



The Federal Accounting Standards Advisory Board Already is **Independent**

By: Harold I. Steinberg, CGFM, CPA

The Fall issue of *The Journal* included an article titled, "Can the Federal Accounting Standards Advisory Board Be More Independent?" The article's thrust is that the Federal Accounting Standards Advisory Board (FASAB) is not fully independent because two government agencies, the U.S. Office of Management and Budget (OMB) and the U.S. Government Accountability Office (GAO), have veto power over the board's issuances—which the article acknowledges has never been used. The other major concern expressed is that the selection process for the public members has resulted in some members lacking independence.

The article bases its position on the persistent split between the government and public members on controversial social insurance issues and the authors' belief that the "federal government continues to dominate FASAB by threats of veto." It then posits that the appointment of new members to replace members whose terms had ended at the time the social insurance exposure draft was being considered might have been used to prevent issuance of a standard consistent with an earlier majority view held by the then-public members. Finally, the authors suggest that more nonfederal participants' points of view could be discovered and considered, if only the principals provided FASAB with additional funding.

The article's conclusion seems to be that since FASAB's independence is not "complete" or "perfect," it is not appropriate for FASAB to continue as is. Since perfection, particularly as hoped for by the authors, is typically never achieved, it is worthwhile to examine the situation.

■ Independence for any Federal Entity

The first aspect is whether an entity not under the government's control should be empowered to dictate to the federal government. The federal government is sovereign. It is a democracy that must remain accountable to the people that elected it, not to a body of non-elected individuals. The government cannot yield this sovereignty to FASAB, any more than it can or should yield sovereignty to the World Court or the United Nations.

That said, the key to assuring independence is to first examine the merit of each of the authors' contentions, and then consider how to achieve an effective FASAB that is not just independent, but able to issue relevant, meaningful, helpful standards designed to advance the public interest.



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.

■ The 'Veto' Power and its Impact on Independence

The interesting aspect of the veto power is that initially the two principals—OMB and GAO—could exercise their veto by simply not approving a FASAB issuance. The change made to achieve the AICPA-requested independence—which the article neglected to explain—was that FASAB issuances now become standards in 90 days unless rejected by either of the principals. (The lengthening of the period to 180 days cited in the article was made, in part, to accommodate the frequent changes in the principal agencies' senior leadership and hence a need for additional time to become familiar with a proposed standard, particularly if the proposal entails highly technical, complex matters.) Hence, if a principal desires to veto, he must now take a positive action. He would, of course, be expected to state why he took that action. Given this visibility, it is highly unlikely that a principal would veto a proposal for political reasons.

I was surprised and disappointed to read Jim Patton's and Dave Mosso's joint article concerning the Federal Accounting Standards Advisory Board (FASAB). It contained several inaccuracies, omissions and some misleading information.


While at GAO, I strongly supported changes to provide an appropriate level of independence to the FASAB and fought to receive AICPA Rule 203 recognition. For example, the composition of the board and the related member selection process, which includes an appointments panel composed of a majority of non-federal members, serve to enhance the FASAB's independence. In addition, the number of potential vetoes that can be exercised by federal officials, given U.S. Constitution considerations, has been reduced. Furthermore, as I made clear on multiple occasions when I was Comptroller General, GAO would not exercise its veto authority during my tenure and I would strongly discourage OMB from exercising its related authority. All of these facts were either omitted or minimized in the article.

In the final analysis, the facts speak for themselves. No veto has ever been exercised and most FASAB pronouncements have been approved by wide margins. Most recently, the FASAB's new Fiscal Stewardship standard was approved unanimously. This is a major step forward and one that Bob Dacey, GAO's chief accountant, I and others have strongly advocated for several years.

Evidently Mr. Patton's and Mr. Mosso's concerns were geared toward the inability of the FASAB to reach a consensus on a revised social insurance standard. This is not due to any lack of FASAB independence but rather is due to reasonable differences of opinion. I continue to believe that the bottom line of the statement of social insurance should not be a liability or otherwise presented on the balance sheet nor added to net position elsewhere in the financial statements. However, in my view, there clearly are additional liabilities that should be recognized on the balance sheet in connection with social insurance programs—namely, the trillions of dollars of bonds in the related "trust funds." I have suggested in the past that the FASAB focus on this issue as a sensible solution to the social insurance debate. Hopefully they will.

Respectfully submitted,

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The article also suggests that even the threat of a veto undermines the board's existence and independence. But that is akin to expecting FASAB to work in a vacuum. I posit that it is better to know what is considered relevant before the board issues a standard. In that way, the board can shape the standard to what is relevant, rather than issue a standard only to have it vetoed because of irrelevance.

■ Selection of FASAB's Members

The article's appointment of new members' argument rests on the fact that during the deliberations on social insurance, the six public members voted to issue a Preliminary View consistent with the authors' views but the four federal members had an alternative view. (Actually, one of the federal members did not have an alternative view; he abstained from

expressing a view.) During the subsequent deliberations, two board members' terms expired—one was eligible for reappointment and one was not. Replacement members were duly appointed, but the authors appear to be troubled that the replacements had had direct working experience in the federal government's financial management, specifically at OMB, and "their views on federal financial management surely would have been shaped by their federal employment experience." (The author of this article is one of the replacement members.)

This is a strange argument. If the accounting standards are intended to enable the federal government to provide a full and fair disclosure of the federal government's financial position and operations, then why is it improper that at least some of the public members have had working familiarity with federal financial management? Is the alternative pref-

erable—seeking a board where no public members have had exposure to or experience with the entity for which they are establishing reporting standards? After all, one of the authors spent 22 years as a federal employee, which is longer than the two new members' combined tenure in the federal government.

It is also surprising the article does not describe the process for selecting the public members—a process that underscores the neutrality with which the public members are appointed. Specifically, an Appointments Panel composed of four public members (the chairman of FASAB—who is always a public member and chairs the panel, plus persons appointed by the American Institute of Certified Public Accountants, the Financial Accounting Foundation and the Accounting Research Foundation) and three representatives of the principals review applicants' experiences



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and interview them personally, and then make a recommendation to the principals, who make the appointment. The recommendation requires a majority vote by a panel in which the majority of members are from the public. Equally important, the panel's recommendations have always been accepted by the principals.

Since one of the authors chaired the Appointments Panel that selected one of the new members, they should know that during the process, no questions are asked about potential members' positions on issues. In fact, that new member's position on social insurance is identical to the replaced board member's. An examination of the other new board member's prior work would reveal that at the time of his selection, he was in favor of accruing a substantial social insurance liability.

In the final analysis, independence is a way of thinking and acting. It is an insult to an individual board member to suggest that he or she is not independent. Even more important, not agreeing with one person's position does not automatically mean that the other person's position is any less valid, and certainly that it is not independent.

■ The Proposal to Increase Outreach

One valid point the article makes is that FASAB has been unable to attract much participation in its due process from other than federal employees or CPA firms auditing federal entities. This is true, but probably the major reason is that for the American people, the financial statements are not the most important source of financial information about their government. The media and the budget are far more popular sources of financial information. The major role for the financial statements is to be the vehicle for improving the reliability of the financial databases and to demonstrate accountability to the public.

Nonetheless, FASAB's outreach should be enhanced. But it is not just because the board would benefit from the public's views. The major reason for enhancing outreach is so the public can better understand their government's financial condition and results.

■ The Proposed Changes to Enhance Independence

The article proposes changes, but it is unlikely they would enhance FASAB's independence. The first proposed change is to use the Congressional Budget Office's departure from the board to keep the government membership at three. The assumption is that although a 6-4 vote was not sufficient to proceed with the social insurance ED, a 6-3 vote would be. I wonder to what extent even a 6-3 vote can be considered "generally accepted," particularly if the three votes are from the government members who supposedly have the most familiarity with and understanding of the issues. The government members are not trying to *hide information*. Their knowledge, experience and positions provide them with a perspective that is important for the board to know and consider.

The second proposed change is to have FASAB consider the Financial Accounting Standards Board (FASB)-Securities and Exchange Commission (SEC) relationship. FASB doesn't have any board members representing the SEC point of view. In other words, eliminate from the board persons who reflect the government's perspective—or at least reduce still further the number of government members.

As FASB's regulator, it would be inappropriate for the SEC to also have members on FASB. It should be noted,

however, that throughout its history, FASB has made sure to have members who understand—that is, represent, the perspectives of the auditor, preparer, investor, academician and public.

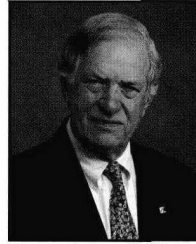
The same is true for FASAB. One of the best assurances of independence is the richness and understanding of the board's discussion of the issues, which helps to assure that key matters are provided for and not overlooked. The size and complexity of the federal government results in different functions being done by different entities—for example, OMB not only sets policy for financial management (which some people consider regulation), but also is deeply involved with the preparation of the agency-level financial statements; Treasury maintains the government-wide records and prepares the government-wide financial statements; GAO audits the statements. The board's discussion benefits from the three sources of inputs. It is no accident that the majority of discussion at board meetings comes from the representatives of these three entities.

Eliminating the public members, which is embodied in the article's suggestion that another possibility is to have only federal government employees set the federal reporting standards, is also not a good idea. The public members frequently provide a perspective of what is happening in industry, academia, etc., a perspective the federal members do not have.

In the final analysis, **independence is a way of thinking and acting.** It is an insult to an individual board member to suggest that he or she is not independent. Even more important, not agreeing with one person's position does not automatically mean that the other person's position is any less valid, and certainly that it is not independent.

■ Conclusion

FASAB's principals and the AICPA have worked hard, particularly in light of the venue in which FASAB operates and the accompanying limitations, to craft a process for producing accounting and reporting standards in the public interest. Obviously, there are warts. But the difficulty of getting the entire board to agree on any issue is not an indication of a lack of independence, and certainly not grounds for dismantling the process. The solution is to work harder to continue to develop and issue relevant standards. ▮



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ment practice. He also was the first deputy controller/acting controller in the Office of Federal Financial Management, U.S. Office of Management and Budget. Currently, he is a member of the Federal Accounting Standards Advisory Board and serves as the technical director for AGA's Certificate of Excellence in Accountability Reporting Program.



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