



August 10, 2007

Wendy Comes, Executive Director  
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Dear Ms. Comes:

The Association of Government Accountants (AGA) Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the FASAB's exposure draft of a proposed technical release providing guidance to federal entities on three aspects of full costing, *Clarification of Standards Relating to Inter-Entity Costs*. 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 three aspects specified in SFFAS 4 are: guidance on costs that should be considered *Broad and General* for all entities; 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 guidance on *Identifiability* as used in determining if a transaction should be considered material to the receiving entity.

The FMSB, comprising 22 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. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has the following comments. They are drafted as responses to the questions posed in the exposure draft, which are reproduced here in italic script.

*Q1. This exposure draft provides a list of costs that may be considered Broad and General for all entities and therefore generally not subject to inter-entity costing. Do you believe there are other Broad and General costs that should be added to the list? If so, please identify them and provide a general description of the service provided or received by your entity, and the rationale for why you believe the costs should be Broad and General.*

We are not aware of other costs that could be considered Broad and General.

*Q2. For the Broad and General costs identified, does your entity consider any of these costs to be both integral and material to your operations? If so, please provide a description of the services received and the reason why you believe the services are integral and material to your entity.*

The following costs, now categorized as Broad and General, may be considered integral and material to some agencies:



- Disbursing EFT and check payments are integral to all agencies. The question is whether the costs are material for most agencies, other than the IRS and the SSA. We think the Treasury cost of EFT or mailing would be integral and significant for entities that provide shared services, since they are sending out hundreds of thousands of payments for payroll and to vendors.
- Collection services are also integral for most agencies, particularly the IRS. In addition, since Treasury takes on the “heavy lifting” of debt collection, agencies which make bad loans or let debt build up should pay for the treasury services.
- Audits performed by GAO for agencies in compliance with the CFO Act should be considered integral to the agency being audited. If GAO did not perform the audits, the agency would have to have the audits performed by the IG or an outside IPA.

*Q3. Administrative services provided by Treasury regarding trust fund maintenance has been identified as a Broad and General cost, although 7 of 18 trust funds reimburse Treasury for these costs. Please provide your rationale for why these administrative costs should either be considered Broad and General or inter-entity costs subject to full costing by the receiving entities.*

The draft should provide more background information on the difference between those agencies which reimburse for trust fund administrative services and those that do not reimburse for the services. Our initial reaction is that all agencies should either reimburse for the services or treat the cost as an inter-entity cost. In addition, the balances deposited are invested in securities that offset the cost of money related to current outlays, and this should be accounted for. Our opinion could change based on more information.

*Q4. GSA provides construction, leasing and other services for government-owned buildings and privately owned leased facilities. Part of this service, providing free or reduced rent to agencies in accordance with legislation, has been identified as a Broad and General cost. Please provide your rationale for why the cost of the free or reduced rent should either be considered a Broad and General cost or an inter-entity cost subject to full costing by the receiving entities.*

We do not regard providing free or reduced rent as a “service.” GSA charges are based on the cost they incur in construction, leasing and other activities. Each agency should bear its proportionate cost. This issue has many facets that could change our opinion. If legislation requires free or reduced rent and those costs are borne by GSA then they should be considered inter-entity and imputed. However, if those free or reduced rents are the product of the consolidated buying power of the Federal government than they should be considered Broad and General. Legislation establishing these discounts should not relieve any entity from presenting their full cost of operations to the American people.

*Q5. If you disagree with the criteria used to identify the Broad and General costs identified, please provide an explanation for the disagreement. Also, please provide any additional criteria that you believe should be considered.*

The criteria are fine, but we suggest that criterion (1) in paragraph 17 should be treated as two criteria, since there are two separate and unrelated parts to the criterion as now written.

In addition, in paragraph 18, it seems that the sentence beginning “Examples of services that are integral ...” is misplaced and should be removed from the paragraph.

*Q6. For directness of the relationship, is there further clarification needed beyond that which is included in this exposure draft? If so, please provide specific examples where clarification is needed. Also please give examples of situations where there could be a difference in judgment as to whether a transaction is direct or not.*

We found that much of the discussion in the section on “directness of the relationship” is really not relevant to the question. The entire discussion in paragraph 20.a seems to deal with the users of cost information and not to the issue (if there is one) of directness of relationship. In our opinion, the material on lines 40 to 45 on page 13 and paragraph 21 on page 14 are relevant. Lines 30 to 36 on page 13 are also relevant following lines 40 to 45. (Lines 36 to 39 are, to us, not relevant.)

By the way, it should be noted that if a subsidiary entity includes inter-entity costs, those costs should be included in higher level financial statements.

We also suggest in the discussion of “directness” there be more focus on the use of cost information for decision making, not only for sales and pricing situations.

*Q7. For identifiably, is there further clarification needed beyond that which is included in this exposure draft? If so, please provide specific examples where clarification is needed. Also please give examples of situations where there could be a difference in judgment as to whether a transaction is identifiable by the provider or receiver.*

We do not understand how an agency can judge that “the IAG/RA does not appear to be at full cost...” (paragraph 26). If a reimbursable service is not fully costed, the receiving entity would have difficulty in making that judgment, unless it had access to the financial information of the providing agency relating to the reimbursable service.

*Q8. Is full costing based on estimates, including market value estimates, likely to cause inappropriate billings and/or budgetary augmentation? If so, please provide specific examples, and provide suggestions on how implementation guidance can mitigate these concerns.*

This is a valid concern, particularly if the estimate is for a material cost item. If such a circumstance arises, the costs in question should be validated by the IG or other independent organization.

In addition, we believe there could be some contradiction in this draft with related standards by segregating intra-entity costs from inter-entity costs. All other standards appear to treat this as a minor semantic difference that does not change the recognition of costs in any way. This technical release specifically defines these costs as different only on the basis of where they end up, entity versus responsibility segment. We do not see any differences in cost relationships solely based upon their final cost objective.

We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions on the letter, please contact Anna D. Gowans Miller, CPA, AGA's Director of Research and staff liaison for the FMSB, and facilitator for this project, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or (703) 562-0087.

Sincerely,

A handwritten signature in cursive script that reads "Robert L. Childree".

Robert L. Childree, Chair,  
AGA Financial Management Standards Board

cc: Richard L. Fair, CPA  
AGA National President

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

**July 2007 – June 2008**

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