

FASAB NEWS

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RETIREMENTS MARK THE END OF AN ERA

September 1996 marks the end of an era of significant developments in federal accounting, with the completion of a basic set of accounting standards. For the first time, after research on the information needs of those who use federal financial information, public due process, and extensive deliberation, the executive and congressional branches of the Government have agreed on a set of accounting standards for federal agencies.

Seven years ago Comptroller General Charles Bowsher took the initiative to achieve this, by publishing for public comment a proposal to establish a new Federal Government Accounting Standards Board. After discussion, the Department of the Treasury, the Office of Management and Budget, and the General Accounting Office agreed to establish such a Board to consider and recommend accounting standards which, it was understood, would guide preparation of the financial statements mandated by the CFO's Act of 1990.

This agreement broke the long-standing deadlock between the branches over authority to set accounting standards. The disagreement over authority to set standards had been a major factor that inhibited progress in improving accounting and financial reporting by the Government and its agencies. As our readers know, the CFO Act was the first of several inter-dependent initiatives, including the Government Performance and Results Act and the Government Management Reform Act, that constitute a comprehensive effort to make the Government more accountable and effective.

September marks the end of Mr. Bowsher's 15 year

term as Comptroller General, but not the end of his service to the public and the profession. The Financial Accounting Foundation has announced that he will be invited to become a trustee of the Foundation. This Foundation oversees both FASB and GASB, the boards that set accounting standards for privately owned entities and for state and local governments.

Also retiring at the end of September is Don Chapin, who has served as GAO's representative on FASAB since its inception. During most of those years, Mr. Chapin was Assistant Comptroller General for Accounting and Financial Management. More recently he assumed the role of Chief Accountant for GAO, to be able to devote himself more fully to accounting issues. He has made a great contribution to many FASAB projects, perhaps most notably in his role as the architect of Statement No. 7, Accounting For Revenue and Other Financing Sources. We expect that Don, like General Bowsher, will continue to play an active role in improving governmental accounting.

Rounding out the list of retirees, Ronald S. Young, FASAB's Executive Director since the Board's inception, also will retire by the end of September. Before FASAB was created, Ron was Director of Accounting and Auditing Standards for GAO. Before joining GAO, he was Director of the Bureau of Accounts of the Interstate Commerce Commission and a member of the congressionally established Railroad Accounting Principles Board. His years of service there, like his years with GAO and FASAB, spanned a period of dramatic change and fundamental reform. The change made railroads more competitive than ever before, while regulation of the industry, and the use of accounting in that regulation, were radically reformed. Earlier in his career, Ron worked in the

private sector as managerial accountant and as an auditor with a major public accounting firm.

Ron played a key role in the difficult process of organizing and staffing the FASAB; then, with Chairman Staats, effectively guided the processes of developing accounting standards and securing their approval by the Board and its three sponsors. His drive and vision have been significant factors in the Board's success. Ron's plans for life after retirement include moving to Santa Fe, New Mexico. He expects, however, to continue his involvement in improving federal financial management by participating in education and training programs teaching federal accounting standards and cost accounting; he also expects to provide consulting services to help agencies ensure their accounting systems meet the new accounting and reporting requirements.

FASAB notes yet another departure, though not a retirement. Phil Calder--who has been detailed from GAO for the past two years to serve as the project manager for the Stewardship Reporting project--has been called back to GAO. We expect that he, too, will continue to play a significant role in federal accounting.

FASAB's staff knows that our readers join us as we wish all these men well, and look forward to their continuing contributions to the profession.

MANAGEMENT'S DISCUSSION AND ANALYSIS

At FASAB's most recent meeting (in July; the Board did not meet in August), Mr. Jackson led a discussion on Management's Discussion and Analysis (MD&A), focusing on the questionnaire to which task force members had previously responded. Mr. Jackson is the Chairman of the FASAB's MD&A task force. Chairman Staats and other Board members believe that management's narrative discussion of the financial statements is essential to assure that users understand the financial statements.

The Board discussed whether the final product of the FASAB project should be in the form of a Recommended Statement of Federal Accounting Concepts or a Recommended Statement of Federal Accounting Standards. Mr. Jackson noted that AICPA now has a task force working on guidelines for the possible application of attestation standards to MD&A in the private sector. The Board agreed that, whatever approach it ultimately takes to MD&A, it is important to avoid a "chilling effect" on management's discussion by recommending a standard that would have the effect of requiring an excessive amount of review by the auditor. In particular, experimentation with performance reporting and forward-looking information should not be inhibited during the initial years by concern that the information would be audited. It was noted that, while the AICPA provides attestation standards for use with forecasts and projections, not many such engagements have been conducted.

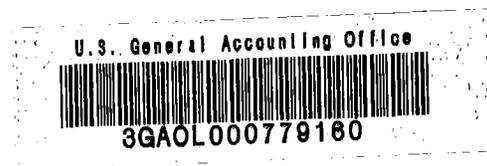
Phil Calder discussed requirements of the Securities and Exchange Commission (SEC) for MD&A in filings with the Commission by publicly owned corporations. He summarized the requirements under the following two questions:

- Why did what happened happen?
- Is that likely to continue, and, if not, why not?

FASAB staff will meet with staff of the SEC to learn more about that agency's experience and current initiatives regarding MD&A and related matters such as its proposal for abbreviated reports.

INDIAN TRUST FUNDS

Mr. Calder and Schuyler Leshner, Deputy CFO at Interior, discussed with Board members some issues regarding how trust funds should be reported. Although the term "trust fund" is often used in federal accounting, only in a minority of cases are the funds involved what some regard as "true" trust funds



analogous to those in the private sector, in which Government has a fiduciary responsibility for assets that belong to another entity. The various Indian Trust funds are among these "true" trust funds. Differing views were expressed, and the Board agreed to consider the issue further.

FASAB STANDARDS CODIFICATION PROJECT

The Board made major progress in July toward completing the first volume of the two-volume codification. As reported in June's newsletter, the first volume will present the original pronouncements with a status page showing any amendments. It will also include a substantial index to aid users. Volume II will be arranged by topic, similar to FASB's Current Text. The Board approved the draft with minor changes. Staff expects to provide a revised version of Volume I for approval at the September meeting. Volume I will be published as soon as possible following final approval.

INVITATION TO COMMENT ON ACCOUNTING FOR THE COST OF CAPITAL - A REMINDER

In July 1996, FASAB issued an Invitation for Views (IFV) on Accounting for the Cost of Capital. As defined in this IFV, "capital" is the amount of funds invested in assets possessed by federal entities, including assets used in operations, held for sale, and maintained for contingent uses. The IFV invites views and comments from federal agencies and other interested parties on issues related to the potential uses of the cost of capital information in managerial decision making and in the management of costs and assets. It also solicits comments on approaches for measuring and accounting the cost of capital.

Specifically, this IFV identifies four groups of issues for respondents to comment on. Respondents are encouraged to raise other issues they deem relevant to accounting for the cost of capital by the federal

government. The four groups of issues address:

-What are the specific areas in which the information on cost of capital could be used by federal executives and managers at various levels?

-What categories of assets should be included in the capital base and how those assets should be valued for the purpose of calculating the cost of capital?

-What is the capital cost rate that should be used to calculate the cost of capital? (Options include the government's borrowing rate and the average rate of return on private sector investments.)

-What would be a cost-effective approach to accounting for the cost of capital without making it unnecessarily complex? For example, the Board might limit the requirement to capital-intensive activities. The Board also solicits views on how the cost of capital should be accounted for. (Options include (a) recording it in the general ledger accounts and reporting it in general purpose financial statements, and (b) discussing it in a note to financial statements as supplemental information without recording in the general ledger accounts.)

The IFV provides agencies and other interested parties with an opportunity to express their views on the subject before the Board reaches any conclusions on the issues. In the cover letter with the document, Chairman Staats urges all interested parties to provide comments. All responses will be carefully considered. Responses are due by October 4, 1996, and should be sent to:

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