



Standards Watch

Back to the Future of Federal Accounting Standards-Setting

By: David Mosso, CPA

The information contained in this article is the unofficial view of one FASAB board member. Official positions of the FASAB are determined only after extensive due process and deliberations.

After 10 years as chairman of the Federal Accounting Standards Advisory Board (FASAB), I will be passing the gavel to incoming chairman, Tom Allen, former chairman of the Governmental Accounting Standards Board, on Dec. 31 of this year. In this last column as FASAB chairman, I would like to highlight some of the accomplishments of FASAB over the years as well as offer a few thoughts on the future of federal accounting standards-setting.

In thinking about my time as FASAB chairman, I am reminded of a famous line from the movie, "Back to the Future," when Dr. Emmett Brown ("Doc") says "Roads? Where we're going we don't need roads." In 1991, when FASAB started developing federal accounting standards, its path was uncharted. By 1996, FASAB had finished a comprehensive, if not conclusive, set of accounting standards in a remarkably short time. When I took over as FASAB chairman in January 1997, FASAB had issued two concepts statements and eight standards. These standards paved the way for the progress that has taken place over the last 10 years. As of June 30, FASAB has issued 30 standards and four concepts statements.

On January 17, 1997, at my first board meeting as FASAB chairman, the following topics were on the agenda: Department of Transportation Request for Interpretation on Coast Guard Property, Plant and Equipment; Cost of Capital; and Social Insurance. At the May 2006 board meeting, agenda topics included

Objectives of Federal Financial Reporting; Elements of Accrual-Basis Financial Statements; Application of the Liability Definition; Natural Resources; and Social Insurance.

It is no surprise that social insurance was on the agenda in January 1997 as well as the current agenda, because it's been on the board's agenda in one form or another approximately 43 times since the board's inception. I have articulated my thoughts on accounting for social insurance in other recent publications¹, and will not take up additional space with the issue here.

On the other hand, one may be surprised to find such fundamental topics as Objectives of Federal Financial Reporting and Elements of Accrual-Basis Financial Statements on the board's current agenda. The board's desire to evaluate concepts after 12 years of substantial progress is stimulated by a perception that:

- some critical concepts that have been relied on are not yet included in a concepts statement;
- certain aspects of the concepts— notably the liability definition— are not widely accepted; and
- there is a need to communicate clearly to the growing community of federal financial report users, preparers and auditors. The concepts project is being conducted in several phases so that incremental progress can occur without sacrificing the development of new standards due to limited staff resources.

Furthermore, there have been many developments in FASAB and the federal financial management arena in the last 10 years, including the following:

- In September 1996, the Federal Financial Management Improvement Act (FFMIA)² was passed, requiring that each CFO Act agency have financial management systems that comply substantially with federal financial systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.
- In 1999, FASAB updated its Memorandum of Understanding and Rules of Procedure. The most significant changes were: creation of an appointments panel to assist in selecting nonfederal members; opening steering committee meetings to the public; and establishing that FASAB would issue final standards following a review period.
- In October 1999, the American Institute of Certified Public Accountants' (AICPA) Council designated the FASAB as the accounting standards-setting body for federal government entities under Rule 203 of the AICPA's Code of Professional Conduct. Therefore, FASAB became the board that promulgates generally accepted accounting principles (GAAP) for federal entities.
- In 2002, as part of an effort to enhance the independence of the board and ensure its continued status as the GAAP standards-setter for federal entities, the FASAB sponsors— the Secretary of the Treasury, the director of the Office of Management and Budget (OMB), and the Comptroller General of the United States—altered the board's structure to provide a super majority of nonfederal members. In addition, the Secretary

of the Treasury relinquished his authority to object to standards during the 90-day review period. Thus, only the Government Accountability Office (GAO) and OMB may object to the issuance of a new standard or concept by FASAB.

- In November 2002, the Accountability of Tax Dollars Act of 2002³ was passed, extending the requirement for annual audited financial statements beyond the CFO Act agencies and government corporations to virtually the entire executive branch.

These developments as well as others such as ongoing changes in board members and user needs require FASAB to revisit its structural framework from time to time. I would like to think that an accounting standards-setter does not create a road map so much as a vision for accountability, decision-making and reporting in the future.

FASAB marked its 15th year of existence in October 2005. I chose the word "existence" to emphasize that FASAB "exists" or "continues to be" at the discretion of its sponsors. FFMIA legislated that CFO Act agencies follow applicable federal accounting standards and the AICPA designated FASAB as GAAP for federal entities, but FASAB must continue to improve accounting standards and reporting to prove its worth and uphold its mission. Even with considerable comparative advantage in the field of standards setting, the continued existence of FASAB faces the same uncertainty that most federal programs face.

The mission of the FASAB is "to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups,

executive agencies and the needs of other users of federal financial information."

I believe that one of the best ways to meet the needs of users of federal financial information is to continue to develop standards for full accrual accounting for the federal government.

While a comprehensive set of federal accounting concepts and standards is currently in place and working quite nicely by most accounts, the FASAB of the future still has many hurdles to face in its search for better accrual accounting and reporting for the federal government. The board is just beginning to address some of the complex considerations involved in reaching a model that more closely resembles full accrual accounting.

Considering the complexity of future topics that the board will need to tackle, coupled with the continued constraints on federal resources, I believe that the board will find that, as Doc said, there are no roads where it is headed. The FASAB of the future will just need to tighten its belt and head in a direction that will serve to best accomplish improved accountability and decision-making in federal financial reporting.

End Notes

1. "Accrual Accounting and Social Security," *The Journal of Government Financial Management*, Fall 2005, pp. 8–9 and "Social Security: Reliance on Cash Flow Accounting and Projections Disguises an Inherent Upside Cash Flow Bias," *Public Budgeting & Finance*, Malden: Spring 2006, pp. 143–156.

2. Pub. L. No. 104-208, Div. A, § 101(f), title VIII, 110 Stat. 3009-389 (Sept. 30, 1996) (codified as a note to 31 U.S.C. § 3512).

3. Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002).



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