

Executive Office of the President  
Office of Management and Budget  
Washington, D.C. 20503

April 6, 1998

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS AND INSPECTORS GENERAL

FROM: G. Edward DeSeve /S/  
Controller

SUBJECT: Technical Guidance for the Implementation of Managerial Cost Accounting Standards  
for the Federal Government

Statement of Federal Financial Accounting Standards (SFFAS) No. 4 directs the Office of Management and Budget (OMB) to identify specific inter-entity costs for entities to begin recognizing, and issue guidance for recognizing those costs. This memorandum provides the current status of and interim guidance on implementing the standard.

The OMB recognizes that there are a variety of inter-entity transactions among agencies and numerous kinds of inter-entity costs. Further research and consultation are necessary to identify specific categories of inter-entity costs that meet the SFFAS No. 4 requirements. Thus, the Accounting and Auditing Policy Committee will soon set up a special project to study inter-entity cost and gather information from agencies. The OMB will work closely with the AAPC to develop effective guidance.

At the same time, the OMB believes that we can make significant progress toward meeting the full cost standard by recognizing several major categories of costs that are incurred by a reporting entity but paid by other entities. Thus, for financial statements covering fiscal years 1998 and 1999, reporting entities are required to recognize the following costs, including the portions that are funded through OPM, DoD, Treasury, DoL or other agencies: (1) employees' pension benefits, (2) the health, life insurance, and other benefits for retired employees, (3) other post-employment benefits for retired, terminated, and inactive employees, which include severance payments, training and counseling, continued health care, and unemployment and workers compensation under the Federal Employees' Compensation Act, and (4) losses in litigation proceedings (see FASAB Interpretation No. 2, Accounting for Treasury Judgment Fund Transactions). Moreover, to ensure consistency, agencies should not recognize costs other than those listed until OMB provides further guidance.

In accounting for the listed costs, reporting entities should refer to relevant Statements of Federal Financial Accounting Standards and Interpretations, such as SFFAS Nos. 4 and 5 and Interpretation No. 2, OMB Bulletin No. 97-01, and the Standard General Ledger for guidance. Reporting entities should also consult with the funding and administering agencies, such as OPM, for information needed to calculate the costs, such as pension benefit cost factors.

Questions concerning this memorandum should be directed to James Short, OMB, at (202) 395-3124.