that it would be difficult to implement during FY 2003. The Board recognizes that implementation may require reviews and studies of intra-departmental activities. Therefore, the Board believes allowing more time for implementation is appropriate. The Board agrees and the effective date of this interpretation has been changed to periods beginning after September 30, 2004, with earlier implementation encouraged.

39. Respondents supporting the ED did offer some additional comments for the Board's consideration. In particular, one respondent suggested that the proposed interpretation goes beyond what is required in SFFAS No. 4, and therefore should be covered in an amendment rather than an interpretation. The Board believes that the interpretation is a clarification of par. 110 of SFFAS No. 4 and does not impose any new requirements.

Respondents Opposing the ED

40. Two respondents did not agree that agencies should be required to recognize imputed intra-departmental costs. Specifically, both respondents believed that it would be inconsistent to require recognition of imputed costs at the intra-departmental level but not at the inter-departmental level. It is important to note that the Board believes that recognition of imputed inter-departmental costs is also required. However, when par. 110 of SFFAS No. 4 is considered in conjunction with section 4.3 of OMB Bulletin 01-09, recognition of imputed inter-departmental costs is presently limited to those identified by OMB. A gradual approach to the implementation of inter-departmental full costing was provided by SFFAS No. 4 because the Board acknowledged a need for Government-wide guidance on the recognition of imputed inter-departmental costs.

41. The Board recognizes that costs of the same goods or services may be provided to both intra-department and inter-department recipients without full cost reimbursement. As such, certain imputed costs would be recognized by entities within a department (intra-departmental), but would not be recognized by entities that are not part of that department (inter-departmental). Although respondents note inconsistency, the Board believes it is appropriate to

recognize the imputed intra-departmental costs in accordance with the standard.

42. The Board does not believe that this action will increase inconsistency. Rather, the Board believes that this interpretation is a necessary step toward consistent full cost information for the following reasons:
    a. Current treatment of imputed costs results in receiving entities recognizing less than the full cost of the goods or services that it receives, which results in reporting understated costs. Applying this interpretation eliminates the intra-departmental misstatement.
    b. Currently, some goods and services acquired by entities are recognized at full costs and other goods and services are not.[5] This interpretation reduces the pool of goods and services that are not recognized at full cost.
    c. Development of intra-departmental cost information will facilitate implementation of inter-departmental full costing. The Board believes that department management will develop cost accounting methodologies for imputed intra-departmental costs and ensure they are consistently identified and implemented within a department. The experience gained through the intra-departmental efforts may lead to (1) full cost inter-departmental fees based on the improved cost information and (2) the availability of information and methodologies needed for imputed inter-departmental costs.

43. A task force of the Accounting and Auditing Policy Committee (AAPC) is currently identifying inter-departmental costs for recognition and guidance that will assist departments and improve consistency. The Board believes addressing the implementation issues and identifying these types of imputed intra-departmental costs for recognition within the department will ultimately assist with the obstacles in the recognition of imputed inter-departmental costs.

44. One respondent requested that the interpretation clarify how the 'broad, general support' criteria within par. 112 of SFFAS No. 4 would be applied to imputed intra-departmental costs. Par. 112 of SFFAS No. 4 (which provides general criteria to determine which costs should be recognized) discusses the criteria of broad and general support and recognizes that some entities provide support to all or most other federal entities, generally as a matter of

[5] In 1998, the CFO Council published the CFO Council Cost Accounting Implementation Guide that urged agencies to enter into reimburseable agreements and thus, reduce the pool of goods and services provided at less than full cost. Therefore, implementation of the guidance should have resulted in a decline in unrecognized inter-departmental costs.

their mission. 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. However, the standard discusses if the service is an integral and necessary part of the receiving entity's operations and outputs, those costs should be recognized.

45. The standard offers the example of check writing services by the Department of Treasury that may be considered a broad and general service to most federal entities, but may be considered an integral part of operations to entities such as the Internal Revenue Service and the Social Security Administration. Utilizing this example and applying the broad and general support criteria to imputed intra-departmental costs, the Internal Revenue Service may be required to recognize these imputed costs if they are determined to be an integral part of their operations and meet the standard for recognition, but the U.S. Customs Service (which is also a part of Treasury) may not recognize these costs as they may not be considered an integral part of their operations.

46. When appropriate, reporting entities should also consider the costing methodology standard of SFFAS No. 4 that addresses cost accumulation and cost assignment. Specifically par. 122 of SFFAS No. 4, provides:

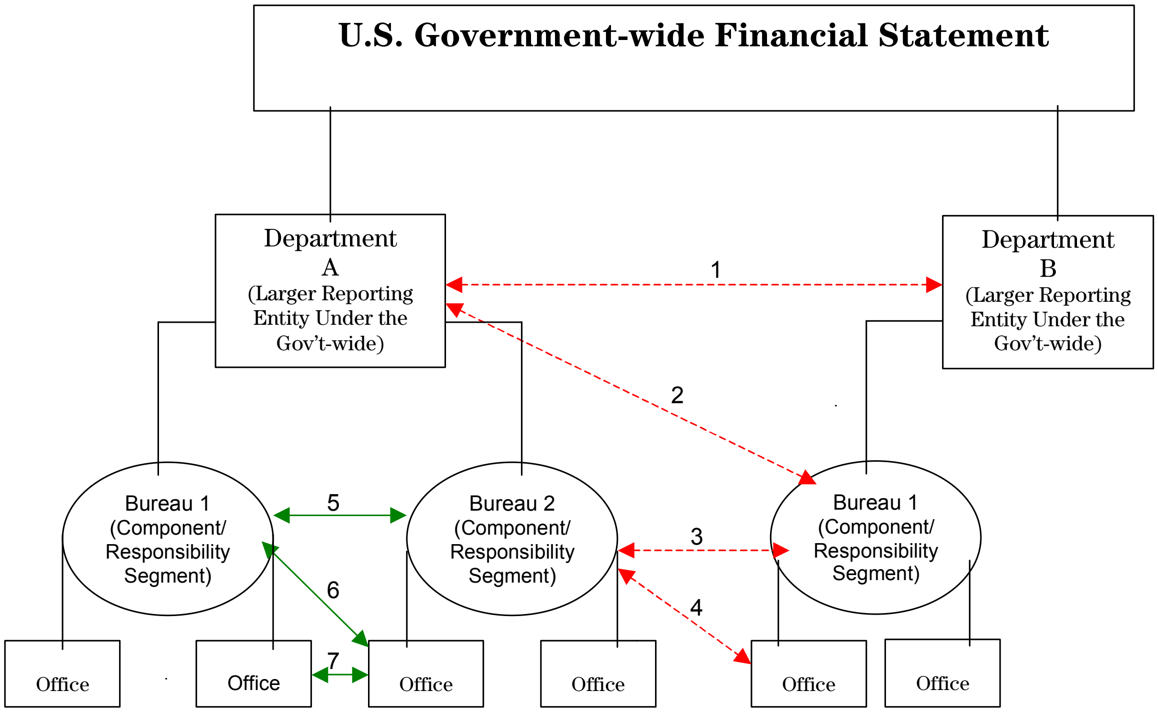
> Some responsibility segments of an entity may provide supporting services or deliver intermediate products to other segments within the same entity. The costs of the supporting services and intermediate products should be assigned to the segments that receive the services and products. This is referred to as the intra-entity cost assignments. Also, in accordance with the inter-entity cost standard discussed in the preceding section, an entity should recognize inter-entity costs for goods and services received from other federal entities. The inter-entity costs should also be assigned to the responsibility segments that use the inter-entity services and products.

Board Approval

47. This interpretation was approved for issuance by all members of the Board.

Appendix B—Illustration of Inter-entity Relationships

The following chart provides an illustration of the inter-departmental and intra-departmental relationships.



The lines labeled 1-7 represent goods and services provided between reporting entities.

Inter-departmental--The dashed lines (labeled 1-4) represent activities between reporting entities that are not part of the same department or larger reporting entity and are considered inter-departmental. The provision of goods or services result in inter-departmental costs and if the providing entity is not fully reimbursed, paragraph 110 of SFFAS No. 4 applies and when considered in conjunction with section 4.3 of OMB Bulletin 01-09*,* recognition of imputed inter-departmental costs is limited to those specifically identified by OMB.

Intra-departmental--The solid lines (labeled 5-7) represent activities between reporting entities that are part of the same department or larger reporting entity (such as bureaus, components or responsibility segments within a department) and are considered intra-departmental. The provision of goods or services result in intra-departmental costs and if the providing entity is not fully reimbursed, recognition of imputed intra-departmental costs is required to achieve full cost recognition, in accordance with SFFAS No. 4.

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