

**U.S. Department of Labor**

Office of Inspector General  
Washington, D.C. 20210



Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814 (Mailstop 6k17V)  
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Office of Audit (OA), Office of Inspector General (OIG), U.S. Department of Labor, please find enclosed responses to questions related to a proposed Statement of Federal Financial Account Standards entitled "Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27."

The OA/OIG is in general agreement with the proposed revisions to Statement of Federal Financial Account Standards 27. We believe the revisions will provide important guidance for the proper accounting, presentation, and disclosure of earmarked funds in financial statements.

Thank you for the opportunity to provide comments. If you have any questions or need additional information, please contact Joseph L. Donovan, Jr. at 202-693-5248.

Sincerely,

Elliot P. Lewis  
Assistant Inspector General for Audit

Enclosure

**Department of Labor  
Office of Inspector General  
Office of Audit**

**Questions for 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.

We agree with the proposed amendment. Paragraph A12 of the exposure draft states that the intent of Statement of Federal Financial Accounting Standards (SFFAS) 27 was that specifically identified revenues and other financing sources should be from a nonfederal source to meet the criteria for an earmarked fund. Therefore, we believe the proposed amendment would clarify this requirement.

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.

We agree with this exclusion. As noted in paragraphs A15 and A16 of the exposure draft, these funds are used to account for employee-employer transactions and do not support the intent of SFFAS 27 to highlight the cumulative amount to be repaid by the general fund in order for earmarked revenues to be used for their intended purposes. Therefore, we believe it would be appropriate to exclude funds established to account for those activities from the category of earmarked funds.

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.

We agree with the proposal to provide an option for an alternative for component entity reporting of earmarked funds. Providing such an option would allow components to determine the best method for presenting its information to increase the understandability of component entity level reporting for its users. However, we believe that there should only be two options for the reporting of earmarked funds: (1) the existing format and (2) notes-only presentation. The proposed parenthetical disclosure option reduces the understandability and "readability" of the statements.

(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.

We agree that the disclosure of information for earmarked funds in notes is sufficient. Statement of Federal Financial Accounting Concepts (SFFAC) 2: Entity and Display states that "Financial information is also conveyed with accompanying footnotes, which are an integral part of the financial statements." Because the notes are considered integral to the financial statements, we believe the disclosure of earmarked funds in this manner is sufficient and would still provide readers the necessary information. Further, as the notes to the financial statements are subject to audit, the information disclosed in the notes should be as reliable as the information presented in the financial statements.

(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.

Although we are not opposed to component entities reporting in sufficient detail to fully support the government-wide reporting requirements, we do not believe it would be beneficial. The information used to support the government-wide reporting requirements is currently not derived from the component entities' financial statements; therefore, we do not understand the need for this requirement.

**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.

We disagree with the proposal to permit component entities to present earmarked information as either combined or consolidated amounts. SFFAC 1: Objectives of Federal Financial Reporting states "Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting procedures or practices." If component entities are permitted to present their earmarked information using different methods, it would affect the comparability of the information for users of the financial statements. Further, users would have to interpret each component entity's information differently depending on the method chosen by the component entity. As such, we believe the proposed standard should only include one option for presenting information for earmarked funds.

Additionally, we believe the earmarked funds information should be reported as consolidated amounts because the Statement of Changes in Net Position (SOCNP) is a consolidated statement. If information related to earmarked funds is permitted to be presented on a combined basis, it would result in inconsistent methods being applied on the SOCNP as other funds are presented on a consolidated basis. Information on individual funds in the notes to the financial statements can be used to display the "pre-consolidated" amounts for each fund.

**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.

We agree with the proposal to rename "earmarked funds" as it would better distinguish it from congressional earmarking and avoid potential confusion to the users. However, we suggest using the term "funds with dedicated collections" to more clearly demonstrate that other sources of inflows may be included in the funds and to preserve the term "funds" as a fiscal and accounting entity vs. a resource.

**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.

We agree with the proposed guidance. However, we do not believe that funds that are not predominantly funded by non-federal sources should be classified as "earmarked." We believe the determination of whether a fund is classified as earmarked should be based on fund activity only rather than the financial statements as a whole since it is at the fund level that the label of "earmarked" is ultimately applied.

Additionally, we believe it would be helpful to numerically define "predominant," perhaps with suggested percentage ranges, to promote consistency in application of the requirement.

We agree with the language in proposed footnote 5a to provide for reporting consistency from year to year when sources of funding fluctuate frequently. However, we suggest adding a requirement to disclose the method used to make such determinations in these cases.

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.

As auditors, we have no comment on this matter. This question is more appropriate for agencies (i.e., the accountants) to respond to, as it relates to the timing of federal agencies' ability to implement the proposed requirements.