

**From:** Holdaway, Grace (OIG)  
**Sent:** Monday, August 22, 2011 5:13 PM  
**To:** Earmarked  
**Subject:** Department of Justice OIG Response

Please find attached the Department of Justice OIG response to the Exposure Draft on earmarked funds.

Thank you.

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**Questions for Respondents [Word Version of Questions to Facilitate Responses]**

Exposure Draft: *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.*

**Responses are requested by August 22, 2011.**

Q1. The Board is proposing amendments to state explicitly that the source of the “specifically identified revenues or other financing sources” in paragraph 11 of SFFAS 27 must be external to the federal government, and to clarify the distinction between earmarked funds and the general fund. This issue is discussed in paragraphs A11 - A12 of the Basis for Conclusions. The proposed amendment to paragraph 11.1 of SFFAS 27 can be found in paragraph 6 of this exposure draft. Do you agree or disagree with the proposed amendment? Please provide the rationale for your answer.

**Agree**

**For transparency purposes, funds from dedicated collections should be clearly segregated and reported to include only non-federal sources. The amount reported should accurately reflect the sources of funding represented in the required note disclosure describing the fund and its purpose.**

Q2. The Board believes that funds established to account for pensions, other retirement benefits, other post-employment benefits, and other employee benefits provided to federal employees (civilian and military) should not be reported as earmarked funds<sup>1</sup> and is proposing that such funds should be excluded from the category of earmarked funds. This issue is discussed in the Basis for Conclusions, paragraphs A15 - A16. The proposed amendment to paragraph 18 of SFFAS 27 can be found in paragraph 10 of this exposure draft. Do you agree or disagree with this exclusion? Please provide the rationale for your answer.

**Agree**

**This exclusion further strengthens the specific definition and the intended purpose of earmarked funds, which among other things must be intended to benefit members of the general public (rather than military or civilian federal employees). While the *recipients* of pensions, other retirement benefits, other post-employment benefits, and other employee benefits are non-federal, the sources of funding are *both* federal and non-federal, with the federal portion being more material; that would be counter to the definitions in paragraphs 11 and 13.**

Q3. The Board is proposing that component entities would have the option to continue to use the existing format of separate lines or columns to display information on earmarked funds on the face of the balance sheet and statement of changes in net position, or to use an alternative format. Some members question the need for component entities to display information on earmarked funds on the face of the balance sheet and statement of changes in net position. The Board is also proposing that the component entity level reporting should be at a sufficient level of detail to support the U.S. government-wide financial statements. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A17 - A20 and the proposed amendments in paragraph 11. Illustrative financial statements may be found in Appendix F.

- (a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds? Please provide the rationale for your answer.

#### **Disagree**

**The existing format of separate lines or columns to display information on earmarked funds on the face of the balance sheet and statement of changes in net position is user friendly in terms of the presentation. The display of the alternative format on the balance sheet is cluttered and confusing. In addition, component entities using one standardized format will help the public users to understand component financial information and facilitate government-wide reporting processes.**

- (b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient? Please provide the rationale for your answer.

#### **Disagree**

**These dedicated revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. The balance sheet and the statement of changes in net position provide a transparent medium to display this information. Also, displaying this information on the balance sheet and the statement of changes in net position will facilitate financial reporting at the consolidated and government-wide level.**

(c) Do you agree or disagree with the proposal that the component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements? Please provide the rationale for your answer.

**Agree**

**Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, component entity level reporting should be in sufficient detail to fulfill the government's duty to be transparent and publicly accountable, and can be used to assess: (1) the government's accountability; (2) its efficiency and effectiveness, and (3) the economic, political, and social consequences of the allocation and various uses of federal resources.**

Q4. The Board proposes to rescind potentially confusing guidance on eliminations for component entities and instead provide that combined or consolidated amounts are permitted and that amounts be labeled accordingly. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A21 - A25 and the proposed amendments in paragraphs 11 - 12. Do you agree or disagree with this proposed amendment? Please provide the rationale for your answer.

**Agree**

**SFFAS 27 provided confusing guidance on eliminations for component entities by implying that the earmarked funds disclosure should include eliminations between earmarked funds and non-earmarked funds. This requirement does not provide any added value to the financial statement user. The elimination of this confusing guidance is welcomed.**

Q5. The Board proposes to replace the term "earmarked funds" with "funds from dedicated collections." This issue is addressed in the Basis for Conclusions, paragraphs A6 - A8 and the proposed amendments in paragraphs 4 - 5. To facilitate review, Attachment B displays the text of SFFAS 27 with proposed amendments, including the new term. Do you agree or disagree with the Board's proposal to rename "earmarked funds" and make conforming grammatical changes in SFFAS 27? Please provide the rationale for your answer.

**Agree**

**Changes would eliminate confusion over the term "Earmarking" as used in the legislative appropriation process.**

Q6. The following question applies to funds with a combination of (a) revenues and other financing sources that meet the criteria in paragraph 11 of SFFAS 27 ("non-federal") and (b) general fund appropriations ("federal"). The Board proposes that to be classified as an earmarked fund, a fund should be predominantly funded by revenues from non-federal sources or have non-federal revenues supporting the fund that are material to the reporting entity. The Board has also proposed guidance for situations where the proportion of funding sources may change from year to year. This issue is discussed in the Basis for Conclusions, paragraphs A13 - A14. The proposed revised guidance is in paragraph 7. Do you agree or disagree with the proposed guidance on funds with such sources of funding? Please provide the rationale for your answer.

**Agree**

**The language for the proposed guidance is clear as it relates to funds with mixed sources of funding (i.e., only partially funded by dedicated collections).**

Q7. The Board is proposing that the amendments to SFFAS 27 have an effective date of periods beginning after September 30, 2011. Do you agree or disagree with this effective date? Please provide the rationale for your answer.

**Agree**

**Component entities have enough time to review their earmarked funds. Also, these amendments do not require significant changes to the component financial statements.**

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<sup>i</sup> We will be consistent with the use of the term "earmarked fund", as used by the Board for purposes of this Exposure Draft.