



July 30, 2004

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Ms. Comes:

The Association of Government Accountants (AGA) Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft "*Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*" (ED). The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members.

The majority of FMSB members agree with the proposal to set an implementation date for requiring costs covered by other reporting entities to be included in the full cost of outputs to be included in general purpose financial reports. The amendment would ensure that all material costs are included in full cost measures. Inter-entity costs need to be accounted for, and their inclusion results in a truer picture of the actual costs of services being provided by federal departments. It also allows for comparability between federal services and private providers. However, one also needs to consider the costs associated with compiling and reporting this information, and whether it simply adds another layer of bureaucracy to the process. The proposed requirement does allow entities time to develop internal guidance on recognizing inter-entity costs, seek implementation guidance, or establish reimbursable agreements. FMSB responses to the specific questions asked by FASAB, including the concerns of one member who has some issues with the proposal, are included as an attachment to this letter.

The FMSB appreciates the opportunity to comment on the ED. This response letter represents a consensus of the views of the FMSB members. No FMSB members objected to its issuance. We would be pleased to discuss this letter with you at your convenience. You can contact me at [hintonrw@audits.state.ga.us](mailto:hintonrw@audits.state.ga.us) or (404) 656-2174 or Anna D. Gowans Miller, CPA, AGA's Technical Manager and facilitator for this project, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or (703) 684-6931, ext. 203.

Sincerely,

Russell W. Hinton, CGFM, Chair,  
AGA Financial Management Standards Board

cc. Bobby A. Derrick, CGFM  
AGA National President



## ATTACHMENT A

### Questions for Respondents

*1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105–115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.*

The majority of FMSB members agreed with the proposal. Several suggested that an even earlier date should be considered, as this information is relatively easy to determine for full costing. One member had some issues with the proposal as identified in the paragraphs below.

*2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.*

The majority of FMSB members opposed the alternative views proposal. Its opinion is that each federal agency should take responsibility for the accuracy and completeness of its financial information rather than relying on other parties such as the FASAB to deal with agency-specific issues or dictate which costs should be included. Although Mr. Reid correctly points out that the proposed statement goes beyond what SFFAS 4 had planned, the goal to fully disclose the cost of providing services remains. The proposed statement would appropriately be applied only to material items. It is likely that certain costs may be material to one department and not material to another. While the potential exists for reporting differing inter-entity costs among different departments, these inconsistencies should not bar the way to informing financial statement users of material costs incurred to provide the services of that government unit.

One member thought that Mr. Reid makes a valid point about the potential differences of opinion between auditors and preparers on what is material. This becomes a matter of “professional judgment.” Currently, the two groups have disagreements on many other items related to financial statement preparation and “professional judgment”. It would be unfortunate if this proposal were to add inter-departmental costs to the areas for potential disagreement.

His views here are influenced by the fact that no one has been able to identify any additional major inter-departmental costs that should be included in the financial statements. The AAPC was not able to identify such costs and FMSB members were not able to do to. The question that then arises is “are we tilting at windmills?” In his agency he knows of a few un-reimbursed inter-departmental costs, but none of them rises to the level of materiality that requires financial statement treatment.

Rather than just eliminate the current requirement, he would like to see if there are any costs that are really of concern, either government wide or for specific agencies, and then decide how to treat this matter. If there are large government wide inter-departmental costs, let us identify them (while continuing to exclude “broad and general” support). If not, let us examine if there are specific costs that need to be dealt with and make the decision then. He wondered whether the inclusion of inter-departmental costs in the financial statements has influenced any operating or investment decisions by any agency manager. They are not relevant for day-to-day decision-making.

*3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page19)? Please provide examples and/or explain your answer.*

Although FMSB members were not aware of any specific examples, they thought that certain costs were likely to be missed, especially with the number of IT systems that do not “talk” to each other.

*4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.*

The FMSB thought it was possible, or even probable, that agencies would alter their agreements so as to capture the costs and recover them appropriately, if this new requirement identifies under or over charges. It also thought that there might be some anti-deficiency act issues, if it becomes apparent that some agencies are providing non-reimbursed services to other agencies out of their appropriated funds. If there will be significant additional reimbursable agreements, there may have to be a change in the way in which funds are appropriated. For example, if agency A provides non-reimbursed services valued at \$1 million to agency B, those funds are included in the appropriation for agency A. If agency B now has to pay for those services, the \$1 million should be appropriated to agency B; otherwise it will run into the anti-deficiency issue or will be required to reduce other mission related activities.

*5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the proposal provisions.*

*a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:*

*i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions.*

*ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.*

*iii. Identifiability -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision. Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.*

The FMSB thought that this was appropriate and allowed for professional judgment. The three factors are sufficient to allow accountant and auditor to reach a consensus on which costs to consider material.

*b. SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.*

Additional guidance is not needed at this time; it should be left to the discretion of the accountant and auditor of the agency. FASAB should monitor agency implementation and be prepared to answer issues as they arise. It might be useful to develop a list of activities that would fall under this category to assist agencies in understanding this issue.

**Association of Government Accountants  
Financial Management Standards Board**

**July 2004 – June 2005**

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