

MEMORANDUM OF UNDERSTANDING
AMONG THE GENERAL ACCOUNTING OFFICE,
THE DEPARTMENT OF THE TREASURY, AND
THE OFFICE OF MANAGEMENT AND BUDGET ON
FEDERAL GOVERNMENT ACCOUNTING STANDARDS AND A
FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

This Memorandum of Understanding reflects the agreement of the General Accounting Office ("GAO"), the Department of the Treasury ("Treasury"), and the Office of Management and Budget ("OMB") on the procedures to be followed in setting federal government accounting standards and the composition and operation of the Federal Accounting Standards Advisory Board.

Whereas GAO, Treasury, and OMB conduct a continuous program for improving accounting and financial reporting in the federal government; and

Whereas the Comptroller General, the Secretary of the Treasury, and the Director of the Office of Management and Budget established an advisory board under the Federal Advisory Committee Act, as amended (5 U.S.C. App.), to consider and recommend accounting concepts and standards for the federal government;

The Comptroller General, the Secretary of the Treasury, and the Director of the Office of Management and Budget (the Sponsors) each hereby agree to continue and serve as sponsors of the Federal Accounting Standards Advisory Board ("Board"). The Board will work under the general oversight of its Sponsors. In addition, the Sponsors each hereby agree to take related actions regarding federal government accounting standards. The Board shall be established as follows:

Section 1. Establishment.

A. Composition. The Board shall have the following ten members:

- one GAO member,
- one OMB member,
- one Treasury member,
- one member from the Congressional Budget Office (CBO), and
- six non-federal members selected from the general financial community, the accounting and auditing community, and academia.

B. Selections and Appointments. The GAO, OMB, Treasury and CBO members will be selected by their respective agencies. The six non-federal members will be selected by the Sponsors. In selecting the non-federal members, the Sponsors shall:

- (1) seek nominations from a wide variety of sources, including the Director of CBO;
- (2) consider, among other criteria, an individual's
 - (A) broad professional background, and
 - (B) expertise in federal government accounting, financial reporting, and financial management; and
- (3) consider the recommendations of a panel convened by the chairperson.

The Sponsors will select a chairperson, who will be a non-federal member. At least one Sponsor shall obtain the view of the Director of CBO before any appointments or selections of non-federal members are made.

C. Tenure. The GAO, OMB, Treasury and CBO members shall serve at the discretion of their respective agency heads. The six non-federal members will serve initial terms of up to five years with a possible reappointment for one additional term of up to five years.

D. Duties. The Board will consider accounting concepts and standards. The Board will not set or propose budget concepts, standards, and principles. In considering accounting concepts and standards, consideration will be given to the budgetary information needs of executive agencies and the needs of users of Federal financial information. Board recommendations on accounting concepts or standards will be submitted to the Comptroller General, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Director of the Congressional Budget Office.

E. Meetings and Agendas. The Board will meet whenever necessary or at the request of the Comptroller General, the Secretary of the Treasury, or the Director of OMB, and will establish detailed working procedures. Board members will be expected to attend all meetings.

F. Funding. The Sponsors shall share in funding the Board on an equitable basis. The Director of CBO shall fund the Board to the same extent as the Secretary of the Treasury.

Section 2. Support Staff and Other Groups.

A. Staff. A core group of qualified technical staff will support the Board in carrying out its duties and functions. The staff will spend its time working on Board matters and, from time to time, may be augmented with staff assigned from government departments or agencies or other organizations.

B. Task Forces. The Board may appoint task forces as necessary to advise it on a variety of accounting matters. Task forces will play an important role in the accounting standard-setting process. They will provide expert views and recommend solutions to issues or problems. A task force shall include a CBO member if the Director of CBO wishes to participate in the task force and concludes that CBO has expertise in the issue or problem being addressed.

Section 3. Accounting Standard-Setting Process. The Board will follow a six-step process for considering accounting standards. The steps in the process are:

- (1) Identification of accounting issues and agenda decisions,
- (2) Preliminary deliberations,
- (3) Preparation of initial documents (issues papers and/or discussion memorandums),
- (4) Release of documents to the public, public hearings, and considerations of comments,
- (5) Further deliberations, exposure draft, and consideration of comments, and
- (6) General consensus (at least a majority vote) reached among Board members and documents submitted to the Comptroller General, the Secretary of the Treasury, the Director of OMB and the Director of CBO.

The Board will determine the detailed procedures necessary to implement these steps.

Section 4. Concepts and Standards. Concepts and standards provide a frame of reference for resolving accounting issues.

When the Board has developed a proposed concept or standard, the Board shall submit it to the Comptroller General, the Director of OMB, the Secretary of the Treasury and the Director of CBO for their review. If, within 90 days after its submission, the Comptroller General or the Director of OMB, or both, objects to the concept or standard, then it shall not be issued and will be returned to the Board for further consideration. If, within 90 days after its submission, neither of these officials objects to the concept or standard, then it shall be issued and become a final concept or standard of the Board. Concepts and standards will be announced in *The Federal Register*.

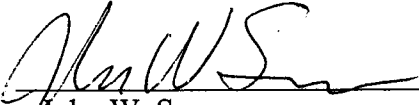
A proposed Interpretation or Technical Release shall be submitted to the members of the Board representing the three Sponsors for their review. If, within 45 days after its submission, any one of the members representing a Sponsor objects to the proposed Interpretation or Technical Release, then it shall be returned to the Board for further consideration. If, within 45 days after its submission, none of these officials objects to the Interpretation or Technical Release, then it shall become final. Final Interpretations and Technical Releases will be announced in *The Federal Register*.

The Sponsors agree that standards set and promulgated following the Board's Rules of Procedure are recognized to have substantial authoritative support, and those accounting standards contrary to such promulgation are not. The Sponsors retain their authorities, separately and jointly, to establish and adopt accounting standards for the federal government.

Section 5. Transition. Each of the non-federal members serving on January 11, 2002 shall have their current term extended to June 30, 2004, and be eligible for an additional term of up to five years to the extent total service on the Board does not exceed 10 years.


Section 6. Termination. Any modification to this memorandum shall be effective if agreed to by each of the three signatory agencies. This memorandum shall remain in effect until 120 days after one of the Sponsors provides notice of intent to terminate the agreement.

Section 7. Effective Date. This memorandum of understanding is effective when executed by the Sponsors except that provisions involving the Congressional Budget Office will become effective on October 1, 2003.



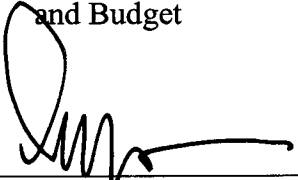
John W. Snow
Secretary of the Treasury

5/7/03
(date)



Mitchell Daniels
Director, Office of Management
and Budget

5/7/03
(date)



David M. Walker
Comptroller General of the
United States

5/7/03
(date)