

>>> "Gillis, Kathryn, Ms, OSD-COMPT" <Kathryn.Gillis@osd.mil> 12/2/2008 2:22 PM
>>>

Thank you for the opportunity to comment on Questions and Answers for Accounting of Fiduciary Activities. Attached are comments and concerns regarding questions three, four, and nine. Please do not hesitate to contact me should you have questions.

Thank you,

Kathryn Gillis
Office of the Under Secretary of Defense (Comptroller)
Financial Reporting & Analysis

Question 3

This Question is intended to address the accounting treatment of transfers of fiduciary collections from one Federal agency to another.

This answer could benefit from additional clarification. First, the answer states that "If the activity meets the definition of fiduciary activity it should be reported as such." This sentence indicates that all Federal components would treat fiduciary collections as fiduciary activity.

However, the answer then states that collections transferred between agencies are custodial, and quotes authoritative guidance that clearly and specifically relates only to collections of government funds, e.g. "The collection of the major sources of funds for the **appropriations**, e.g., taxes, royalty payments, and fines, is the responsibility of just a few reporting entities..." and "A separate statement of custodial activities would be appropriate for those entities whose primary mission is **collecting taxes or other revenues, particularly sovereign revenues** that are intended to finance the entire Government's operations..." (emphasis added). Likewise, the example provided, collection of income taxes, specifically relates to the collection of government funds.

The combination of the two sets of guidance leaves the question unanswered. What is the accounting treatment when fiduciary amounts are collected by Component A, and then transferred to Component B for management and eventual distribution?

This answer requires more thought. Fiduciary collections are not Federal assets and are not reported in the principal financial statements. Requiring a Federal component to treat a portion of fiduciary collections as custodial would be misleading. The first sentence in the answer appears to be correct. "*If the activity meets the definition of fiduciary activity it should be reported as such.*" The transfer of management control of fiduciary assets between Federal components does not change the fiduciary nature of the funds, thus the funds should not be commingled with Federal funds on the Custodial Statement or elsewhere.

If FASAB intends that transfers of Fiduciary assets (non-Federal funds) are to be recorded as “custodial activity,” which currently are specifically limited to Federal funds, significant additional guidance is necessary. This guidance should address:

- Balance sheet presentation of the assets in the primary financial statements (e.g. if the collecting agency treats this as Custodial, which portions of Custodial accounting rules apply),
- Presentation of inflows and outflows on the Custodial Statement,
- Situations where the amount expected to be transferred to another Federal agency is not known with certainty at the point of collection and/or changes prior to transfer, and
- Recognition of the inflow of fiduciary assets by the receiving federal agency.

In either case, different guidance is needed for any situation where Fiduciary assets are transferred to Federal ownership. This transaction would require recognition of the flow activity as revenue, gain or some other type of financing source by the appropriate component of the Federal government.

It is recommended that the response be revised to provide specific guidance related to transfers of Fiduciary assets between Federal agencies. In addition, the guidance should not require or imply that non-Federal fiduciary assets be reported as federally-owned custodial assets.

Question 4

This Question addresses payments made by third parties to a federal agency for credit to the beneficiaries' accounts.

The answer appears incomplete. The answer addresses cases where the Federal agency does not have collection responsibilities, but then is silent on situations where the Federal agency does have collection responsibilities. It is recommended that the guidance clarify the circumstances surrounding Federal agencies with collection responsibilities.

Question 9

This question addresses the use of estimating techniques when reporting fiduciary disclosures.

It is recommended that the answer elaborate on the nature of estimates. In addition, the response should address existing requirements for using and disclosing estimates as outlined in other standards such as those imposed by SFFAS 6 and 23 and the corresponding Exposure Draft, *Estimating the Historical Cost of General Property, Plant, and Equipment*.