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Washington, DC 20548

November 4, 2022

Ms. Monica R. Valentine  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Washington, D.C. 20548

**GAO's Response to FASAB's Exposure Draft of a Proposed Technical Bulletin,  
*Intragovernmental Leasehold Reimbursable Work Agreements***

Dear Ms. Valentine:

Thank you for the opportunity to provide our comments on the Federal Accounting Standards Advisory Board's (FASAB) exposure draft, *Intragovernmental Leasehold Reimbursable Work Agreements*. In the enclosure to this letter, we respond to FASAB's questions for respondents and to specific matters for comment detailed in the exposure draft.

Please contact Robert Dacey, Chief Accountant, at (202) 512-7439 or [daceyr@gao.gov](mailto:daceyr@gao.gov) or me at (202) 512-2623 or [davisbh@gao.gov](mailto:davisbh@gao.gov) if you have questions on GAO's perspectives.

Sincerely yours,

A handwritten signature in black ink that reads "Beryl H. Davis". The signature is written in a cursive style and is enclosed in a light gray rectangular box.

Beryl H. Davis  
Managing Director  
Financial Management and Assurance

Enclosure

## Enclosure

### Responses to Questions for Respondents (QFR) and Specific Matters for Comment (SMC)

**QFR1.** Do you generally agree or disagree with the proposed Technical Bulletin as a whole? Please provide reasons for your views.

#### GAO Comments

We generally agree with the intent of the proposed technical bulletin (TB). If approved, the TB would improve the recording of certain intragovernmental leasehold improvements whose expected useful life extends beyond the lease term and for which the lessor is expected to derive a more-than-insignificant level of residual economic benefits and services from the improvements. However, see our comments on the questions that follow.

**QFR2.** Are there specific aspects of the proposed Technical Bulletin that you disagree with? If so, please explain the reasons for your positions, the paragraph number(s), and/or topic area(s) of the proposal that are related to your positions, and any alternatives you propose and the basis for such alternatives.

#### GAO Comments

Please see comments on QFR3, QFR4, and SMC1.

**QFR3.** Do any ambiguous areas remain that could lead to challenges with implementing the requirements? If so, please provide examples of the issues, references to applicable guidance, and any potential solutions you propose.

#### GAO Comments

We believe that the proposed TB has certain ambiguous areas and other areas that warrant further Federal Accounting Standards Advisory Board (FASAB) consideration.

Per paragraph 13 of the proposed TB, the provider lessor is the predominant beneficiary if the “provider-lessor is expected to derive a more-than-insignificant level of residual economic benefits and services from the reimbursable work.” We believe that the “more-than-insignificant” threshold is unclear, which may lead to challenges and inconsistencies in implementation of the requirements. We believe this needs clarification.

Certain paragraphs of the proposed TB refer to paragraphs 72–79 of Statement of Federal Financial Accounting Standards (SFFAS) 54. It is not clear how these paragraphs are relevant to intragovernmental leasehold reimbursable work agreements. In addition, paragraph 12 of the proposed TB refers to paragraph 66 of SFFAS 54. However, it is not clear how paragraph 66 relates to the proposed TB because it does not appear to apply to intragovernmental leases.

**QFR4.** Are there specific aspects of this proposal that you otherwise wish to provide comments on?

## GAO Comments

Paragraphs 35 and 36 of the proposed TB appear to require that existing intragovernmental leasehold reimbursable work agreements be reevaluated upon implementation. While we do not object to such treatment, we suggest that the TB document FASAB's consideration of the cost benefit of such reevaluations.

Further, the structure of the TB appears to be unnecessarily complex; it should focus on the different accounting and reporting treatment for intragovernmental leasehold reimbursable work transactions where the provider lessor is deemed to be the predominant beneficiary. Also, certain paragraphs of the proposed TB may be unnecessary or may have redundant information.

In addition, FASAB should consider whether the Financial Accounting Standards Board's (FASB) recent decision on leasehold improvements associated with leases between entities under common control is a preferable approach. Subject to public comment, FASB decided that for all entities with leases between entities under common control, the lessee should amortize the leasehold improvements over their economic life as long as the lessee continues to use the underlying asset. If the lessee ceases using the underlying asset (e.g., the lease is not renewed), the remaining leasehold improvement would be transferred to the lessor and accounted for as a transfer between entities under common control. FASB's approach appears simpler than that proposed in the TB and is likely more cost beneficial as it avoids issues with determining predominant beneficiary, establishing a new type of lessee asset, and related intergovernmental issues.

**SMC1.** Paragraph 15 of the proposed Technical Bulletin provides that entities should establish, document, and consistently follow policies for recognizing leasehold improvement assets between reporting entities and reach agreement on such recognition. Please provide feedback on the extent to which you believe this would (or would not) facilitate consistent implementation of the intragovernmental accounting requirements. Also, please provide feedback on the inclusion of paragraph 15 as a proposed requirement in a Technical Bulletin and any potential implementation challenges. Please describe any alternative views or approaches, suggestions for improvement, and the reasons for your views.

## GAO Comments

We have significant concerns about including paragraph 15 as a requirement in the authoritative section of the proposed TB. If the parties do not come to an agreement, paragraph 15 of the proposed TB would appear to result in both parties not complying with generally accepted accounting principles. We suggest removing paragraph 15 and stressing elsewhere (perhaps in the basis for conclusions appendix) the importance of coordination between intragovernmental lessors and lessees in recording lease balances and activity to promote consistency and minimize the potential for intragovernmental differences.

**SMC2.** Paragraphs 28 and 34 provide proposed disclosure requirements. Please provide feedback on the extent to which these proposed disclosure requirements are appropriate. For example, is such information necessary to make the financial statements informative and relevant to users in assessing accountability? Please describe your views, the costs and benefits of including these proposed disclosures, and other reasons for your views. Also, please provide feedback on the inclusion of these paragraphs as proposed requirements in a Technical Bulletin and any potential implementation challenges.

GAO Comments

The proposed disclosure requirements appear reasonable.