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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**FASAB NEWS**

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**ELMER STAATS CONCLUDES HIS TERM
AS FIRST CHAIRMAN OF FASAB**

In previous issues of "FASAB News," we reported on recent retirements (Charles Bowsher, Don Chapin, and Ron Young) marking the end of an era of significant developments in federal accounting, and the appointment of new Board members (Phil Calder representing the General Accounting Office (GAO)). This month, we are reporting on some other changes in Board membership. Of particular significance is the end of the appointment of Elmer Staats as Chairman of the Federal Accounting Standards Advisory Board (FASAB).

FASAB BIDS ADIEU TO ELMER STAATS

In January 1997 Elmer Staats, Chairman of the FASAB since its inception in October 1990, completed his term as the first Chairman of the Board. During his tenure as Chairman, Mr. Staats guided the Board in the development of the "due process" procedures of the Board, helping to ensure that the accounting concepts and standards proposed by the Board would be subject to comment and input by all interested federal and non-federal financial managers. These procedures have helped to garner support for the new accounting and reporting principles and standards developed by the Board, thus helping to ensure a smoother transition to a unified approach to federal financial accounting and reporting.

Under Chairman Staats' guidance, specific major accomplishments of the Board are the development, the approval by the Board's three principals (the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General), and the issuance of:

1) two concepts documents: one that explains the objectives of federal financial reporting and another that explains how to identify entities for federal accounting and reporting purposes;

2) a core set of accounting standards and principles (i.e., the basic body of federal Generally Accepted Accounting Principles, or FedGAAP);

3) managerial cost accounting concepts and standards for the federal government. These concepts and standards will ensure that agencies will account for service efforts in a realistic and consistent manner; such information should assist in highlighting the cost of agency operations, assessing program performance, and ultimately making better resource decisions; and

4) a reporting model that puts more emphasis on the costs of federal operations and programs; the focus on net cost and the requirement for a managerial cost accounting system will support the objectives of the Government Performance and Results Act and allow assessment of the cost of government goods and services over time.

Before serving as Chairman of the FASAB, Mr. Staats was a member of the Governmental Accounting Standards Board (GASB) from June 1984 through March 1990. Prior to that, he led the U.S. General Accounting Office as Comptroller General of the United States for 15 years, concluding a distinguished career in federal service that included service as Deputy Director of the Budget under Presidents Truman, Eisenhower, Kennedy, and Johnson. Mr. Staats continues to serve as director for a variety of corporations and not-for-profit organizations, and is active in several professional associations.

The Board and Staff gratefully acknowledge the significant role of Chairman Staats in guiding the FASAB through the difficult process of developing federal accounting and reporting requirements, and wish him well in his continued service to the financial community.

DAVID MOSSO ASSUMES ROLE OF CHAIRMAN OF THE BOARD

The principals of the FASAB have appointed David Mosso to the position of Chairman, effective January 1997. From 1985 to the present, Mr. Mosso worked for the Financial Accounting Standards Board (FASB), first as a Board member, then for two years as Vice Chairman of the Board, and for the last eight years as Assistant Director of Research and Technical Activities, where he oversees the FASB's major accounting projects which lead to statements of financial accounting standards. Prior to that, Mr. Mosso worked for thirteen years as a senior U.S. Treasury executive, culminating in an appointment as Fiscal Assistant Secretary of the Treasury. He has lectured and written extensively on a variety of financial accounting issues. The FASAB Board and staff are fortunate to have Mr. Mosso's expertise at the helm as we address new, follow-on, and emerging issues in federal accounting and reporting.

MARTY IVES LEAVES THE POSITION REPRESENTING THE STATE AND LOCAL GOVERNMENT PERSPECTIVE

When Marty Ives was appointed to the Board in January 1991, he was Vice Chairman of the Governmental Accounting Standards Board (GASB), where he also served for over five years as the Board's first Director of Research and Technical Activities. Prior to that, he was the first Deputy Comptroller of the City of New York, and was Deputy Comptroller of the State of New York. He has written and spoken extensively on governmental accounting and auditing, and is currently an adjunct professor of Public Administration at New York University and Pace University. Additionally, Mr. Ives is a member of the Professional Certification Board for the Certified Government Financial Manager program.

Mr. Ives' extensive background in state and local

governmental accounting and reporting has been instrumental to Board deliberations on issues related to federal accounting and reporting. The Board will miss his sage advice and wish Mr. Ives the best of luck in all his future endeavors.

LINDA BLESSING FILLS THE POSITION VACATED BY MARTY IVES

Linda Blessing, Doctor of Public Administration, has been selected to fill the Board position vacated by Marty Ives. Dr. Blessing is the Director of the Arizona Department of Economic Security, the largest state agency in Arizona. Prior to her appointment as the Director, she served as Deputy Director and Chief Operating Officer of the agency. Dr. Blessing previously held the positions of Deputy Executive Director of the Arizona Board of Regents, Deputy Auditor General in Arizona, and Assistant Audit Manager for San Bernadino County, California. She is an active member of the American Institute of Certified Public Accountants (AICPA), serving in many capacities, such as on the governing council and as past chair of the Members in Government Committee. She also is a faculty associate with Arizona State University and an instructor of governmental accounting and auditing for the American Institute and the Arizona Society of CPA's. The Board and staff look forward to putting the many talents of Dr. Blessing to use as we tackle our new agenda.

NEIL TIERNEY LEAVES THE POSITION REPRESENTING THE PRIVATE SECTOR ACCOUNTING PERSPECTIVE

In October 1991, when Neil Tierney began his term on the Board, he was a partner in the accounting firm of Ernst and Young, and was the National Director of the firm's public sector practice. Prior to that, he held a variety of federal agency posts and has served as an auditor, financial manager, and consultant to many federal agencies. He authored or co-authored ten books on governmental accounting, auditing, and financial management. He chaired several committees and task forces of the AICPA that dealt with governmental accounting and auditing. Currently, Mr. Tierney is a professor of accountancy at George Washington University and the director of its Center for Public Financial Management.

The Board and Staff gratefully acknowledge Mr. Tierney's contribution to the Board's difficult task of developing the core set of federal accounting standards. We wish him continuing good fortune in all of his future accounting adventures!

DON CHAPIN FILLS THE POSITION VACATED BY NEIL TIERNEY

After his retirement in September 1996, Don Chapin began working as an independent consultant advising the U.S. Government and private sector auditing firms on accounting and financial management issues. Prior to that time, Mr. Chapin was Chief Accountant of GAO, and just before that, Assistant Comptroller General for Accounting and Information Management responsible for financial and systems audits of Federal agencies. Mr. Chapin was the Board member representing GAO from the Board's inception until his retirement. During his tenure, Mr. Chapin made numerous contributions to FASAB projects, particularly to Statement Number 7, Accounting for Revenues and Other Financing Sources. The Board staff welcome Mr. Chapin back to the Board and look forward to a continuing productive relationship.

It's Official - Wendy Comes Selected as Executive Director

After Ron Young's retirement September 30, 1996, Wendy Comes was named Acting Executive Director of FASAB. Effective January 20, 1997, Wendy was appointed as Executive Director. Congratulations Wendy, and best wishes as you embark on FASAB's new agenda!

FASAB Reception Held to Honor Departing and Arriving Board Members

To recognize the changes in Board members discussed above, and to acknowledge the fine work that the entire Board has accomplished since its inception, a reception was held after the January 17 Board meeting. At the reception, Acting Comptroller General Jim Hinchman acknowledged the contributions of both the departing members and the remaining Board members by presenting each with a letter of appreciation from Vice President Al Gore. In

the letters, the Vice President thanked each member for his efforts to develop a set of comprehensive accounting standards which supported 1) the National Performance Review's emphasis on the importance of strict accounting standards to fully disclose the Federal Government's financial condition; 2) the Chief Financial Officers Act of 1990's goal of providing relevant financial information to manage Federal programs; and 3) the Government Performance and Results Act of 1993's goal of supporting strategic planning and performance measurement requirements.

MANAGEMENT'S DISCUSSION
AND ANALYSIS

As reported previously, FASAB has approved an exposure draft of a proposed statement of federal financial accounting concepts, Management's Discussion and Analysis. Newsletter recipients should have received their copy. Additional copies are available on request for distribution to interested parties or groups. Also, the exposure draft will be posted on the Internet. Comments are requested by May 18, 1997.

The concepts are based on existing guidance from the SEC, the AICPA, and other sources, but have been tailored to the unique circumstances of federal reporting entities. The draft statement of concepts suggests that a general purpose federal financial report should include management's discussion and analysis (MD&A) of the financial statements. The discussion and analysis should summarize and explain the information in the financial statements that addresses the objectives of federal financial reporting. MD&A also should present a description of the entity and its programs, operating environment, and operations.

As the exposure draft explains in more detail, this means that MD&A should provide a variety of historical and prospective information about such topics as changes in assets, liabilities, expenses and revenues; risks and uncertainties; program results; the

financial condition of the entity; and future changes in financial condition. A reporting entity that has oversight responsibility for other entities should discuss the status and operations of entities it oversees.

The exposure draft includes the following questions:

1. Should all or some of this document be recommended standards rather than concepts? For example: (1) management assertions, (2) key performance indicators, (3) risks and uncertainties, and (4) effects of known trends, conditions, etc.

2. Do respondents wish to suggest specific additional guidance on any of the listed topics?

3. Are some terms or provisions unclear? If so, how should they be clarified?

4. Should specific additional topics be addressed, such as:

(a) the relationship of MD&A and performance reporting mandated by GPRA. If so, what should be said about this topic?

(b) the relationship of MD&A and management's responsibilities under the Federal Financial Management Improvement Act of 1996. If so, what should be said about this topic?

(c) the relationship of MD&A and accountability reports. If so, what should be said about this topic?

5. Should the final statement of concepts include examples of possible MD&A regarding specific topics? If so, which topics? Respondents are encouraged to provide sample language for MD&A of specific topics, or to describe the specific elements they regard as desirable in MD&A of specific topics such as performance, internal control, compliance, etc.

SOCIAL INSURANCE

At the January 1997 meeting the Board began a project on social insurance. Currently, social insurance programs are covered by SFFAS No. 1, Accounting for Selected Assets and Liabilities, which requires accrual of unpaid expenses at the end of the fiscal year for which payment is expected during the following fiscal year, including accrued entitlement benefits payable. Social insurance had been addressed in the stewardship exposure draft with extensive disclosures proposed. However, the Board decided not to include these in the final stewardship standard and to allow more time for discussion and analysis, and for the Social Security Advisory Council to report its recommendations.

At the January meeting, the Board discussed the diverse characteristics of social insurance programs. David Mosso, the new FASAB chairman, noted that there has been nothing new added about this issue in 25 years. Those who are convinced Social Security a liability could not be dissuaded and vice versa. The Board believes that informative disclosures meeting the concerns of both sides may be the only practical way to go.

The Board discussed special disclosures for social insurance. Although an actuarial liability for Social Security might not be reported on the balance sheet, the Board said that the long-term aspects of the program should be highlighted and not relegated to a footnote. A separate presentation in a stewardship section was preferred.

The Board agreed that the social insurance "money's worth" estimates that were proposed disclosures in the stewardship exposure draft (August 1995) are simplistic and should be dropped. Several members said that what some might call a liability-type number was needed as part of the disclosure. Also, useful information would include cashflow projections over 30 years (rather than 75 years) disclosing, for example, any years when the cashflow turns negative.

and if the trust fund assets are exhausted. It was agreed that presentations of this information should be done clearly, simply, and graphically.

Chairman Mosso summarized the areas of agreement for social insurance programs as follows:

- no additional liability [beyond "due and payable" amount] on the balance sheet,
- cashflow projections,
- what some might call a liability-type number, and
- other statistics.

He said the individual program's characteristics (e.g., long-term, short-term) would dictate its disclosure. Social insurance will be a high priority project. The staff will return in February with options.

ACCOUNTING FOR THE COST OF CAPITAL

At the January 1997 meeting, the Board discussed how the project should proceed. The discussion followed these events: an Invitation for Views (IFV) on Accounting for the Cost of Capital By Federal Entities was issued for public comment in July 1996. Comments were received from 40 respondents, including 27 from federal departments and agencies, 4 from private and local government organizations, and 9 from individuals. Copies of the comments with a summary were forwarded the Board members for review in December 1996. Most comments focused on the fundamental issue: whether accounting for the cost of capital is feasible. In total, 20 responses were generally supportive to the cost of capital accounting, 9 responses expressed limited support with certain reservations, and 11 responses were opposed to the initiative.

Most Board members emphasized the potential

importance of the cost of capital information to the financial management of the federal government, and expressed their desire to continue with the project. However, faced with the conflicting responses to the IFV, the Board members find it difficult to conclude in the abstract on the usefulness of the cost of capital information in specific areas. They believe some pilot studies are necessary at this time. The pilot studies would hopefully develop some facts to show for what types of activities and for what purposes the cost of capital information could be used. Some Board members also expressed a desire to pursue studies in the following areas: (a) the effect of incorporating capital charges in the budget, (b) experience of some foreign governments, such as the United Kingdom and the New Zealand, in using the cost of capital accounting, and (c) managerial practices by corporations in the U.S. private industries.

In order to pursue the studies, Board members believed that it is desirable to reconvene the task force. The Board had a task force which had worked on the project before it was temporarily suspended in 1994. The expert knowledge of those on the task force is much needed in reviewing the issues and alternatives. However, before the task force is reactivated, the Board requested staff to prepare a work plan which would be reviewed and discussed at the February Board meeting.

BOARD DISCUSSION ON COAST GUARD CUTTERS

At the January Board meeting, the Board discussed the issue of whether U.S. Coast Guard (CG) cutters over 65 feet in length and its aircraft should be considered federal mission PP&E or general purpose PP&E. The Department of Transportation (DOT) had requested guidance in regard to classifying these CG assets to ensure proper financial statement presentation. A draft interpretation of this issue proposed that the CG cutters and aircraft be classified as general purpose PP&E. Recognizing that this is a

complex issue, we present the following background information about the Coast Guard and its operations:

-The CG is a military service and a branch of the armed forces of the United States at all times. However, except when operating as a service in the Navy, the CG is a service within the DOT. The CG operates as a service in the Navy only upon declaration of war by Congress or by an Executive Order from the President.

-Operating in its dual role as a military service and as a peacetime operating agency, the Coast Guard has four primary missions. They are:

- Maritime Law Enforcement,
- Maritime Safety,
- Marine Environment Protection, and
- Military Readiness.

-To carry out its unique duties and missions as one of the military services and as a peacetime operating agency, the Coast Guard employs multipurpose vessels, including cutters, and aircraft. CG vessels are built to CG specifications, which reference DOD military specifications to ensure the vessel is built to DOD standards. CG aircraft are mostly military aircraft purchased from military contractors and modified to perform CG missions.

Before the Board began deliberating this issue, the CG's Director of Resources, Rear Admiral T. W. Allen, and Chief Financial Officer, William H. Campbell, presented and explained the CG's position that their cutters and aircraft should be classified as federal mission PP&E. Federal mission status is being sought for the cutters and the aircraft because the CG believes the cutters and aircraft constitute the same types of assets that are used by the Navy and because they are required to be maintained in a state of readiness.

The Coast Guard's presentation concluded, and Board members asked a number of questions of the CG representatives. Major discussion points were:

- The proposed interpretation was drafted with the intent of measuring costs against outputs and performance,
- Identifying the predominant uses of the cutters and aircraft,
- DOD policy on classifying DOD aircraft similar to the CG's as federal PP&E,
- A need to look at the capability of assets and not just the predominant use, and
- Concern about the precedent that would be set by classifying these assets as federal mission PP&E and its relation to the cost accounting and revenue recognition standards.

The Board plans to take the issue up again at its February meeting.

PUBLICATION OF FASAB REPORT NO. 1

The Board has released FASAB Report No. 1, Federal Financial Accounting Concepts and Standards -- an Overview. The report summarizes the concepts and standards that comprise generally accepted accounting principles for the Federal government. It also relates the significance of each concept and standard.

The Board intends the report to be a tool to educate users of financial reports including Congress, agency and program managers, and citizens. To obtain the widest possible distribution FinanceNet will post the document. Copies have been sent to all those on our mailing list as well as specifically identified groups.

AGENDA FOR FEBRUARY 27 MEETING

The next meeting of the Board is scheduled for Thursday, February 27, at 9:00 AM at the GAO



Building, room 7C13, 441 G St., N.W. Agenda items include discussions on 1) the appropriate classification of certain Coast Guard cutters and aircraft, 2) options for social insurance programs, 3) cost of capital work plan, and 4) an interpretation issue from the Environmental Protection Agency's Superfund Accounting Branch related to the proper classification of recoveries of clean-up costs.

REVISED BOARD MEETING DATES

Monthly meetings of the Board are scheduled as follows. All meetings are scheduled to meet in Room 7C13 of the GAO Building, 441 G St., N.W.,

Washington, D.C. and will begin at 9:00 A.M.:

Thursday, February 27

Thursday, March 27

Friday, April 18

Friday, May 30

Thursday, June 19

Friday, July 25

Friday, August 29

Friday, September 26

Friday, October 24

Friday, November 7

Friday, December 19

FASAB

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