



United States Department of the Interior

OFFICE OF THE SECRETARY
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To: Bureau Chief Financial Officers

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Office of Financial Management

Subject: Guidance Related to the Recognition and Recordation of Imputed Costs

In October 2004, with issuance of Interpretation of Federal Financial Accounting Standards 6: *Accounting for Imputed Intra-departmental Costs*, the Department of the Interior (DOI) began the process to identify and record non-reimbursed intra-departmental costs in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) 4. Each year, the Office of Financial Management (PFM) has issued a memorandum to prompt Bureaus to submit imputed costs to PFM. The memorandum established a \$300K suggested materiality threshold for intra-departmental imputed costs. The threshold is based on the contingent liability threshold and was used as a foundation for building a process around imputed costs. The DOI established this process at a time when each Bureau was publishing stand-alone financial statements where they reported costs by their Bureau responsibility segments and mission goals. Therefore, the sharing of these costs was necessary to ensure the statements reflected the full cost of Bureau programs. The DOI now produces consolidated-only financial statements based on the DOI primary mission goals where the intra-department imputed costs recorded by the Bureaus are eliminated. However, this change did not result in a corresponding modification to policy or process for reporting intra-department imputed costs. This memorandum provides guidance on when it is appropriate to recognize and record intra-department imputed costs. This memorandum does not impact the treatment of non-reimbursed inter-entity costs that result from activity with entities external to DOI.

The Federal Accounting Standards Advisory Board's SFFAS 4: *Managerial Cost Accounting Standards and Concepts*, was issued in July of 1995. The Inter-entity cost provision of this standard (implemented by SFFAS 30) requires full cost of goods and services received from other entities. Per the standard, full cost should incorporate inter-entity costs that are not fully reimbursed. 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. The section of the standard that addresses materiality expresses the intent to require a "more limited recognition" than the general materiality concept would require. Materiality is determined at the transaction level rather than to all inter-entity transactions as a whole and determined by the qualitative factors noted above. Consequently, it is inappropriate

for PFM to prescribe a quantitative threshold, as it could impede the judgment of a Bureau to assess the significance of the cost of a transaction to its mission.

The standard specifies that broad and general support services provided by an entity to all or most other entities generally should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity. Technical Release 8: *Clarification of Standards Relating to Inter Entity Costs*, uses the Department of Justice (DOJ) legal services as an example of broad and general support services. The services provided by the solicitor to the Bureaus are similar to the services provided by DOJ to other Federal agencies and are therefore classified as broad and general support services.

The DOI has reviewed the intra-departmental costs imputed by the Bureaus for fiscal years 2013 and 2012, noting that imputed costs are less than half a percent of net costs. Costs imputed by the Bureaus from the solicitor represent 90 percent and 53 percent, respectively of total imputed costs. Since this activity is now considered broad and general support services, excluding these costs further reduces the necessity of recording intra-departmental costs that are not fully reimbursed. In light of the fact that Bureaus are no longer preparing stand-alone statements, and the above analysis, DOI is suspending the requirement to identify and record intra-departmental imputed cost and will review the need to do so in three years. If a Bureau believes they have intra-departmental activity, which is identifiable to the cost of specific services, that if not recorded would change or influence the actions and decisions of a reasonable person, then the Bureau should notify PFM to discuss the necessity of recording the activity.

If you have questions regarding this guidance, please contact Paul McEnrue, Financial Reporting Division Chief in PFM, at (202) 208-3425 or via e-mail at Paul_McEnrue@ios.doi.gov.

cc: Finance Officers Partnership
Financial Statements Guidance Team