

From: Jones, Cynthia - OCFO

Sent: Monday, August 22, 2011 2:24 PM

To: FASAB

Cc: Albayrak, Yoko - OCFO; Karczewski, Stanley - OCFO; Gabel, David - OCFO; Sacchetti, Dylan M - OCFO; Polen, Chris P - OCFO; Koh, David - OCFO; Beckman, Robert - OCFO; Simpson, Cynthia - OCFO

Subject: FASAB Requests Comments Regarding Amendments to SFFAS 27-- Earmarked Funds

Good Afternoon:

Please find attached comments from the Department of Labor, Office of the Chief Financial Officer, on the exposure draft, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*. Comments were requested by today, August 22, 2011.

Please let me know if you have any questions or require additional information

Cynthia Jones

Director, Financial Policy Division

Office of the Chief Financial Officer

Office of Fiscal Integrity

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

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.

Comment: We agree with the proposed amendments in paragraph 6 on Pages 12—13 of the exposure draft. With regard to paragraph A11 on Pages 22—23 of the exposure draft and certain earmarked funds with negative net positions, the net position of a particular fund may be negative in some years and positive in other years. For example, the net position of the Unemployment Trust Fund may be negative during periods of sustained high unemployment and may be positive during other periods.

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 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.

Comment: The Unemployment Trust Fund includes the Federal Employees Compensation Account, whereby States provide for unemployment benefits to former Federal employees, and which is funded by, among other things, reimbursements from Federal agencies and general fund appropriations. DOL currently includes the Unemployment Trust Fund in its entirety as an earmarked fund.

DOL agrees 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 because Footnote 6a on Page 15 of the proposed standard allows DOL to continue classifying the entire Unemployment Trust Fund as an earmarked fund.

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.

Comment: DOL currently displays earmarked funds information on the face of the balance sheet and statement of changes in net position, as well as discloses information in the notes, on a consolidated basis. We agree with the proposed standard because it would allow DOL to continue its current presentation and disclosure and would also allow an alternative.

(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.

Comment: DOL currently displays earmarked funds information on the face of the balance sheet and statement of changes in net position, as well as discloses information in the notes, on a consolidated basis. We agree with the proposed standard because it would allow DOL to continue its current presentation and disclosure and would also allow an alternative.

(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.

Comment: We disagree with the proposal that the component entity level reporting should be required to report "in sufficient detail to fully support the government-wide reporting requirements."

We believe that the information needed to support the government-wide reporting requirements could be collected by means other than general purpose financial reports, such as through the Governmentwide Financial

Report System (GFRS) and financial management policies and procedures of the U.S. Department of the Treasury, Financial Management Service. Furthermore, we believe that this language, which is meant to assist the U.S. Department of the Treasury in complying with paragraphs 29—33 of SFFAS 27, sounds open ended and undefined as it is written and compliance with such an accounting standard may be difficult to audit.

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.

Comment: DOL currently displays earmarked funds information on the face of the balance sheet and statement of changes in net position, as well as discloses information in the notes, on a consolidated basis. We agree with the proposed standard because it would allow DOL to continue its current presentation and disclosure by labeling the financial statements as “consolidated.”

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.

Comment: DOL agrees with the Board’s proposal to rename “earmarked funds” as “funds from dedicated collections.” We agree with the Board’s basis for conclusions as described in paragraphs A7 and A8 on pages 21--22.

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.

DOL agrees with the proposed criteria that an earmarked 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.

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.

Comment: DOL disagrees with the required effective date of FY 2012. We believe that a required effective date of FY 2012 is too soon to implement changes for interim reporting because paragraph 15 on Page 19 requires that in the year the standard becomes effective, entities should restate prior period amounts displayed on the face of the financial statements. The first quarter interim financial statements for FY 2012 are prepared as comparative statements and are due to the Office of Management and Budget on January 23, 2012. Therefore, we believe that FASAB should delay the required effective date to FY 2013.

Comments on Other Aspects of the Exposure Draft

Below please find our comments on other aspects of the exposure draft.

With regard to paragraph 15 on page 19, we noted that the implementation guidance would require changes in the financial statements and the notes. In the implementation guidance, the Board may wish to include required supplementary information and required supplementary stewardship information as well.

Edits for Clarification

Below please find our suggestions on edits.

- a. Paragraph A14, Page 24. Please place a period at the end of the paragraph.
- b. Paragraph B25, Page 34. Please remove the extra period at the end of the paragraph.

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