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COMPTROLLER

JAN 05 2017

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6H19  
441 G Street, NW, Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board (FASAB) on the Exposure Draft (ED), *Federal Financial Reporting*. Our response to FASAB's request for comments, as set out below, is organized into two Sections: (1) Responses to the ED questions; and, (2) Comments on other matters contained in the ED.

The DoD understands that drawing the relationship between financial statement information, required supplementary information, and other reported financial information provides users visibility into the stewardship of the funds provided to the agencies. The information presented enhances the accountability of the agencies receiving and expending resources.

The DoD, however, is unclear on what changes (if any) will be imposed on the financial statement prepared by adopting these concepts. The comments we have provided include specific feedback on where clarity is required.

Thank you for considering DoD's responses and comments. If you have any questions concerning our comments, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Alaleh A. Jenkins".

Alaleh A. Jenkins  
Assistant Deputy Chief Financial Officer

Attachments:

As stated



**SECTION 1 – RESPONSES TO EXPOSURE DRAFT QUESTIONS**

**Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”**

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: _____
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: _____
Individual	<input type="checkbox"/>	

**Please provide your name.**

Name: Ms. Alaleh Jenkins

**Please identify your organization, if applicable.**

Organization: Department of Defense, Office of the Under Secretary of Defense, Comptroller

**Q1.** The Statement illustrates the relationship between financial statements and required supplementary information (RSI) and the larger body of information available to users for assessing the government's accountability and for decision making. The reporting objectives are intended to be broad to address the range of information users need. In this Statement, FASAB focuses on the Operating Performance and Stewardship objectives and supports reporting budgetary information. The proposed concepts will assist the Board in determining the types of information presented in financial statements and RSI and will assist users in understanding the relationship between information presented in financial statements and RSI and other reported information (ORFI). Refer to paragraphs 6 to 11 and Figure 1: Information for Assessing Accountability and for Decision Making.

**Do you agree or disagree with the discussion and illustration? Please provide the rationale for your answer.**

**DoD Response: The DoD agrees with the intent of the discussion and illustration and provides the following comments /questions:**

*Paragraph 11 Figure 1 [description]* – The Purpose section (paragraphs 1-5) talks about the users having a better understanding of the purpose and presentation of financial statements and RSI, however the description of the illustration (paragraph 11) is the first mention of the users measuring accountability and decision making using these concepts. If this is the purpose of the concepts, this should be explicit in the Purpose section.

Comments on the Illustration on page 12:

- *Financial Reporting*: Suggest making reference to OMB A-136 for Financial Reporting requirements.
- *Financial Statements column*: Statements of changes in net position, custodial activity and social insurance should be added. Additionally, please clarify what is meant by "sustainability?" Federal financial statements do not conclude on the sustainability of an agency.
- *Performance Information column*: Suggest providing examples (such as progress in achieving the goals and objectives of the agency). Note that DoD prepares a separate Annual Performance Report (APR) that provides detailed performance related information. The APR highlights strategic goals, strategic objectives and year-end results for each performance indicator. Is this ED suggesting to combine the APR information with the AFR?
- *Management's Discussion and Analysis column*: "Financial Statements" should be changed to "Analysis of Financial Statements and Stewardship Information." Suggest removing "Actions taken or planned to improve performance" or moving it to the Performance Information column. Suggest changing it to "Performance goals, objectives, and results" as required by OMB A-136.
- *RSI column*: Suggest adding "Required Supplemental Stewardship Information."
- *Financial and Non-Financial Information column*: Suggest adding "Schedule of Spending" as this would be relevant information for users to ascertain how the resources are being utilized. Suggest providing specific guidance on what other information needs to be provided.
- *Other Financial and Non-Financial Information column*: This is not covered in the text of the concepts and should be briefly explained at a minimum.
- *Other General Questions and Comments*:
  - The illustration should identify where a user would find "summary-level information" as described in paragraphs 63-70 of the exposure draft.
  - Should the graphic delineate component-level and government level reporting?
  - Further consideration needs to be given to how this illustration relates to the objectives of this concept outlined in paragraph 4 of the exposure draft.
- Paragraph 12 – is the requirement intended to be monthly, quarterly, annually and should it include annual changes in debt and annual budget versus actual expenditures?
- Paragraph 13 – recommend either (b) or (d) include cyber security.

**Q2.** The Financial Statements and RSI section of the Statement discusses the role of financial statements and RSI in achieving the financial reporting objectives. Refer to paragraphs 16 to 25.

**Do you agree or disagree with the discussion on financial statements and RSI? Please provide the rationale for your answer.**

**DoD Response:** The Department has the following comments and questions with the discussion on the financial statements and RSI:

- **General Observations:** This section may confuse preparers and users even further because of how technical the narrative is rather than being presented in layman's terms. This section outlines accounting treatment and how financial information is prepared, however it does not draw a relationship to how this information would meet the needs of the user as identified in paragraph 12. Utilizing examples to map paragraph 12 to the financial statements and RSI would be beneficial to the preparers and users.
- **Paragraph 17:** The Department recommends changing the word "criteria" in paragraph 17 (4th sentence) to "sufficient evidence" because the criteria of the audit is established through GAGAS.
- **Paragraph 18:** Recommend adding "consistency" to bullet (b) listing of characteristics.
- **Paragraph 19:** suggest combining paragraphs 21-23 with paragraph 19 and sub-bullets for clarity. In sub-bullet (a), suggest adding "financial condition, ..."
- **Paragraph 20:** Suggest updating the language as follows:  
  
Financial projections are also prepared. Projections could be used in calculating future receipts and spending based on current policy and in depicting the result that may occur based on a set of assumptions which may be useful for assessing the sustainability of services.
- **Paragraph 21:** Recommend changing the last statement to "costs reflect the amount of services provided in a period, regardless of whether or not they have been paid for yet." This removes the assumption that the government has provided services and incurred costs when the services may have been provided by an external party.

DoD also recommends recognizing the requirements to disclose stewardship information, or "Required Supplemental Stewardship Information," as this financial information reports an Agency's responsibility and stewardship over resources entrusted to it.

**Q3.** The Other Reported Financial Information and Its Relationship to Financial Statements and RSI section of the Statement discusses ORFI that contributes to achieving the financial reporting objectives and its relationship to financial statements and RSI. Refer to paragraphs 26-31.

**Do you agree or disagree with the discussion on ORFI and its relationship to financial statements and RSI? Please provide the rationale for your answer.**

**DoD Response:** The Department has the following comments and questions with the discussion on the ORFI:

- Paragraph 26: Recommend replacing “federal accounting standards” with “GAAP,” since GAAP has already been defined.
- Paragraph 27: Recommend replacing “limitations” with “a range of quality for the presented ORFI.”
- Paragraph 30: Suggest adding a specific example, such as compliance with IPERA, as users may be concerned with how well the Department is managing improper payments.
- Suggest adding a paragraph to explain the requirements of the Schedule of Spending (SOS) as this is an overview of how and where agencies are spending money for a reporting period.

**Q4.** The Concepts for Government-Wide and Component Reporting Entities section of the Statement discusses concepts for the government-wide and component reporting entities. The concepts include a discussion on the types of information the government-wide reporting entity financial statements and RSI collectively provide and the types of information component reporting entity financial statements and RSI collectively provide. Refer to paragraphs 33-48.

**a. Do you agree or disagree with the concepts pertaining to the government-wide reporting entity? Please provide the rationale for your answer.**

**DoD Response:** The Department has the following comment and question with the discussion on the government-wide reporting: Paragraph 37: Is this a comprehensive list? If not, clarify that these are examples of what information this provides to users. Suggest also adding a sub-bullet for stewardship and fiduciary activities. On sub-bullet (i), recommend changing to “the changes and explanation for changes...”

**b. Do you agree or disagree with the concepts pertaining to component reporting entities? Please provide the rationale for your answer.**

**DoD Response:** The Department has the following comments and questions with the discussion on the component reporting:

- Paragraph 40: Suggest adding a bullet for the SOS, “an overview of how and where agencies are spending money for the reporting period.” For sub-bullet (i), recommend changing to “the changes and explanation for changes...”

- Paragraph 43: There currently isn't specific reporting guidance requiring an alignment of spending to strategic goals beyond the requirements to align costs by program in the Statement of Net Cost. While DoD understands that it would be useful to align the Department's spending with strategic goals, DoD's systems are currently not capable of producing such reporting at this time. Is the intent of this concepts statement to create this as a new requirement?
- Paragraph 46: Last statement: "...and the amount of obligations (liabilities) for which the entity has incurred but not received budget authority." Is this really referring to anticipated obligations? The last part of last statement is directing that the amount of obligations (liabilities) for which the entity has incurred but not received budget authority be reported. Would not obligating balances without the budget authority be considered an Antideficiency Act (ADA) violation?

**Q5.** The Concepts for Budgetary Information in Component Reporting Entity Financial Statements and RSI section of the Statement discusses component reporting entity budgetary concepts. Refer to paragraphs 49-56.

**Do you agree or disagree with the concepts for budgetary information in component reporting entity financial statements and RSI? Please provide the rationale for your answer.**

**DoD Response:** The Department agrees with the content of this section.

**Q6.** The Performance Results section of the Statement discusses the role of financial statements and RSI in providing information on the reporting entity's performance results. Refer to paragraphs 57-62.

**Do you agree or disagree with the concepts for performance results information? Please provide the rationale for your answer.**

**DoD Response:** The Department agrees with the content of this section.

**Q7.** The Summary Level Information section of the Statement discusses summary level information with respect to financial statements and RSI. Refer to paragraphs 63-70.

**Do you agree or disagree with the concepts for summary level information? Please provide the rationale for your answer.**

**DoD Response:** The Department agrees with the content of this section.

**SECTION 2 – COMMENTS ON OTHER MATTERS CONTAINED IN THE EXPOSURE DRAFT**

- 1) General Question: Recommend providing clarification on how this concepts statement would change the form and content of the financial statements and whether this is applicable to annual financial statements, and/or interim financial statements.

- 2) Page 9 [Purpose .1 and .2] of the Exposure Draft, implies that this will assist FASAB in developing reporting models for reporting entities. It is unclear from the ED, as drafted, how it is accomplishing this for the financial statement preparers. How are the proposed concepts enhancing the framework regarding the content and presentation of the financial statements? Is it the intention of this concept statement and usage of this to define reporting models and requirements to replace the purpose and usage of OMB A-136? There should be a discussion on how the requirements in the concept statement will effect (or not effect) compliance with the requirements of OMB A-136.
- 3) Page 9 [Purpose .4] DoD understands how items #3 and #4 are being enhanced by the concepts, however, how is #1 and #2 being addressed by the concepts? By the written concepts, it's unclear how users' needs for understanding budget, costs, performance and financial condition are achieved.
- 4) Page 10 [Purpose .5] Please clarify which FASAB concept statements will be rescinded through these concepts.