FASAB News

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FASAB Bids Farewell to Gerald Murphy

In September, Gerald Murphy retired from his position as the Board's representative from the Department of the Treasury and from a stellar Federal career spanning over 41 years.

Mr. Murphy began his Federal career at the Department of the Navy in 1957. He joined the Department of the Treasury in 1959 and served in a variety of managerial positions. He was Deputy Commissioner of the Financial Management Service for four years until he was named Deputy Fiscal Assistant Secretary in 1979. He was appointed Assistant Secretary (Fiscal Affairs) in January 1986. In that position, Mr. Murphy oversaw the Department's management of the U.S. Government's financial operations, including central accounting, financial reporting, cash management, financing of the public debt, directing fiscal agency functions of the Federal Reserve Banks, and handling investments of the multi-billion dollar trust and other U.S. Government accounts.

In addition to his agency roles, Mr. Murphy served on many interagency and intergovernmental boards and committees. He was a member of the steering committee of the Joint Financial Management Improvement Program for 29 years and was instrumental in providing insight and leadership to many areas of improving Federal financial management and practices. Mr. Murphy also was one of the original FASAB members, appointed to the Board at its inception in October 1990. He was instrumental in helping to formulate the Board's initial operating approaches and in its development of the core set of accounting standards that form the basis of Federal accounting principles. He also was a key member of the group that developed the first consolidated financial statements of the Federal Government subject to audit.

The Board greatly benefitted from the breadth of knowledge and experience that Jerry brought to each meeting. His ability to succinctly address the often complex issues surrounding Federal accounting and financial management areas will be sorely missed. The Board and its staff wish Jerry Murphy continuing success in all his future endeavors.

Amendments to Accounting for Property, Plant, and Equipment Approved

In February 1998, proposed amendments to the PP&E standards in Statement of Federal Financial Accounting Standards 6 (SFFAS 6), *Accounting for Property, Plant, and Equipment,* and SFFAS 8, *Supplementary Stewardship Reporting*, were published in the exposure draft, *Amendments to Accounting for Property, Plant, and Equipment*. The exposure draft proposed that Federal mission PP&E be re-defined as national defense PP&E. The exposure draft also provided that instead of latest acquisition cost or historical cost, the annual acquisition cost for the current and several previous years, plus quantities, would be reported. The exposure draft continued to require the reporting of stewardship asset condition, including a note addressing deferred maintenance. Moreover, the exposure draft proposed that the acquisition, reconstruction, or betterment of multi-use stewardship PP&E not be split between operational (capitalized and depreciated) and stewardship (expensed) PP&E, but be accounted for as general PP&E and depreciated.

On June 26, 1998, the Board held a public hearing on those amendments. (For highlights of the public hearing, see ***FASAB News*** issue 52, Jun-Jul. 1998.) At its August meeting, Board members discussed concerns raised by those testifying at the public hearing and those responding to the exposure draft. Users expressed varied and sometimes dissimilar views on what they wanted to see reported on national defense PP&E. Several user groups expressed a strong preference for having total cost reported for these assets. Some wanted traditional historical costing, at least for new assets. Others preferred the approach suggested in the alternative view expressed in the exposure draft. That view provided for cost accounting for the full costs of individual weapons systems, and cost-related information about weapons systems as Required Supplementary Stewardship Information. Several respondents, however, said that the requirements in the exposure draft to present quantity and condition reporting, were most useful.

Because of these contrasting views, the Board Members decided on a two-step approach to determining reporting requirements. First, the Board approved the amendments document; it will be formatted into a recommended standard, voted on by the Board, and forwarded to the Board's principals (the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General) for approval. Second, the Board decided to further study the needs for and usefulness of national defense PP&E information. The Board will establish a task force to study user information requirements.

The exposure draft raised one other issue: whether ammunition should be categorized as national defense PP&E or operating materials and supplies. The Board decided that it should be operating material and supplies.

The Amendment will be effective beginning after 30 September 1998, with earlier implementation encouraged.

For further information, contact Rick Wascak, 202-512-7363, email wascakr.fasab@gao.gov, or Andrea Palmer, 202-512-7360 email palmera.fasab@gao.gov.

Statement of Financing Update

At its August meeting, the Board considered a draft exposure draft of a standard that would defer for two years the requirement to present the information described in paragraphs 80-82 of Statement of Federal Financial Accounting Standards 7 (SFFAS 7), *Accounting for Revenue and Other Financing Sources*. This information is presented in the Statement of Financing.

Staff prepared the draft exposure draft pursuant to the Board's tentative decision in June (see ***FASAB News*** issue 52, Jun.-Jul. 1998, pp 4-5) to consider such a deferral. In August, however, the Board decided not to defer the reporting of the information in the Statement of Financing.

Information about the Statement of Financing was recently provided in Special Edition 1 of the ***FASAB News***, August 1998 (see article below). This and other information are available at **http://www.financenet.gov/fasab.htm** .

For further guidance, contact James Short at the Office of Management and Budget.

FASAB Publishes Special Edition of FASAB News

FASAB published its first special edition of the ***FASAB News*** devoted to articles of special interest to its readers. Special edition number 1, August 1998, is devoted entirely to the Statement of Financing and features an article written by J. Thomas Luter, one of the principal developers of the Statement. The article discusses the purpose, background, and nature of the Statement and provides a more comprehensive illustration of it than previously available. It also discusses the major sections of the Statement and provides illustrations of reporting for selected transactions.

This special edition of FASAB News is available:

- electronically in .pdf format from FASAB's web page at **http://www.financenet.gov/fasab.htm** .

- electronically in .html format from FASAB's web page at **http://www.financenet.gov/fasab.htm** . Note: .html format does not provide the correctly aligned displays of journal entries and sample illustrative reports.

- in printed copy, mailed to FASAB's print mail list in early September. Because of the article's length and complexity of information, it was not reformatted to a text file for transmission to FASAB's electronic mail list.

Those unable to download from the Internet may request a printed copy of the article from FASAB by calling 202-512-7350, or FAXing your request to 202-512-7366.

Corrections and Changes to the Special Edition

As with any complex document, staff has noted some minor errors. Most appear only in the web version and occur as a result of file conversion, spacing, pagination, etc. Moreover, staff has been advised by the author that some other changes to the document are pending. When all changes are noted, we will publish a list of the changes as an addendum to the printed report, include a list of the changes in the next edition of the ***FASAB News***, and update the web file.

For questions or comments, contact Lucy Lomax, 202-512-7359, or email lomaxm.fasab@gao.gov.

Internal Revenue Service Issues Discussed

The Board continued the discussion begun in June of certain issues arising from implementation of Statement of Federal Financial Accounting Standard 7 (SFFAS 7), *Accounting for Revenue and Other Sources,* at the Internal Revenue Service. The discussion included Lisa Fiely, Controller and Director for Financial Management and Greg Kane, Chief, Office of Accounts Receivable of the Internal Revenue Service; and Gregory Kutz, Associate Director and Steven Sebastian, Assistant Director of the Accounting and Information Management Division, General Accounting Office.

Ms. Comes noted that, based on the discussion in June, staff had prepared a draft technical letter to address some of the issues.

Issue	Recommended Action
• Reporting receivables by tax type	Technical Letter
• Recognition of receivables by recipient entity	Interpretation or Amended Standard
• Disclosures of material revenue-related transactions	Amended Standard
• Reporting revenue (collections) by defined tax type on the Statement of Custodial Activity	Technical Letter
• Disclosing cumulative collections and refunds by tax year and tax type	Technical Letter

The Board discussed and agreed on how to resolve all issues except the issue of disclosures of material revenue-related transactions. The Board will continue that discussion at its next meeting in October. Most of these issues are of interest only to the Internal Revenue Service, so they will not be discussed in detail here. However, the second issue, "recognition of receivables by recipient entity," might be of somewhat wider interest.

Paragraph 60 of SFFAS 7 requires recipient entities to recognize "the net change in any related inter-entity balances between collecting and receiving entities. . . ." Mr. Kutz noted that many of the people involved with preparing and auditing the Internal Revenue Service's financial statements believe that this provision requires trust funds to pick up [recognize] a portion of the Internal Revenue Service's net taxes receivable. This interpretation is sometimes described as "push down" accounting.

However, individuals involved with developing SFFAS 7 say no "push down" requirement was intended. They say SFFAS 7 was intended to catch the excise tax "true up" of the difference between amounts transferred to trust funds based on estimates by the Department of Treasury's Office of Tax Analysis and the actual amount subsequently determined by the Internal Revenue Service. The Internal Revenue Service certifies the actual amount in December for the 3rd quarter. The intent of SFFAS 7's provision in paragraph 60 was to book this as the receivable or payable. (The entry is booked to the trust fund accounts by the Department of Treasury's Financial Management Service.) Certification of the actual for the 4th quarter is not available from the Internal Revenue Service until the end of March, too late to be included in the financial statements. The task force felt some clarification of the intent was needed.

For further information, contact Robert Bramlett, 202-512-7355, email bramlettr.fasab@gao.gov.

Management's Discussion and Analysis (MD&A) to be Reissued

Readers will recall that FASAB published an exposure draft on Management's Discussion and Analysis in January, 1997. It was presented as a statement of recommended concepts rather than standards. The Board proposed that it would deal with Management's Discussion and Analysis conceptually, with the understanding that the Office of Management and Budget would provide authoritative guidance on Management's Discussion and Analysis to implement the concepts.

After considering comments on that exposure draft, FASAB concluded that Management's Discussion and Analysis should be treated as required supplementary information. Because of this change from what was originally exposed for comment, the Board decided to re-expose separately the proposed standards and concepts.

At its August meeting, the Board reviewed draft exposure draft statements of concepts and standards for Management's Discussion & Analysis. The Board asked staff to make minor changes, revise certain material, and finalize the exposure drafts. Those documents have been sent to the printer and should be mailed to readers by early October. They also have been posted to FASAB's web page, **http://www.financenet.gov/fasab.htm** , under the "Exposure Draft" menu. Comments are due by December 7, 1998.

For further information, contact Robert Bramlett, 202-512-7355, email bramlettr.fasab@gao.gov.

Accounting for Inter-Entity Costs

The Accounting and Auditing Policy Committee (AAPC) is forming a task force chaired by James Short, of the Office of Management and Budget, to study implementation procedures for the inter-entity cost standard. Statement of Federal Financial Accounting Standards 4 (SFFAS 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government*, provides the definition and recognition criteria for inter-entity costs. The term "inter-entity costs" is defined as the full costs of goods and services that are provided by an entity to another or other entities within the Federal Government regardless of whether the costs are fully reimbursed. Receiving entities should recognize the costs of the goods and services that are reimbursed.

Recognition of inter-entity costs that are not fully reimbursed, however, is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity. The purpose of recognizing inter-entity costs is to measure the full costs of government activities, goods, and services.

SFFAS 4 states that the inter-entity cost standard should be implemented in a practical and consistent manner. To achieve that goal, SFFAS 4 provides that the Office of Management and Budget, in consultation with FASAB, the Department of the Treasury, the General Accounting Office, and other agencies, identify specific inter-entity costs and issue guidance for entities to begin recognizing those costs.

In April 1998, the Office of Management and Budget issued a memorandum entitled, "Technical Guidance for the Implementation of Managerial Cost Accounting Standards for the Government." In that memo, the Office of Management and Budget said that for financial statements covering fiscal years 1998 and 1999, reporting entities should recognize the following costs, including the portions that are funded through the Office of Personnel Management, the Department of Defense, the Department of the Treasury, the Department of Labor, or other agencies:

(1) employees' pension benefits,

(2) the health, life insurance, and other benefits for retired employees,

3) other post-employment benefits for retired, terminated, and inactive employees, which include severance payments, training and counseling, continued health care, and unemployment and workers compensation under the Federal Employees' Compensation Act, and

(4) losses in litigation proceedings (see FASAB Interpretation 2, *Accounting for Treasury Judgment Fund Transactions*.)

In the April 6, 1998 memo, the Office of Management and Budget stated that since there are a variety of inter-entity transactions among agencies and numerous kinds of inter-entity costs, further research and consultation would be necessary to identify specific categories of inter-entity costs that meet the SFFAS 4 requirements. It further stated that the Office of Management and Budget would work closely with the AAPC so that effective guidance could be developed.

In July, 1998, Wendy Comes, AAPC Chair, and James Short met with several Federal and private sector representatives to discuss approaches to establishing a task force to study specific inter-entity costs. They reviewed a research report "Non-Reimbursed Inter-Entity Costs" prepared by the FASAB staff in June 1994, and believed that the FASAB Research Report could be a starting point for further studies. They envision the task force membership including budget specialists as well as accountants. The complex nature of the project will likely mean that there will be subgroups organized within the task force to discuss the specific types of inter-entity costs.

The AAPC has created an internet site from its web page, **http://www.fnancenet.gov/aapc.htm** . The site is devoted to the Inter-Entity Cost Task Force and would be used to announce meetings, post papers and suggestions, and solicit and exchange views.

For further information, contact Richard Mayo, 202-512-7356, email mayor.fasab@gao.gov.

"More Likely Than Not"

Representatives of the Office of the General Counsel of the Department of Commerce, the American Bar Association, and the Auditing Standards Board of the American Institute of Certified Public Accountants discussed lawyers' responses to audit inquiries regarding probable contingent losses under the FASAB's standard for "more likely than not" compared with the Financial Accounting Standards Board's standard for "likely to occur." The lawyer-panelists said that the lower, essentially 51 percent probability threshold for liability recognition under the FASAB standard exposes their clients to potential liability. Under such a standard, a lawyer's letter response to an audit inquiry would potentially disclose information that would be subject to judicial discovery and use in court as an admission of liability.

The panelists maintained that, since the mid-1970s, the Financial Accounting Standards Board, the Auditing Standards Board, the American Institute of Certified Public

Accountants, and the American Bar Association had coordinated their probability definitions. In regard to pending litigation, "probable" means "likely to occur," or and 85-90% probability. Possibly of more importance, when there is an unasserted claim where the supposed plaintiff does not know he/she has a claim, the policy statement is even more stringent.

The representative of the American Institute of Certified Public Accountants said that Statement of Auditing Standards (SAS) 12, paragraph 13, "Inquiry from Attorney," provides that the lawyer's refusal to provide information should result in a qualified opinion due to scope limitation. The representative said the position of the Auditing Standards Board continues to be that FASAB should follow the Financial Accounting Standard Board's guidance unless there was a compelling need for different guidance.

Upon further discussion, several Board members acknowledged that the issue of the measure of probability has existed in the private sector, yet practice seemed to be coping. The Chairman noted the Board's desire to re-visit this issue. He suggested that there should be a study to consider different applications of probability.

For further information, contact Richard Fontenrose, 202-512-7358, email fontenroser.fasab@gao.gov.

Treasury Process for Notification of Judgment Fund Payment Approval

By way of background, Interpretation 2 of Federal financial accounting standards, *Accounting for Treasury Judgment Fund Transactions - An Interpretation of Statements of Federal Financial Accounting Standards 4 and 5,* requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and estimable. When settlements are made with claimants and the resulting liabilities are liquidated using the Treasury Judgment Fund, agencies recognize an intra-governmental financing source while Treasury recognizes an intra-governmental expense. These intra-governmental transactions are eliminated at the consolidated level.

Once the Treasury's Financial Management Service determines that the Judgment Fund is the appropriate source of payment of a claim, the Financial Management Service will provide agency notification through its Judgment Fund website, at **http://www.fms.treas.gov/judgefund/index.html** . The website will post information on claims, in aggregate, that have been approved for payment from the Judgment Fund. Treasury suggests that agencies review amounts of claims paid on their behalf monthly, and particularly at the end of the year .

For information on a claim's status, you may contact:

Financial Management Service
Judgment Fund Branch
3700 East-West Highway
Room 6F03
Hyattsville, MD 20782
(202) 874-6664

For information on Judgment Fund accounting, you may contact:

Financial Management Service
Credit Accounting Branch
3700 East-West Highway
Room 6D37
Hyattsville, MD 20782
(202) 874-8740

AAPC News - Highlights of the August 13 Meeting

Credit Reform

AAPC members continued discussing issues in the draft Technical Release on direct loans and loan guarantee subsidies highlighted in the previous issue of ***FASAB News***. At its August meeting, AAPC members reviewed the revised draft that included provisions for an increased role for auditor judgment in auditing agencies' credit subsidy estimates. Also, it was noted that discussion continues among task force members on the application of the 90% disbursement rule when doing a reestimate. This concern has resulted in an additional change to the draft document and will be addressed prior to submitting the draft to the full AAPC for approval.

Inter-Entity Costs Task Force

James Short, chair of the task force, reported that the scope of Federal inter-entity costs necessitates that the task force's work be broken down into the following three areas:

- Broad-based programs impacting the Government overall, such as pension costs from the Office of Personnel

Management, Treasury Judgment Fund costs, and health insurance costs;

- Broad-based programs impacting many agencies; and

- Costs shared among just two or three agencies.

For more information, see the article on page 4 of this newsletter.

Non-valued Seized and Forfeited Property

Bill Pugh, chair of the Non-valued Seized and Forfeited Property Task Force, reported that the task force has been working with the nature and consistency of information that should be presented in agency financial statements. He invited members of a work group appointed to review this issue to present their views to AAPC members. The work group's co-chairs, Marla Friedman, Treasury Department Inspector General staff, and Marilyn Kessinger, Justice Department staff, and other members of the work group led a discussion on the two main issues before the task force:

- 1) Should Statement of Federal Financial Accounting Standard 3 (SFFAS 3), *Accounting for Inventory and Related Property,* apply to non-valued seized items in the same manner as it applies to non-valued forfeited items?

- 2) Should terms contained in SFFAS 3 be clarified for consistent and meaningful reporting among Federal agencies?

New Issues

Bill Pugh, Chairman of the Agenda Committee, summarized an issue raised by the National Oceanic and Atmospheric Administration (NOAA) to the AAPC:

- Issue -- What is the appropriate accounting treatment for sanctuaries, estuarine resources, multi-use heritage assets and custodial activities? Specifically:

  - Should sanctuaries be classified as heritage assets, stewardship land, or both?

  - Are estuaries properly classified as non-Federal physical property?

  - Should NOAA's multi-use heritage assets, in addition to being classified as general PP&E , also be disclosed in the required supplementary stewardship information section of the agency financial statement?

  - Should certain cash collections made by NOAA be reported on the statement of custodial activity?

The Agenda Committee's recommendation was that the AAPC discuss possible resposes to each of the above questions.

For further information, contact Dick Tingley at 202-512-7361, or email at Tingleyr.fasab@gao.gov.

Professional Audit Standards Update

To help the General Accounting Office's financial auditors keep up to date with changing professional standards, the Accounting and Information Management Division of the General Accounting Office provides its staff with Professional Standards Updates. The General Accounting Office has kindly provided these updates to FASAB staff and we have found them very useful. To assist our readers, we will from time to time, as space permits, provide the highlights of the most current updates. One item of interest in the most current Professional Standards Update is presented as follows:

OMB Bulletin 98-08, Audit Requirements for Federal Financial Statements

This bulletin replaces OMB Bulletin 93-06 and is effective for FY 1998 and subsequent years' audits. Changes in the audit guidance include:

- a revised list of components of agencies subject to separate audit,
- the addition of the Statements of Financing and Budgetary Resources as principal financial statements,
- the requirement for auditing required supplementary stewardship information,
- a new list of general laws, which includes only those we and OMB believe are material to the consolidated financial statements, and
- guidance for CFOs and IGs on determining compliance with the requirements of FFMIA, originally published by OMB as a September 9, 1997, memo.

There also are appendices on reporting on internal control and compliance and on the contents of management representation letters. The illustrative management representation letter includes assertions about the effectiveness of internal controls and compliance with federal financial management systems requirements. The new bulletin requires interim legal representation letters to facilitate the consolidated legal representation letter. The audit guidance bulletin does not provide guidance related to the Y2K problem.

More Cool Web Sites!

■ "Where in Federal Contracting?" - Federal contracting from a Federal auditor's viewpoint. Aimed at assisting auditors in reviewing Federal contracting by providing links to Federal contracting law, regulations, current events, and similar information, with hyper-links to related Federal and private sector sites - **http://www.radix.net/~ambrose/**

■ Office of Management and Budget "1998 Federal Financial Management Status Report and Five-Year Plan" -**http://www.whitehouse.gov/WH/EOP/OMB/Finance/**

■ Office of Management and Budget "Circular No. A-11 Part 2, Preparation and Submission of Strategic Plans and Annual Performance Plans" - **http://www.financenet.gov/financenet/fed/docs/perform.htm** and at **http://www.financenet.gov/financenet/fed/docs/strat.htm**

■ Office of Management and Budget Bulletin 98-08, "Audit Requirements for Federal Financial Statements" - **http:// www.whitehous.gov/WH/EOP/omb**

■ The Institute of Internal Auditors, in an agreement with author Jim Kaplan, will host the AuditNet Web site - **http://www.AuditNet.org**

Upcoming Meetings

FASAB: The next meeting will be on October 22-23, 1998, at 9:00, in Room 7C13 of the General Accounting Office Building, 441 G St., N.W. Topics will include national defense PP&E, credit reform, cost of capital, and the Internal Revenue Service's issues with the revenue standards, The remaining meeting for the calendar year is scheduled for December 3-4. Also, there will be a public hearing on Social Insurance on October 5-6.

AAPC: The next meeting will be on September 10, 1998, at 1:30, in Room 4N30 of the General Accounting Office Building, 441 G St., N.W. The agenda will include final discussion and approval of both the credit reform Technical Release document and the Technical Guidance response to NOAA.

For further information, contact Dick Tingley at 202-512-7361, or email at tingleyr.fasab@gao.gov.

Note: ***FASAB News*** **is a publication of the staff of the Federal Accounting Standards Advisory Board. This publication is intended to provide readers with an understanding of issues that the Board is considering by providing the highlights of proceedings of Board meetings. When an article refers to a Board decision, it should be understood that all Board decisions are tentative until a concept or standard is formally recommended by the Board to its principals, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General. Moreover, formal recommendations of the Board are not considered final until they have been officially approved by the Board's principals, and issued by the Office of Management and Budget.**

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