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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FASAB NEWS

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BOARD ISSUES EXPOSURE DRAFT ON ENTITY AND DISPLAY

The Exposure Draft (ED), Entity and Display, was issued on August 5. The document is a statement of reporting concepts and provides guidance on what should be encompassed by a federal government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports, establishes guidelines for defining the make-up of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, and suggests the ·pes of information each type of report should ɔnvey.

The statement does not attempt to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with Congress, OMB, and other oversight organizations and resource providers.

The Board invites comments on the ED. To aid in providing such comments, the document lists specific questions to which readers are invited to respond. Written responses and other comments should be received by September 19, 1994. Address responses to:

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ıe ED is being mailed to those on our mailing list. Also, copies may be requested by calling 202-512-7350.

The Board plans to hold a public hearing on this proposed statement, tentatively scheduled for October 26 and 27. Formal notice of the time and place of the hearing will be made in the Federal Register and in a notice to those on our mailing list. Individuals who wish to offer testimony then should notify the Executive Director at least one week before the hearing date and should provide a brief outline of major issues to be addressed.

Exposure drafts on Managerial Cost Accounting Standards and Accounting for Federal Liabilities are expected to be issued within the next few weeks.

STEWARDSHIP PROJECT

-HUMAN AND INTELLECTUAL CAPITAL

At the July Board meeting, FASAB staff presented the Board with additional information for considering two of the initial issues for human and intellectual (research and development) capital addressed by the Board at its June meeting.

Issue 1 - Stewardship Reporting Requirements: Board members had agreed that there should be a phased-in implementation of the Stewardship reporting requirements. That is, for the first few years after the standard is in effect, entities would report only readily available information, such as program outlays or expenses. Information on program accomplishments, such as outputs (the quantity of the service performed, generally known in the short term), and outcomes (the impact, effect, or results of the service, generally not known until later in the program), would be encouraged but need not be reported until after the initial years of the standard, when entities would have had time to collect such data.

Staff suggested, however, that in the first few years of the standard, entities also be required to report output data. Staff stated that information on program outputs is generally available currently (often as budget backup, or in management information systems) as support for such actions as appropriation requests.The Board agreed that such information, where available, would be desirable. However, to minimize any reporting burden on agencies during the early implementation of the standards, the Board will recommend requesting, rather than requiring, the reporting of such data, if available. After the standard has been in effect for a few years and entities have had time to collect and analyze performance data, in addition to reporting outlay or expense data, entities would be required to report both output and outcome data.

Issue 2 - Reporting on the Federal Government's Internal Training: The Board had decided not to report on the Federal Government's investment in training its own work force. This is because the information on such training is not currently collected in the manner that the Board would want it, would probably not represent a material amount, and the cost to collect such data likely would outweigh its benefits.

Staff, however, suggested that the effort to collect such information might be warranted, since the information could be used to analyze the effect of internal training on the Federal Government's efficiency and effectiveness in delivery of services to the public. Board members, however, held to their position that the effort to collect and report such data would likely outweigh any benefit received from the reporting of such data.

-FUTURE CLAIMS ON BUDGETARY RESOURCES

At its July meeting, the Board had a wide-ranging discussion of future claims on budgetary resources. The Board discussed whether it would be desirable to require prospective information at this time. It was generally agreed the prospective information would be useful in explaining the financial status of government and should be considered. Board members suggested that experimentation and phased-in application of a standard may be desirable, and that requirements may be different for the Consolidated Financial Statements (CFS) and for entity financial statements.

The Board also discussed possible future claim disclosures. Some Board members indicated that prospective data should be limited to trust fund data, another suggested that all social insurance programs be added, and another suggested environmental clean-up programs. They discussed the availability and probable reliability of such data.

The Board discussed current service estimates (CSE' as a possibility for disclosure. CSE's are designed a a baseline to show what receipts, outlays, and deficits would be if no changes are made to laws already enacted over the next six years. They cover the government as a whole.

There was general support for the notion that prospective information should be included in the stewardship section of the CFS, either as a major schedule or as required supplemental data. The Board has made earlier decisions based on the expectation that data of this sort would appear in the stewardship section. The Board took note that the "stewardship statement," as discussed in the past, could be a non-articulating collection of important information presented on a selective basis guided by general criteria or standards.

COST OF CAPITAL PROJECT

The cost of capital task force has reached consensu ı the issues to present in the Discussion Memorandum (DM). A DM takes no position and is principally aimed at soliciting views and comments to help the Board in fashioning recommended standards. This will be the first DM the Board has issued. The task force will propose that comments be solicited on the following issues:

1. The appropriateness of an imputed interest charge and its potential usefulness to decision makers,

2. The appropriate measurement of imputed interest charges including issues relating to:

a. assets to include in the capital base on which to impute interest (e.g., balance sheet assets, tangible assets or PP&E),

b. measurement of those assets (e.g., historical cost versus current value), and

c. determination of the interest rate to apply to the capital base (e.g., a rate representative of the incurred cost to the government, the opportunity cost to the government, or the opportunity cost to the public).

The Board will discuss the draft Discussion Memorandum at the August Board meeting.

PROPERTY, PLANT AND EQUIPMENT

-CLEANUP COST

At its July meeting, the Board discussed, for the first time, cleanup costs associated with property, plant and equipment (PP&E). The scope of the accounting standard is to be limited to long-lived assets which require environmental cleanup following closure (e.g., nuclear facilities). The physical property (PP&E) subgroup made recommendations for recognizing closure and postclosure cleanup costs, and the Board provided responses to these recommendations.

The issues addressed were:

--How to define cleanup costs,

--How to estimate the total cleanup cost,

--How to allocate a portion of the total cleanup cost to the operating period,

--How to classify the accumulated amount of cleanup costs (e.g., as a liability or as a contra asset),

--How to account for changes in estimates of the total cleanup cost, and

--What disclosures are necessary.

Definition

The subgroup and the Board believe that the standard should address cleanup costs required following closure or decommissioning of PP&E. The Board indicated that the name of the standard should be consistent with this scope to avoid confusion with cleanup costs which are to be covered under the liability standard. Certain cleanup costs are associated with a single event such as an accidental spill of hazardous materials-- this type of event would be accounted for in accordance with the liability accounting standard. The Board suggested that categories of cleanup costs be identified to clarify the scope of this standard.

Estimating the Total Cost

The subgroup presented two options to the Board for estimating the total cost upon decommissioning. Since the cost will be paid many years in the future, the discounted or present value cost is an option--arriving at discounted costs would involve predicting the cash flows and determining an appropriate discount rate. Alternatively, an estimate of the cost to perform the cleanup currently could be made--current cost. The subgroup recommended a current cost approach and the Board agreed.

Allocating the Total Cost to Periods

The subgroup believes that these costs should be recognized in the periods that outputs are generated by the associated PP&E-- this is consistent with the Board's operating performance reporting objective. Therefore, the estimated total cleanup cost must be allocated to operating periods. The subgroup recommended that this allocation be made based on physical activity (e.g., hours operated versus more passage of time) for the period if possible. If not possible, or if the difference is immaterial, the allocation could be made based on estimated useful life. The Board agreed with this recommendation but raised the issue of assets where the useful life is unknown--for example, nuclear submarines. Staff indicated that the subgroup would address this issue and make a recommendation at the August meeting.

Accumulated Costs-Liability or Contra Asset?

The subgroup believes that the accumulated, and unpaid, cleanup costs should be recognized as a liability. The Resource Conservation and Recovery Act (RCRA) gave the Environmental Protection Agency authority to regulate, direct and monitor federal agencies treatment of hazardous materials. In addition, state environmental laws are frequently applied to federal entities. The subgroup reviewed the liability definition developed by the Board for issuance in the upcoming exposure draft Accounting for Liabilities and concluded that provisions costs meet that definition. The Board agreed with the subgroup's recommendation.

Accounting for Changes in Estimates

The subgroup recommended that the portion of any changes in the estimated total cleanup cost that are associated with prior periods accruals be recognized in the period of the change. For example, if 50% of the estimated total cleanup cost should have been recognized as a liability at the end of the current period, then 50% of any changes in estimate would be recognized in the current period. The remaining 50% would be recognized in future periods.

The Board expressed concern regarding decreases ir the estimated total cleanup cost and that these might result in a gain on the operating statement. Staff indicated that the subgroup had not addressed that issue but had discussed detailed disclosures regarding the reasons for changes in estimates. At the August Board meeting, the subgroup will have a recommendation on this issue.

Disclosure Requirements

The subgroup recommended detailed disclosures including laws and regulations requiring or affecting cleanup, financing requirements (e.g., any set aside of funds for future costs), allocation methods used, and total estimated cleanup costs. The Board agreed with these recommendations.

-DEFERRED MAINTENANCE

The Board members' initial proposal is to present the cost of deferred maintenance as a line item on the operating statement, with a footnote reference in lie of reporting a dollar amount. Their intent is to highlight it as an operating expense despite difficulties in its measurement. To assist the Board in its discussion at the July meeting on how to present this cost, FASAB staff developed a proposal on accounting for and reporting information on deferred maintenance. The proposal was based on an article written by Dr. Jesse Hughes, currently the Associate Dean of the College of Business and Public Administration at Old Dominion University, Norfolk, Va., who comes from an academic background of fund accounting and accounting systems, and also a federal government background as an internal auditor, treasurer, chief accountant, systems analyst, and comptroller.

Conceptually, the proposal recommends the recording of required future maintenance and deferred maintenance in the Standard General Ledger (SGL) with self-balancing sets of accounts for all assets (i.e., those reported on the balance sheet and those reported on the stewardship statement). In addition, the futur

.aintenance and deferred maintenance amounts for the assets would be reported on the stewardship statement.

At the meeting Dr. Hughes commented on some specific issues associated with deferred maintenance. He stated that the problems encountered with deferred maintenance are similar to those which were addressed during the discussions on clean-up costs (e.g., defining, recognizing, measuring, and reporting it). He explained that other countries also are concerned with deferred maintenance and are also studying it.

During Dr. Hughes' presentation, a Board member commented that one of the major problems with deferred maintenance is knowing how to distinguish between maintenance on the one hand and modernization or improvement on the other. Dr. Hughes stated that the private sector has the same problem. As an example, he observed that if potholes in an airport runway were repaired, that would be aintenance, but if not repaired that would be deferred .naintenance; however, if the runway were repaved, that would be an improvement, which should be capitalized. He added that engineering input must be obtained to help in properly identifying deferred maintenance.

Comments made by the Board members include the following:

-Although Dr. Hughes presents a rational concept, its implementation would be difficult because of some practical issues involved.

-Engineers at one member's agency are only interested in the cost to bring an asset up to its original state, and are not necessarily interested in future maintenance costs.

-There is a difference between the cost to make an asset safe for use or return it to its original state on the e hand versus, on the other hand, of having limited funds to do whatever maintenance can be done within the funding constraints.

Dr. Hughes concluded by recommending that the Board adopt the recognition and reporting of deferred maintenance.

DETAILEES TO FASAB

During July and August FASAB's two detailees, Gordon Peterson and April Moock completed their assignments. Mr. Peterson, formerly with the Bureau of Public Debt, Department of the Treasury, moves on to a position with the Department of Education. Ms. Moock, having completed her General Services Administration (GSA) internship while with FASAB, returns to a position at GSA.

Both detailees made substantial contributions to the projects on which they worked. Mr. Peterson completed extensive research into cleanup cost issues. Ms. Moock conducted a literature search and review on human capital. In addition, they each were responsible for drafting various documents for the Board and interacting with representatives from many central agencies while on detail.

Finding that detail assignments are successful, Board staff is again looking for individuals at the GS-9 to 12 level for detail to the Board for periods of three to six months. The assignments would involve research and writing and oral presentations. A detail assignment would be ideal as a part of a development program for early career accounting professionals. Accounting managers or interested individuals should contact the Executive Director, Ron Young, at 202-512-7350.

PHIL CALDER JOINS FASAB STAFF

Phil Calder, who recently retired as a Partner from Ernst & Young, has joined the FASAB staff and will be responsible for the Stewardship Reporting Project.

Mr. Calder has extensive background in governmental accounting and auditing at the state and local level. He recently completed three years as Chair of the AICPA Government Auditing and Accounting Committee where he helped develop the new Audit Guide for State and Local Governments. He has also lectured and taught government auditing and accounting.

AGENDA FOR AUGUST BOARD MEETING

The agenda for the next Board meeting on Thursday, August 18, calls for discussions on the Cost of Capital Draft Discussion Memorandum, Revenue Recognition issues, certain Liabilities ED issues and Clean Up cost issues. For any further information, call 202-512-7350.