



Standards Watch

Standards-Setters' Changes and Challenges

By: Tom L. Allen, CPA

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

While patience is a virtue, it is not an attribute that I have readily embraced as an accounting standards-setter for both the Governmental Accounting Standards Board (GASB) and the Federal Accounting Standards Advisory Board (FASAB). Rather, at times, I have been frustrated by what seems to be the slow pace of improved financial reporting for governments.

However, having recently participated in the GASB 25-year anniversary celebration, it is impressive to consider the progress made over that period. Sound financial reporting standards on the reporting entity, pensions and health care promises, revenue and expense recognition, accrual accounting and many others have positioned state and local governments to be able to better deal with changing economic circumstances. Some changing economics such as those experienced over the last few years have been significant, and difficult and painful decisions have had to be made by elected officials.

The value of good accrual-based accounting standards is that these elected officials and the taxpayers they represent are well-informed of both the short-term and the long-term financial impact of these difficult economic decisions. And the costs and benefits to each generation of taxpayers are measurable.

Congratulations GASB on a job well done despite strong resistance to change by some constituents. You are,

however, still a work-in-process as performance-based information and better comparable cost of service information is needed before citizens can knowledgeably hold their elected and appointed officials fiscally accountable.

Changing technology and economic circumstances will always be a challenge to businesses as well as governments and I feel it is pretty safe to say that the pace of change will only accelerate. If one of today's teenagers were able to hop aboard a time machine and travel back in time to 1983, just prior to the creation of GASB, he would experience the Dow Jones Industrial Average making history by reaching the 1,100 mark for the first time, Motorola being the first mobile phone approved by the Federal Communications Commission in the U.S., the airing of the final episode of the television series M*A*S*H, former President Ronald Reagan signing a \$165 billion bailout for Social Security, and the introduction of the McDonald's Chicken McNugget and Microsoft Word. Typewriters were an indispensable tool in modern offices and call waiting, caller ID and the Internet were not yet mainstream, while instant messaging, texting and "social networking" were nowhere to be found.

While the "new kid on the block" as far as U.S. standards-setters is concerned, FASAB has been around for nearly two decades. In that time, FASAB has developed a solid framework for federal accounting and reporting that has gone a long way in improving accountability

and transparency of federal financial information.

In a 1987 article, Chuck Bowsher, former Comptroller General of the United States, pointed to the following five shortcomings of federal financial management systems: lack of cost information; lack of reliable information on major weapons systems; inadequate disclosure of costs and liabilities, including the unfunded liabilities of Social Security; unstructured planning for capital investments; and antiquated systems.¹ These shortcomings noted more than 20 years ago are still very relevant today. I would submit that while much progress has been made in the area of federal financial management systems and their integration with external financial reporting, *much remains to be done.*

This is one of the reasons why FASAB continues to focus heavily on such projects as fiscal sustainability, social insurance, the federal reporting entity and natural resources—there still remains much in the way of important information that should be conveyed to legislators so that they will be more equipped to make informed decisions about the long-term fiscal management of our country and to citizens so that they will be provided the information necessary to hold their elected and appointed officials fiscally accountable.

In the face of all of the new requirements that have been imposed by the American Recovery and Reinvestment Act, accountability and transparency

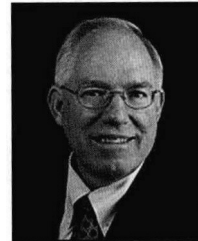
of financial information, as well as the ability to report on that information, has become increasingly important. The need for robust systems and strong financial reporting standards cannot be overemphasized.

The American public is painfully aware of the use of taxpayer dollars beyond the traditional purpose of providing taxpayer services. With the current premium placed on timely and accurate financial information, FASAB will need to play a key role in ensuring that the effects of the government bailout activities are accurately reflected in the government's financial reports. It is critically important that the information be accurately reported and useful because of the long-term implications of current financial decisions. In essence, if one purpose of financial reporting is to help citizens hold its government accountable, we as a board will be held accountable based on the clarity of the financial reporting that results from conformance with our standards (that is, every legislator and citizen should be informed about both the short-term and long-term financial impact of current period decisions).

Retirement and completion of appointed terms has resulted in the loss of key FASAB board members. Bob Reid retired from the U.S. Department of the Treasury at the end of 2008 and the terms of Jim Patton and John Farrell expired in June of 2009. Since joining the board, each of these three members have contributed significantly to improving the objectivity, integrity and

independence of all of FASAB's ongoing projects, including FASAB's standards on social insurance, earmarked funds, fiduciary activities, heritage assets and stewardship land, as well as the soon-to-be issued statement on sustainability reporting. I thank them for their outstanding service and dedication.

In August, the board welcomed incoming board members Michael Granof, Ph.D., CPA, and Scott Showalter, CGFM, CPA. Dr. Granof is the Ernst & Young Distinguished Centennial Professor of Accounting and a University Distinguished Teaching Professor at the University of Texas at Austin. Mr. Showalter is a retired partner at KPMG LLP and Teaching Professor at North Carolina State University. I am confident that Michael and Scott will help FASAB continue to work towards its ultimate goal of improving the transparency, accountability, and usefulness of federal financial accounting and reporting. ■



Tom L. Allen, CPA, is the chair of the Federal Accounting Standards Advisory Board. Prior to joining FASAB, Allen served as the chair of the Governmental Accounting

Standards Board and the state auditor of Utah.

End Note

1. Charles A. Bowsher, MBA, CPA, Federal Financial Management: Evolution, Challenges, and the Role of the Accounting Profession, *Journal of Accountancy*, May 1987, pp. 287-288.