United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

TAKE PRIDE IN AMERICA

FINANCIAL MANAGEMENT MEMORANDA 2011 – 010 (Vol. II. B) MAY 25 2011

To: Bureau Chief Financial Officers
Bureau Assistant Directors for Administration

From: Douglas A. Glenn D. A. Glenn
Deputy Chief Financial Officer and Director
Office of Financial Management

Subject: Inter-Entity Cost Assessment

To ensure compliance with the full cost requirements of Statement of Federal Financial Accounting Standards (SFFAS) 4, as implemented by SFFAS 30, The Office of Financial Management (PFM) is requesting Bureaus identify material, non-reimbursed inter-entity costs that result from activity with entities external to Interior. Bureau finance offices should inquire of their respective program activities and budget offices as to the existence of these costs and determine if they are appropriate for recognition.

Also, please provide documentation of how costs for any jointly run programs are allocated among cooperating bureaus or agencies.

Broad and general support services provided by an entity to all or most other entities need not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.

SFFAS 4 provides the following general criteria to assist in identifying costs that should be recognized:

> *Materiality – As with other accounting standards, the provisions of this standard need not be applied to immaterial items. However, 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. Under this concept, a much more limited recognition is intended than would be achieved by reference to the general materiality concept.*
>
> *In this context, then, materiality should be considered in terms of the importance of the inter-entity transaction to the receiving entity. The importance of the transactions, and thereby their recognition should be judged in light of the following factors:*

(1)Significance to the receiving entity – The cost is large enough that management should be aware of it when making decisions.
(2) Directness to the entity's operations – The good or service provided is an integral part of and necessary to the output produced by the entity.
(3) Identifiability – The cost of the good or service provided to the entity can be matched to the entity with reasonable precision.
The determination of whether the cost is material requires the exercise of considerable judgment, based on the specific facts and circumstances of each transaction.

Please use the attached templates to identify any inter-entity costs that are not fully reimbursed and submit them to PFM no later than **July 1, 2011**.

If you have any questions, please contact Parker Hill at (202) 513-0850 or via e-mail at Parker.Hill@ios.doi.gov.

Attachment