

FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD

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The FASAB began operating on January 25, 1991. Since then 15 Board meetings and one public hearing have been held. The Board has begun several projects for which issue papers, exposure drafts or final decisions are now being prepared.

In order to keep interested parties informed about the activities of the FASAB we are issuing a monthly newsletter beginning with this newsletter. The newsletter will be provided to those on our mailing list. The letter will cover the status of FASAB projects and a recap of the monthly Board meetings.

This initial newsletter summarizes the status of the projects currently underway. They include: Financial Resources, Funded Liabilities, and Net Financial Resources; Direct Loans and Loan Guarantees; Accounting for Tangible Property other Than Long-Term Fixed Assets; Liabilities and Claims on Future Budgetary Resources; and Uses and Objectives of Federal Accounting and Financial Reporting.

Financial Resources, Funded Liabilities, and Net Financial Resources of Federal Entities

The Exposure Draft (ED) for this project was issued on November 18, 1991. The ED provides proposed accounting standards related to selected financial resources and liabilities covering cash, fund balance with Treasury, accounts receivable, interest receivable, advances and prepayments, investments, accounts payable, interest payable, and other funded liabilities. The Board recommended that financial resources be measured using market value concepts. It viewed the difference between financial resources and funded liabilities, net financial resources, as useful to managers and budget analysts because it provides a measure of existing resources on hand that are expected to generate future cash flows to the entity or the government. The standards also impose financial accountability over resources in which the Federal Government has several billions of dollars invested.

Sixty-six responses to the ED were received and analyzed by the staff. The Board discussed the comments at its April meeting. The comment letters supported the standards proposed with minor exceptions. However, roughly half of those commenting raised questions or objections to the use of market value concepts for measuring the value of financial resources. Also, many respondents raised questions about the usefulness of the net financial resources concept although there was agreement with the definition of financial resources.

The Board decided to postpone consideration of the net financial resources concept until it completes an evaluation of the concept based on user needs. Also, the Board decided that investments in securities should be reported at cost with disclosure of market values. A FASAB Statement containing the recommended standards is being prepared for review by Board members at the June meeting.

Direct Loans and Loan Guarantees

The Board has completed discussions on a draft ED covering the proposed standard for direct loans and loan guarantees. The proposed standard would require the use of the present value method for measuring and recognizing the subsidy cost of direct loans and loan guarantees made after October 1, 1991. This proposed standard would, if adopted, integrate financial accounting with budget requirements of the Credit Reform Act of 1990. The Board has tentatively decided not to recommend the present value method for direct loans and loan guarantees made prior to October 1, 1991. Those loans and guarantees would be accounted for under a more conventional approach.

In order to be consistent with budgetary accounting and useful to policy analysts the accounting requirements go far beyond those used in the private sector and are necessarily complex. However, these standards impose no new complexity beyond that already required by the Credit Reform Act. This ED is planned for release in May 1992. There will be a 60 day comment period and a public hearing is being planned for late summer.

Accounting for Tangible Property other than Long Term Fixed Assets

This project covers inventories held for sale, operating materials and supplies, stockpiled materials, seized and forfeited property, foreclosed property, and goods held under price support and stabilization programs. The Federal Government has more than \$300 billion of these assets. An ED has been prepared and is undergoing review. Standards proposed identify the assets as financial or non financial resources. For those that are financial resources, the treatments proposed are intended to aid in cash forecasting. At the April Board meeting staff reported they are continuing to work with Board members and their staffs to resolve remaining issues and to prepare the ED

for further review and discussion at the May meeting. It is expected that the ED will be released for public comment during the summer.

Uses and Objectives of Federal Accounting and Financial Reporting

The Board staff is conducting research into user needs for financial information as an initial step in developing accounting and reporting objectives. Several focus group sessions have been held with senior congressional committee staff members and federal financial executives. Interviews are being conducted with agency program managers.

Plans are being developed for roundtable discussions between Board members, members of the media, representatives of state and local governments, and other organizations to discuss user needs for federal financial information. These efforts are being supplemented by research into literature and prior studies of user requirements in federal, state, local and national governments. A subcommittee of the Board has been formed to consider the unique characteristics of federal agencies and how they impact on the user needs of the agencies.

A working draft of an ED has been prepared. The Board has had some preliminary discussions on the draft. The document will be in the discussion and development stage for the next few months. Release of an ED is expected for late summer or early fall.

Liabilities and Claims on Future Budgetary Resources

This project will consider issues of liabilities and claims that have not been traditionally included in federal accounting and financial reporting. They are nevertheless very important in government planning and decision making. Standards for whether and how these items are to be recognized and measured are being studied.

These liabilities and claims cover a broad spectrum. They run from relatively straightforward items such as short term claims and judgments and employee compensated absences to difficult issues on commitments for environmental cleanup and potential claims arising due to failures of government corporations and government sponsored enterprises.

The Board discussed these issues at its April meeting. The Board rejected the FASB private sector definition of a liability because it was not considered as sufficiently precise to apply in the Federal Government environment. The Board outlined criteria it views as important for identifying a liability. The Board also decided to focus on the operating statement rather than the balance sheet. It decided that an accurate measure of the flow of costs is more useful for evaluating performance. Once the proper measurement of costs is determined the liability becomes an end result. The Board requested that the staff produce a paper which (1) provides a definition of a liability, (2) identifies which items or events fall into the category of liabilities, (3) provides alternative criteria for recognizing and measuring a liability, (4) provides information on the flow of

costs. The staff paper will be discussed at the June Board meeting.

Public hearing

The Board held a public hearing on February 28 to hear views of interested parties on the Board's first Exposure Draft, entitled Financial Resources, Funded Liabilities, and Net Financial Resources of Federal Entities. The various presenters were also invited to comment on any issues they felt are important for the Board to consider. Several presenters stressed the importance of defining user requirements and developing a conceptual framework. Others pointed to the need for standards that support budget formulation and execution and the need to consider performance measures. Some suggested that FASAB rely to the extent possible on standards issued by GASB and FASB. All were complimentary of the Board's efforts to improve Federal accounting standards.

The following individuals made presentations to the Board:

- Carol Cox Wait, President, Committee for a Responsible Federal Budget
- Allen Schick, Professor, School of Public Affairs, University of Maryland
- Ted Sheridan, President, Sheridan Management Corp. and Kevin Sabo, Executive Director, Financial Executives Institute
- Phillip Kane, Chief Financial Officer, HUD
- Mitchell Laine, Deputy Chief Financial Officer, Dept. of Education
- Richard Callahan, Association of Government Accountants
- Robert Luth, Comptroller of the State of Nebraska; and Relmond Van Daniker, University of Kentucky (both representing the National Association of State Auditors, Controllers and Treasurers)
- Robert Anthony, Professor, Harvard University
- Jesse Hughes, Chair, Accounting Department, Old Dominion University (representing the American Accounting Association)
- Joseph Moraglio and Ian McKay, American Institute of Certified Public Accountants
- John Cherbini and David Lukach, Coopers and Lybrand
- John Hummel, KPMG Peat Marwick





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Newsletter

USES, USER NEEDS AND OBJECTIVES OF FEDERAL ACCOUNTING

May Meeting Discussion

The possibility of distinguishing between the purpose of financial statements and the purpose of financial reports was discussed. Some Board members believe that the preparation and audit of GAAP-based financial statements forces management to take a look at problems with a "new pair of eyes," thus increasing the chances that the right questions will be asked and that emerging problems will be identified. The preparation and audit of financial statements directs more management attention and effort to accountability concerns, in their opinion.

Financial and program information could be combined in financial reports, some Members suggested, in ways that would improve the program information currently provided. From this perspective, both "statements" and "reports" grow from similar data bases and information systems, and share other characteristics, but differ in primary purpose. The emphasis of "statements" tends to be on control, accountability and reliability of information, while the emphasis in "reports" tends to be on communicating decision-useful, relevant information.

The Board was briefed on two efforts being undertaken by the Board's sponsors that complement work by the Board's own staff to develop user needs and objectives. Ed Mazur, the OMB Board member and Control-

ler of the United States, and Hal Steinberg, his Deputy, discussed the work of their agency's task force. Don Chapin, the GAO Board member, and Jeffrey Steinhoff briefed the Board on GAO's preliminary views on an accountability reporting model.

Building on earlier work by FASAB staff, OMB's task force has developed an outline describing:

- federal government characteristics,
- users and user needs, and
- financial reporting objectives.

The outline recognizes that reports at different levels of the government will focus on different kinds of information, for different uses and users. In other words, government-wide reports, agency-wide reports, program-wide reports, and sub-program reports will naturally differ in many respects.

Working independently, GAO's staff has developed an outline of an accountability reporting model. The model consists of sets of statements covering (1) financial resources, (2) operating performance, and (3) stewardship or accountability.

Background

FASAB staff has conducted focus group sessions, interviewed program managers, reviewed testimony leading to the CFOs Act, and researched financial management directives such as OMB circulars. Staff has

also reviewed relevant literature published by other accounting groups and authorities. From this material and from input provided by the Board's User Needs Task Force, the staff developed lists of user needs, grouped those needs into categories, identified types of users, and inferred the decisions they make. The staff also submitted a draft statement of objectives to stimulate the Board's discussion.

FASAB staff has begun follow-up interviews with selected upper-level program managers. At its May meeting, the Board briefly discussed the results of the interviews conducted thus far. Staff reported that these program managers want reliable information on fund control, costs, and performance. They also find that information is more meaningful when arrayed at a program level rather than an agency-wide level.

Plans For Future Work

OMB's task force will hold one or two more meetings to finalize its work. The staff will compare OMB's work with GAO's accountability reporting model. GAO, with the assistance of OMB and a selected agency, will pilot test its reporting model.

The FASAB staff will also conduct interviews with some upper level Chief Financial Officers to find out more about the need for agency-wide financial reports. The departments of Commerce, State, and Transportation were mentioned as likely candidates.

Another roundtable discussion is planned on Federal accounting and financial reporting. It is scheduled for July 9, as part of the July Board meeting, and will be held with representatives from the news media. Its format will be similar to the one held on June 30 with selected state auditors and controllers.

ACCOUNTING FOR TANGIBLE PROPERTY OTHER THAN LONG TERM FIXED ASSETS

This project categorizes and defines inventories held for sale, operating materials and supplies, stockpile materials, seized and forfeited property, foreclosed property, and goods held under price support and stabilization programs. A

revised exposure draft is being prepared and is expected to be discussed at the July meeting. Standards proposed identify the assets as financial or non-financial resources.

At the May meeting, the Board discussed six unresolved issues:

- recognition of holding gains/losses,
- definition of excess inventory,

- evaluation of inventory held in reserve for future use,

- cost accounting standards for work-in-process inventory,

- accounting for estimated costs for the repair on unserviceable inventory items,

- the consumption method versus the purchase method of recognizing expenses for materials and supplies.

The Board proposed adopting a standard that gives agencies the option of using a standard price method or the historical cost method with either an average or the first-in, first-out (FIFO) cost flow assumption. The standard price method was proposed for use by the Department of Defense. Under the standard price method, the unit value to be assigned to inventory by the Department of Defense would be equivalent to its selling price. Adopting these two methods would eliminate the issue of recognizing holding gains/losses.

A lengthy discussion took place on how excess inventory should be defined. The major issue was whether or not the inventory standard should include criteria for determining excess inventory. One Board member asserted that the criteria for determining excess inventory and inventory held in reserve for future use should be left to management's discretion. He believed that specifying criteria for identifying these types inventory was equivalent to usurping management's decision-making authority. Other Board members did not agree. They believed the criteria specified still would allow management the freedom to determine whether or not they applied to inventory being held. Several Board members indicated that financial statements should reflect management decisions. If management chooses to hold these types of inventory, users of financial statements should have

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that information. Management could disclose its rationale in footnotes.

Out of this discussion came a Board proposal that management develop and publish in the financial statements its criteria or a summary of its criteria for identifying inventory held in reserve for future use. This discussion also resulted in a proposal to classify inventory held for future use separately from inventory used in normal operations, and that the estimated annual holding costs for this inventory be separately disclosed in the financial statements. Both proposals were accepted by a majority of the Board members; however, one of the Board members respectfully requested the right to dissent against the proposals.

The remaining four issues were resolved with little discussion. A revised ED incorporating these decisions will be discussed at the July Board meeting. It is expected that an ED from this project will be released for public comment during the late summer or early fall.

EXPOSURE DRAFT ON ACCOUNTING FOR DIRECT LOANS AND LOAN GUARANTEES

The Exposure Draft on Accounting for Direct Loans and Loan Guarantees went through editing and desk-top publishing and was ready for a final review by the Board. The Board has learned, however, that an important revision to OMB Circular Nos. A-11 and A-34, related to loan and loan guarantee modifications is underway. The Board wishes to evaluate the effect of the OMB revision and work it into the Exposure Draft. As a result, the expected issuance of the Exposure Draft is postponed. The staff is actively working with OMB staff to finalize the revision for incorporation into the ED. The ED may be issued by late July 1992.

UNFUNDED LIABILITIES

FASAB Staff briefed the Board on the status of the unfunded liability project. At the April meeting there was a consensus that a liability could be defined as an "unpaid expense." Based on this agreement, the staff developed a definition for the term "expense" as well as for "liability."

The staff is tentatively defining these two closely related terms as a current outflow of resources (that is, paid), or a

promise or estimate of a future outflow of resources (that is, unpaid); and, a liability is an "unpaid expense" - that is a promise or estimate of a future outflow of resources. An example of this would be when a federal agency occupies a building for a month without paying rent, the rent owed is both an expense and a liability.

Criteria are being developed for categorizing an item as an expense or as a liability. The staff has used the Board's previous guidance to develop eight criteria for consideration.

Simplified examples are being prepared to facilitate the Board's analysis. Liability categories are being identified for which examples will be prepared. To date, examples have been prepared for adjudicative claims and judgments, employee benefits (pensions), and contingent liabilities (government-sponsored enterprises).

The accounting alternatives and issues (identified and illustrated, using examples) will be presented at the July meeting.

ROUNDTABLE DISCUSSION HELD WITH STATE AND LOCAL OFFICIALS ON FEDERAL ACCOUNTING AND FINANCIAL REPORTING

On June 30, 1992, the FASAB held an informal "roundtable discussion" with several officials from state and local government to learn more about their perspective on federal accounting and financial reporting. The Board was interested in their ideas and experiences both as government officials and as individual citizens of the United States. The FASAB's guests included:

--Tom L. Allen, State Auditor of Utah,

--Lawrence F. Alwin, State Auditor of Texas,

--Anthony Calhoun, Controller, District of Columbia,

--Charles L. Lester, Auditor General of Florida, and

--Edward Renfro, State Auditor of North Carolina.

At the request of Elmer Staats, FASAB's Chairman, the discussion was led by Martin Ives, member of FASAB and Vice Chairman of

the Governmental Accounting Standards Board in Norwalk, Connecticut. Mr. Ives opened the session by providing some background on the FASAB and its work. He explained that, unlike the GASB, the FASAB was concerned with the needs of internal, as well as external users of accounting and financial reporting.

Mr. Allen emphasized the importance of stewardship and understandability. Federal accounting and audited financial statements can help to provide a structure for improved control, management, and accountability. He also noted many of the traditional accounting debates are moot, or of limited significance, for financial reporting on the federal government as a whole.

Mr. Alwin emphasized the importance of accountability, including accountability for performance. Accountability reporting should include indicators of program performance that are incorporated in program budgets to the greatest extent feasible. These indicators should be based on strategic goals established by the President and Congress.

Mr. Lester emphasized the importance of an understandable report on the government as a whole. Reports on individual funds, agencies, and programs are important, but too much can be hidden or fall through the cracks if there is not a comprehensive, government-wide report.

Mr. Renfro echoed this view, noting that modern accounting systems like the one in North Carolina allowed for detailed reports on highly diverse entities like state universities to be "rolled up" to produce over-all reports at the state level. He emphasized the importance of dealing with the deficit, and the role understandable financial reporting could play.

Mr. Calhoun noted the difficulties of explaining to elected officials the financial statements of the District of Columbia. These statements are prepared in conformance with GAAP promulgated by GASB. He emphasized the difficulties of standard setting in a political environment, and the interaction between accounting and budgeting, as well as the need for simplicity and clarity in communication with those who are not accountants.

A transcript of the proceedings will be available for review in FASAB's public

reading room. A similar roundtable discussion with representatives of the press is planned in conjunction with the Board's July meeting.

AGA DISTINGUISHED SERVICE AWARDS
MADE TO MARTY IVES AND RICHARD MAYO

Congratulations to Marty Ives and Richard Mayo for their awards from AGA for "Distinguished Achievement in Governmental Financial Management Research." They were formally recognized by AGA's Education and Research Foundation in Dallas, TX on June 24.

Mr. Ives, a FASAB Board member who is also on the GASB Board, received the Lifetime Achiever award. He was recognized for his continuous contributions to governmental financial management as evidenced by his extensive record of service in governmental accounting, auditing, and financial management at the federal, state and local level. His research and publications have done much to advance these fields of endeavor.

Mr. Mayo, a FASAB staff member, who received the AGA Achiever award, was recognized for his research in the area of analysis of federal agency financial statements while on GAO's staff. He incorporated his research into his staff study, Financial Reporting: Framework for Analyzing Federal Agency Financial Statements. In it he introduced a basic framework for use as a tool for analyzing annual financial statements of federal agencies.

We extend our congratulations and appreciation to you both for jobs well done!

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