

## Standards Watch

# Tremendous Accountability Opportunities on the Horizon

By: Tom L. Allen, CPA

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

In past columns, I've shared progress reports on two very important projects at the Federal Accounting Standards Advisory Board (FASAB)—social insurance and fiscal sustainability. I am hopeful that sometime between the writing of this article and my next report, the board will be seeking your input on a proposed accounting standard on each of these two major projects. The comment periods probably will include the time during which we all will be considering our votes in the national election. I hope that you will take time not only to vote for our elected leaders but also to share your views on the scope of federal accountability reporting.

Social insurance programs pose challenging accounting issues—they are vast, participatory, subject to periodic reform and politically charged. There is no doubt that they can be viewed from many perspectives and that a vast amount of information is needed to answer every financial question that one might be interested in. The board has not been able to arrive at a solution that satisfies every perspective while fitting neatly into the existing array of financial statements and elements—the tool box for standards-setters.

However, I am optimistic about a compromise under consideration. The board is developing a highlights statement that may become a required component of management's discussion and analysis. This statement is responsive to the substantial interest in both "liability-like" figures and projected cash flow figures expressed by respondents to the preliminary views document issued in October 2006.

The highlights statement would include accrual-based information from the balance sheet and statement of changes in net position, the deficit or surplus on a budgetary basis, and net present value information based on closed (current participants) and open (current and future participants) groups of social insurance participants. In addition to the end of period net present value balances shown for social insurance programs, the principal financial statements would be expanded to include a statement of changes in social insurance amounts.

Changes would be attributed to the change in the valuation period, changes in assumptions and methods as well as changes in legislation.

Those interested in a measure of the amount transferred through social insurance programs to current and past participants from future participants would likely focus on the closed group net present value and changes in it from period to period. These individuals might wish to take a step further and aggregate the closed group balance with the net financial position reported on the balance sheet. I believe these measures highlight inter-generational equity. Those interested in the long-term solvency of the program would likely focus on the open group net present value and changes in it from period to period. These individuals might be interested in an expanded analysis of solvency or sustainability.

This brings us to the project on fiscal sustainability. In February 2008, the U. S. Treasury and the Office of Management and Budget released *A Citizen's Guide to the 2007 Financial Report of the United States Government*. The guide offered the stark conclusion that "[u]nless the government brings program costs in line with available resources, resulting budget deficits will be so large that the government will not be able to borrow enough to fund them." The fiscal sustainability project will be proposing a reporting package that provides key measures used by many in the U. S. and other countries to analyze fiscal sustainability.

Clear communication of such a complex analysis is critical. Accounting standards alone will not guarantee success and the standards must be flexible to facilitate alternative approaches. The board has tentatively concluded that there are certain core measures and presentations that are essential. Therefore, the proposed standards would require:

- A primary summary display presenting the present value of projected receipts and spending for all activities of the federal government, how those amounts relate to projected GDP, and the summary measures "fiscal imbalance" and/or "fiscal gap."

- Narrative and graphics would explain and illustrate the projected trends in the relationship between receipts and spending; deficits or surpluses; and Treasury debt as a share of gross domestic product.
- Narrative and graphics also would explain and illustrate the assumptions underlying the projections; factors influencing trends; the range of possible results using alternative assumptions; and the likely impact of delaying corrective action when a fiscal imbalance exists.

Reporting on fiscal sustainability should provide an understanding of where the government is headed if it maintains its current course.

The board believes the financial report, taken as a whole, would meet the needs of most users with respect to social insurance and fiscal sustainability; but we can not be certain without input from you. I urge you to consider the proposal and respond. So that you won't miss the opportunity, please register for the FASAB listserv today. You will receive periodic news releases, newsletters and notices of meetings. To subscribe, send an e-mail message to [listserv@listserv.gao.gov](mailto:listserv@listserv.gao.gov) and in the body (not the subject line) of your message, type "subscribe fasab" without the quotes. I look forward to your input on these two important exposure drafts. ■



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