

Management's Discussion and Analysis

The Board spent considerable time at its April meeting reviewing a draft statement of concepts and standards on Management's Discussion and Analysis (MD&A). It considered several significant issues.

Audit Status of MD&A

As regular readers of this newsletter know, since early in its project on MD&A the Board has wanted to provide specific guidelines for preparing MD&A, yet avoid substantial involvement by the auditor with MD&A. This was to avoid inhibiting management's ability to discuss and analyze the financial report. The Board also recognized the evolving state of the art regarding MD&A. This approach would leave enforcement of the requirement to the Office of Management and Budget.

The exposure draft proposed to accomplish this by limiting FASAB's recommendations to the status of concepts rather than standards. It was understood that the Office of Management and Budget would revise its bulletin on form and content to assure that agencies implemented the concepts.

During deliberations after comments on the exposure draft were received, some Board Members expressed a preference for publishing a statement of recommended standards. To do this and to achieve the Board's objective of providing specific guidelines for preparing MD&A while avoiding substantial review by the auditor, the Board considered a standard that would define the contents of MD&A, but indicate that for audit purposes it should be treated as accompanying information. The Board had done this with requirements for certain information (e.g., information about the tax gap), in Statement of Federal Financial Accounting Standard (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*.

A Member objected to this approach, however, while another Member objected to using Required Supplementary Stewardship Information (RSSI) as an alternative way to achieve this objective. Readers will recall that SFFAS 8, *Supplementary Stewardship Reporting*, calls for certain information to be reported as RSSI. The Office of Management and Budget and the General Accounting Office were to define the requisite audit standards for RSSI.

After considerable discussion, the Board tentatively decided that it could achieve its objective while satisfying the concerns of all Members by publishing a very brief

Statement of Recommended Standards that would require MD&A to be presented as Required Supplementary Information (RSI), but which would provide non-authoritative guidelines for the content of MD&A. The document will include nonauthoritative suggestions for management to consider when preparing MD&A.

Performance Information

The Chief Financial Officers Act of 1990 called for Chief Financial Officers to report performance information. Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display* includes a "Statement of Performance Measures" among the elements of a general purpose federal financial report (GPFFR). The Office of Management and Budget's Bulletin on form and content, 97-01, refers to this statement, and also suggests that performance information be included in the Overview. All these references to performance information are general. A Board Member suggested that, with the advent of the more specific requirements of the Government Performance and Results Act, the performance information discussed in MD&A might well be located in a document outside the GPFFR.

The Board tentatively agreed that the statement of concepts on MD&A would describe a long-term goal of having performance information presented in a discrete section of the GPFFR, such as the "Statement of Performance Measures." At the same time, the statement will acknowledge that little specific guidance for presenting this information is now available. Currently agencies must decide what performance information to present, if any, in consultation with the Office of Management and Budget. MD&A will discuss major issues relating to performance, regardless of whether detailed information on performance is contained in the GPFFR or in other documents that the GPFFR would incorporate by reference.

Systems and Controls

The exposure draft on MD&A suggested that assertions by management regarding the status of systems and controls (akin to the assertions required by the Federal Managers' Financial Integrity Act, or FMFIA) are an important element of accountability, and help to address the fourth objective of federal financial reporting. (That objective is that financial management systems and internal accounting and administrative controls are adequate to ensure that transactions are executed in accordance with laws and requirements, assets are properly safeguarded,

and performance measurement information is supported.) The exposure draft proposed that these assertions be included in MD&A.

After considering comments on the exposure draft, the Board agreed that its document on MD&A should not call for these assertions as part of MD&A, but rather would state that they comprise a discrete section of the GPFFR. In April, some Members questioned whether the document could state this in the absence of a specific standard recommended by FASAB that required it. The Board tentatively agreed that the statement of concepts on MD&A would describe a long-term goal of having information about systems and controls presented in a discrete section of the GPFFR. MD&A will discuss any major issues relating to systems and controls, regardless of whether detailed information on these topics is contained in the GPFFR or in other documents that the GPFFR would incorporate by reference.

Plans for the Future

The Board will consider a revised document incorporating these changes, and may approve it in June. The Board is interested in reviewing exemplary MD&A developed by Federal reporting entities. We encourage agencies that have experimented with MD&A, and those that will do so, to provide copies and share ideas with the Board.

For further information, contact Bob Bramlett at 202-512-7355, or email at bramlett.fasab@gao.gov.

Reporting Subsidy Expense Components for Direct Loans and Loan Guarantees

At the December 1997 Board meeting, the Accounting and Auditing Policy Committee (AAPC) Credit Reform Task Force presented a proposal to amend paragraph 25 in SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*. The paragraph requires separately reporting subsidy expense components (interest subsidy expense, default expense, fees, and other costs) for direct loans and loan guarantees disbursed during the reporting year.

The Task Force contended that the information required in paragraph 25 is not useful because it does not represent current program characteristics. The Task Force explained that loans disbursed during the current year may come from both the current cohort and previous cohorts. Thus, the amounts reported under paragraph 25 would aggregate

subsidy costs of the various cohorts from which disbursements have been made. Instead of reporting the subsidy expense components, the Task Force recommended that each credit program disclose subsidy rates for the current year's cohort. The Task Force proposed that credit programs explain in conceptual terms how those rates differ from the total subsidy expense reported in the financial statements. It also proposed that information be provided about recent trends and fluctuations in subsidy rates.

At its April 17, 1998 meeting, the Board continued its January discussion of the Task Force's proposal. Art Stigile, of the Office of Management and Budget, accompanied by Shirley Hanberry, of Treasury's Financial Management Service, presented the views of the AAPC Credit Reform Task Force. Mr. Stigile said the subsidy rates of a cohort are initially estimated in the President's budget, and those rates are used to calculate the subsidy expense for disbursements from that cohort, although it may take several years for the cohort to complete its disbursement. He said that loan disbursements during a fiscal year may come from several cohorts, and the subsidy rates of those cohorts may differ significantly. Thus, he said that reporting the blended expense for disbursements from various cohorts with different rates would not give management relevant information to make decisions. He recommended that reporting the new cohort subsidy rates would provide the most useful information to analyze program operation and performance.

FASAB staff said that if the current requirement in paragraph 25 to report subsidy expense components were eliminated, financial statements of credit programs would no longer report default loss and interest subsidy expense. Without that component information, the subsidy expense figure reported in the Statement of Net Cost would not provide complete information, because default loss is often offset by fees and negative interest subsidies. Staff recommended that the paragraph 25 provision for reporting interest subsidies and losses on defaults and delinquencies remain unchanged, as it provides important information for managing credit risk and evaluating credit program performance.

Board members discussed whether the paragraph 25 requirement should be rescinded. Most agreed that credit programs should provide a narrative discussion with some trend analysis to explain causes of the subsidy expense and recent changes in risk factors. Board members, however, did not reach a consensus on the requirement in paragraph 25. While some Board members believed the subsidy component information is not needed, others favored

requiring either dollar information or composite rate information for the subsidy components. They said that subsidy component information is the basis for narrative discussion about changes in components.

The Chairman asked staff to research who would use subsidy component information and for what purposes, and how difficult it would be for agencies to prepare the data.

For further information, contact Richard Mayo at 202-512-7356, or email at mayor.fasab@gao.gov.

Internal Use Software

At its April 16 meeting, the Board considered the final draft of the standard for internal use software. The Board discussed several issues presented by staff.

Indirect Costs - During the development of the exposure draft on internal use software, the Board discussed whether to capitalize indirect costs as well as direct costs. Although the Board proposed capitalizing only direct costs in the exposure draft, it posed a question for respondents as to whether indirect costs also should be capitalized. This was in response to the concerns of some Board members that such action could be interpreted as required per SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. Responses to the question in the exposure draft were mixed: many respondents favored capitalizing only direct costs; others said that failing to capitalize indirect costs would violate the principles of SFFAS 4.

The Board discussed the private sector approach of not capitalizing indirect costs of software, the capabilities of Federal entities to track indirect costs in the immediate future, and the costs and benefits of doing so. The members agreed that if such costs were insignificant, there would be no need to track them. If they were material, however, the provisions for capitalization per SFFAS 4 should be followed since Federal accounting is especially cost oriented.

Software Licenses

Staff proposed that, if material, software licenses should be capitalized. The Board discussed the costs and benefits of doing this and the similarity between licenses and capital leases. While it did not resolve this issue in the proposed standard, the Board indicated a preference in the basis for conclusions that entities should account for software leases in a manner consistent with other PP&E leases.

Capitalization Thresholds

The Board agreed with the staff recommendation to clarify that capitalization costs stop after completion of software testing.

Implementation Date

The Board agreed to change the implementation date from FY 1999 to FY 2001 so as not to further burden agencies responding to the many mandates and projects entailed in current Federal financial legislation and requirements.

Final Approval

Upon completing its review, the Board asked staff to provide a revised standard for its final approval by ballot draft in May. In addition to the above items, the new standard will rescind paragraphs 27-28 of SFFAS 6 whose limited guidance on internal use software will be replaced by the guidance in the new standard.

For further information, contact Richard Fontenrose at 202-512-7358, or email at fontenrosr.fasab@gao.gov.

AAPC Holds Forum on Property, Plant, and Equipment

On April 27 and 28, the Accounting and Auditing Policy Committee (AAPC), in conjunction with the Office of the Chief Financial Officer of the US Department of Agriculture, held a forum entitled *Valuation and Other Selected Issues Relating to Property, Plant, and Equipment*. The forum was organized and moderated by Irwin T. David, Deputy Chief Financial Officer of the US Department of Agriculture and Chairman of the AAPC Task Force on Property, Plant and Equipment (PP&E). Mr. David opened the forum by noting that the topic was particularly timely. He said that the first audited Consolidated Financial Statements for the United States were just completed and "we found that PP&E was one of the major items on which Federal agencies need to work."

Speakers Stress the Importance of Accurate PP&E Records

The Chairman of the Federal Accounting Standards Advisory Board (FASAB), David Mosso, welcomed attendees to the "heart of accrual accounting." He referred to accounting for PP&E as the heart of accrual accounting

because "more than most assets, fixed assets release their service potential over long periods of time."

Mr. Mosso summarized the steps necessary to meet the requirements of Statement of Federal Financial Accounting Standard (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, for agencies setting up property accounting for the first time. The steps include 1) inventory PP&E and create records, 2) value PP&E, 3) set capitalization thresholds, 4) determine useful lives, and 5) conduct audits.

Several speakers addressed the importance of accurate PP&E accounts. Bob Dacey, of the General Accounting Office, emphasized that the value of reliable PP&E information to management decision-making include: 1) reducing or eliminating unnecessary storage and maintenance costs, 2) reducing or eliminating unnecessary asset purchases, 3) assisting in lease/purchase decisions, 4) locating mission-critical equipment in emergencies, 5) estimating future maintenance funding needs, and 6) establishing user fees and costs related to intergovernmental transactions.

Participants Share Efforts to Improve

The audit of the consolidated financial statements found that the greatest problems with PP&E were inaccurate accounts, existing assets not reported, assets reported that could not be located, and significantly inaccurate valuation and depreciation information. A number of forum participants described their efforts to overcome these difficulties.

State Department representatives described the methods they used to compensate for a lack of accurate historical records. They converted appraisal values in their Real Estate Management System to current dollars, then deflated those dollars to the acquisition date. If appraisal values were unavailable, they substituted construction costs or estimates. These techniques allowed them to value a majority of their assets.

Speakers from the National Aeronautics and Space Administration described slightly different problems. Although the National Aeronautics and Space Administration had complete, centralized, accessible property management records, the records did not always include the documentation required by auditors to support account balances, such as original invoices or contracts. This was particularly true for real property that generally was older than equipment. The National Aeronautics and Space Administration solved the problem by researching extensive

and detailed budget records that contained sufficient PP&E documentation to satisfy audit requirements.

Agencies that succeeded in establishing accurate PP&E accounts emphasized the need for preparers and auditors to work together to ensure that time and effort would not be wasted. The Department of Veterans Affairs documented basic ground rules for cooperation between accountants and auditors, including 1) agreeing on problems, 2) using the same reports and information, 3) discussing reporting standards and materiality considerations, 4) working from areas of agreement to resolve disagreements, 5) respecting each other, and 6) protecting the auditor's independence.

Summarizing Lessons Learned

Phil Calder, Chief Accountant of the General Accounting Office and member of the FASAB, summarized lessons learned. He said that establishing accurate PP&E accounts is "problematic, time-consuming and inexact," but "it can be done." He gave examples of methods for valuing PP&E, such as, 1) conducting a thorough research of available documentation, 2) using estimation methods, such as comparing items to similar items of the same vintage whose cost is known, and 3) obtaining estimates from builders and suppliers. Stressing that it would not be realistic to reconstruct exact costs for all assets, he emphasized the goal of coming "reasonably close." Mr. Calder reminded auditors that, although "wild guesses" are not acceptable, reasonable estimates are.

Our thanks to all the speakers for their professional and informative presentations, and to everyone who worked to make this a successful forum. We will try to put the text of the speakers' notes on the AAPC website, <http://www.financenet.gov/aapc.htm>, so that the widest audience can benefit from the information. For those who are interested, the Continuing Professional Education (CPE) sponsor number for the forum is 104079.

For further information, contact Andrea Palmer at 202-512-7360, or email at palmera.fasab@gao.gov.

Revised Natural Resources Task Force Document Presented to Board

At its January meeting, the Board had discussed a preliminary draft of a natural resources fact-finding document. The Board had indicated its interest in the task force's analysis of and reasoning behind the options for reporting on natural resources. The Board also had indicated its desire for information on:

- when to recognize the value of a natural resource;
- how to report on revenue generated by the sale of natural resources;
- how to recognize costs associated with the sale of natural resources; and,
- how to report on non-renewable resources.

For the April Board meeting, task force representatives presented a revised fact-finding document that responded to these points. The major revisions were done to the proposed general reporting principles. This part of the document was reformatted into "Asset Reporting," "Accounting and Reporting for Revenue," and "Accounting and Reporting for Costs." In addition, the area was expanded to include sections on analyses of alternatives, and advantages and disadvantages for each alternative's suggested reporting principle. Two new sections also were added. One section discusses the proposed general reporting principles' impact on current FASAB standards. It also discusses the statutory and regulatory requirements that affect the value of natural resources and the revenues reported when they are conveyed. The other new section presents a discussion on Indian natural resource assets held by the Federal government in trust for Indian tribes and individuals.

The task force plans to provide a final report to the Board in 2 months. The Board will use the report to develop positions on natural resource issues and to prepare a document for public comment. Depending on the nature of the issues and the solidarity of the Board's positions on those issues, the Board will issue either an Invitation for Views or an Exposure Draft.

For further information, contact Rick Wascak at 202-512-7363, or email at wascakr.fasab@gao.gov.

Board to Consider Statement of Financing

Fiscal year 1997 was noteworthy since it brought the first audit of the Governmentwide Consolidated Financial Statement. Fiscal year 1998 will be another noteworthy year for Federal agencies. Agencies will be preparing financial reports under a new reporting model designed specifically for the Federal government. While there are many new features of the reporting model, we most often hear that the Statement of Financing is the most revolutionary as well as the most difficult.

The Board briefly discussed the issue at its last meeting in connection with prioritizing new projects. The staff was

asked to report back to the Board at the June meeting on issues relating to the Statement of Financing and options for providing assistance to preparers. As a first step in that effort, FASAB staff is using this newsletter to present some basic information about the statement, to provide existing sources of guidance, and to announce a new Financenet public discussion list.

Basic Information

The primary objective of the Statement of Financing is to reconcile budgetary and financial accounting--obligations and net cost of operations. It will be the source for a detailed explanation of differences between the budgetary amounts and the net costs of operations. This added explanation will be particularly helpful to those concerned with both budgeting and performance measurement.

The statement also will supply information not shown elsewhere in the financial statements. For example, under the caption "financing sources yet to be provided" the statement reports the future budgetary funding requirements for transactions and events reflected in the net cost of operations for the period--requirements that are not included in the budget for the period. In addition to the information it will provide, the statement will provide additional assurance about the reliability of the system that produces the accounting and budgetary information.

The above rationale for the statement is presented in the Implementation Guide to Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*. The guide explains each section of the statement of financing and provides examples of the types of items to be included in each section. Case studies also are presented.

Resources

FASAB staff has a number of hard copies of the implementation guide available. To request a copy call 202 512-7350. Alternatively, or when these copies are gone, the Government Printing Office offers both SFFAS 7 and the companion implementation guide for sale. The cost is \$18 and the document number is 041-001-00475-1. Orders can be placed by calling 202 512-1800.

The implementation guide is located on Financenet at:

<http://www.financenet.gov/financenet/fed/fasab/impguid7.pdf>

The Treasury Financial Management Service has published a Crosswalk of Standard General Ledger accounts to the Statement of Financing. The crosswalk is accessible through the Financial Management Service's website at:

<http://www.fms.treas.gov/ussgl/finance.pdf>

The Standard General Ledger staff at the Financial Management Service has attempted to put together a comprehensive crosswalk, but cautions users that some information required to complete the statement is not available through account balances. Some level of analysis of changes in accounts will be required to complete the reconciliation. The Standard General Ledger staff and the FASAB staff will be working together to produce guidance on the analysis required.

Financenet Assistance

Financenet has established a new discussion group on this topic. For information on how to access this discussion group, please see the article that follows.

For further information, contact Wendy Comes at 202-512-7357, or email at comesw.fasab@gao.gov.

Financenet Announces Two New Federal Accounting Utilities

PP&E Electronic Mailing List Created

FinanceNet has built a new public Internet discussion list to address all issues relating to Government financial management of property, plant, and equipment: <PP_E@financenet.gov>. FinanceNet's "Property, Plant and Equipment" mailing list (PP_E) is an open, public discussion list targeting issues related to fully accounting for and reporting the costs of property, plant, and equipment held by federal, state/local and international government agencies. Historically, governments often have not maintained records to fully account for PP&E costs. Discussion issues may relate to developing and maintaining a complete inventory, techniques for determining original cost, useful life considerations, accounting for agency-unique assets, capitalization thresholds, documentation and retention, and cost/benefit considerations. Your topic related comments and participation in this moderated list are encouraged and welcomed.

To subscribe to this list simply visit the website:

<http://www.financenet.gov/financenet/start/sub.htm>

provide your particulars, click on "**Property, Plant and Equipment**" and then "**submit**".

You also can subscribe via email by sending an Internet message (no subject necessary) to:

<listproc@financenet.gov>

with the message:

subscribe PP_E <yourfirstname> <yourlastname>

in the first line of the message body.

Statement of Financing Forum Created

FinanceNet and the FASAB are looking for new subscribers, commentary and discussions for the moderated public Internet mailing list:

"Financial Statements & Reporting," list address: <fin-reporting@financenet.gov>

Discussions on this FinanceNet mailing list should focus on the recent FASAB Statement of Financing. FASAB has received requests from preparers for additional assistance and guidance on the Statement of Financing required by the Office of Management and Budget's Form & Content Bulletin 97-01. As a first step in defining the problems and deciding on a means to address the problems, FASAB staff is seeking the assistance of FinanceNet in generating more discussion of the problems. The discussion goals are a sharing of lessons learned in preparing for the statement in FY98, identifying any additional analysis that would help preparers, and providing preparers with opportunities to seek assistance from other agencies and central agencies.

To subscribe to and participate in this list simply visit the FinanceNet website at:

<http://www.financenet.gov/financenet/start/sub.htm>

provide your particulars, click on "**Financial Statements and Reporting**" and then "**submit**".

While you don't need to subscribe to the list to send messages to it, your subscription is recommended.

Address all comments to <fin-reporting@financenet.gov>.

For further information, contact Wendy Comes at 202-512-7357, or email at comesw.fasab@gao.gov.

AAPC News: Highlights of the April 8 Meeting

Property, Plant, and Equipment

AAPC member, Ted David, reported on plans for the PP&E forum on April 27-28. (See earlier article.)

Credit Reform

James Short, the Office of Management and Budget's representative on the AAPC and chair of the task force on credit reform, reported that the American Institute of Certified Public Accountants has formed a new Federal accounting and auditing subcommittee; it parallels the Institute's subcommittee for state and local accounting and auditing. FASAB member, Phil Calder, is a member of the new Federal accounting and auditing subcommittee. AAPC member, Bill Pugh, provided highlights of the first meeting. He said that the subcommittee will provide a forum for the American Institute of Certified Public Accountants to express views on Federal accounting and auditing issues in pending legislation and under discussion by the FASAB and the AAPC.

New Issues

Ron Longo, a Treasury representative on the AAPC and chair of the Agenda Committee, presented two potential AAPC agenda items:

- Provide assistance to the Office of Management and Budget in identifying inter-entity costs. This issue stems from the requirement in Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting*, that agencies recognize and report inter-entity costs. SFFAS 4 further suggests that the Office of Management and Budget, with assistance from the FASAB staff, identify the specific inter-entity costs for entities to recognize. For the financial statements for fiscal years 1998 and 1999, the Office of Management and Budget has

directed agencies to include the following inter-entity costs: 1) employees' pension benefits, 2) health insurance, life insurance, and other benefits for retired employees, 3) other post-employment benefits for retired, terminated, and inactive employees, and 4) losses in litigation proceedings.

- Provide guidance on the classification of interest on Treasury securities held by the Civil Service Retirement and Disability Fund. It was agreed that FASAB would respond to this request from the Office of Personnel Management.

Other Business

Possible future projects were discussed. It was suggested that issues arising from the Governmentwide Financial Statement audit be reviewed. Also, it was suggested that guidance on inter-agency elimination entries be considered.

Ron Longo announced his resignation from the AAPC, effective June 1. Mr. Longo has accepted a position outside the Federal Government. Committee members expressed their deep appreciation to Mr. Longo for his service to the AAPC.

AAPC Welcomes Gregory H. Friedman

The AAPC welcomes its newest member, Gregory H. Friedman, Acting Inspector General of the U.S. Department of Energy. Mr. Friedman has been serving in that position since January 5, 1998. Previously, in his positions with the Department's Office of Inspector General, since 1982 he served as Deputy Assistant Inspector General for Audit Operations, Deputy Inspector General for Audit Services, and Principal Deputy Inspector General. Before that, Mr. Friedman was Associate Director for the Gasoline Rationing Office, and Deputy Director of the Office of Contingency Planning for the Federal Energy Administration. Mr. Friedman began his Federal career in 1968 at the U.S. Army Audit Agency.

Mr. Friedman has a Bachelor's degree in Business Administration from Temple University and a Master's degree in Business Administration from Fairleigh Dickinson University. He was a Princeton Fellow in Public Affairs and has received numerous awards, including the Department of Energy's Meritorious Service Award, the Meritorious Presidential Rank Award, and the Presidential Rank Award for Distinguished Executive.

The AAPC looks forward to working with Mr. Friedman and drawing on his extensive audit and financial management background.

May Meeting

The next meeting of the AAPC was held Thursday, May 14, from 1:30 to 4:00, in Room 4N30 of the General Accounting Office Building, 441 G St., N.W. The agenda included a report on the recent PP&E Forum, and discussions of credit reform status, issues, and plans. Highlights of this meeting will be covered in the next issue of *FASAB News*.

For further information, contact Dick Tingley at 202-512-7361, or email at tingleyr.fasab@gao.gov.

Exposure Draft Issued on Meaning of GAAP on Audits of Financial Statements of the Federal Government and Its Components

Following is the text of an announcement by the Advisory Council on Government Auditing Standards of the United States General Accounting Office:

On April 30, 1998, the U.S. General Accounting Office (GAO), on the recommendation of the Advisory Council on Government Auditing Standards, issued an exposure draft of a proposed revision to Government Auditing Standards (GAGAS) titled Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in Reports on Financial Statements of the Federal Government and Its Component Entities. The proposed revision would add a new reporting standard for financial statement audits to define the sources of generally accepted accounting principles (GAAP) for the financial statements of the federal government and its component entities.

The American Institute of Certified Public Accountants (AICPA), in issuing Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report, established an accounting hierarchy for audits of nongovernmental entities and state and local governmental entities. This hierarchy establishes criteria for auditors regarding the relative weight to give to accounting guidance from various sources as they determine the type of report they will provide after an audit (i.e., unqualified, qualified, or adverse). This SAS was effective for audits ending after March 15, 1992. While SAS No. 69 specifically identifies GAAP for financial statements of entities other than governmental entities and for financial statements of state and local governmental entities, it does

not identify the appropriate GAAP for financial statements of the federal government and its component entities. The exposure draft addresses this issue by establishing the meaning of GAAP in reports on financial statements of the federal government and its component entities. Comments are accepted through July 15.

To obtain a copy of the exposure draft, access the Special Publications section on GAO's Home Page (www.gao.gov). Additional copies of these proposed standards can be obtained from the U. S. General Accounting Office, Room 1100, 700 4th Street, NW, Washington, DC 20548, or by calling (202) 512-6000.

Professional Audit Standards Update

To help GAO's financial auditors keep up to date with changing professional standards, the Accounting and Information Management Division of the General Accounting Office provides its staff with Professional Standards Updates. The General Accounting Office has kindly provided these updates to FASAB staff and we have found them very useful. To assist our readers, we will from time to time, as space permits, provide the highlights of the most current updates. One item of interest in the most current Professional Standards Update is presented as follows:

Auditing Interpretation, "Responsibilities of Service Organizations and Service Auditors With Respect to Information About the Year 2000 Issue in a Service Organization's Description of Internal Controls"

This interpretation (AU section 9324) of SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, addresses what information about the Year 2000 Issue is "relevant" information that should be included in a service organization's description of controls. A service organization's description of controls provides user auditors with information to obtain a sufficient understanding of a user organization's internal controls to plan the audit. If the Year 2000 Issue affects the services provided to user organizations during the period covered by the service auditor's examination, in a manner that affects user organizations' ability to record, process, summarize, and report financial data, the information is relevant to user auditors and should be included in the service organization's description of controls. The interpretation also provides guidance on the service auditor's responsibilities if relevant information about the Year 2000 Issue is included in or omitted from the service organization's description of

controls. The interpretation is on the AICPA's home page (www.aicpa.org).

Public Releases

The International Federation of Accountants (IFAC) is a worldwide organization designed to assist and enhance the accountancy profession. It's Management Accounting Committee has released an International Management Accounting Study. The study, entitled, "Environmental Management in Organizations: The Role of the Management Accountant," defines and discusses the activities in environmental management that involve the management accountant. Those activities include strategic planning for environmental management, implementing environmental management systems, environmental risk assessment, and other compliance related activities, such as eco-labelling, waste management, and site redemption. The International Management Accounting Study also discusses environmental reporting and auditing, life-cycle costing, and full cost accounting.

The International Federation of Accountants' Public Sector Committee has released an exposure draft entitled, "Guideline for Governmental Financial Reporting." The Guideline is primarily aimed at assisting national governments and their components in preparing financial reports, but could be used by other levels of government, such as local, regional, state, or provincial. The Guideline provides descriptions of the four common bases of accounting: cash, modified cash, modified accrual, and accrual, and examples of good or best practices for each basis. It does not provide standards or particular accounting treatments, but is intended to provide a reference for governments in preparing financial reports. Comments are requested by July 31, 1998.

For information on how to order these document, contact the IFAC's Publications at 212-286-9344. Or visit IFAC's web site at <http://www.ifac.org>.

FASAB Hosts CFO Fellows

On May 7, 1998, FASAB staff was privileged to host members of the Chief Financial Officers Fellows Program. Members of the program include Ralph Beaty, Chandler Gardiner, Willa Green, Thaddeus Kontek, Margaret Myers, Richard Noll, Debra Watson, Betty Weber, and Betty White. FASAB staff members provided a one-day briefing on highlights of the FASAB concepts and standards, including

updates on the most current developments in Federal financial management. The session was well-received by the Fellows.

The Chief Financial Officers Fellows Program was designed to satisfy the Chief Financial Officers' goal of "providing leadership to promote the efficient management of government resources and assets" and "attracting, retaining and developing highly qualified financial individuals who are valued members of the management team."

The Program is intended to provide career development opportunities to promising financial managers. Moreover, it is intended to provide a cadre of experienced staff from which future financial management leaders, including Deputy Chief Financial Officers and Chief Financial Officers can be drawn. The program is administered through a partnership with the Federal Executive Institute and the Graduate School of the U.S. Department of Agriculture.

For further information, contact John Amey, Director of Financial Management Programs, U.S. Department of Agriculture, 202-314-3408.

Upcoming Meetings and Public Hearings

FASAB: The next meeting is scheduled for June 25 and 26. On June 25th topics will include Credit Reform issues, Management's Discussion and Analysis, the Internal Revenue's request for amendments to SFFAS 7, and new projects. On June 26, there will be a public hearing on the exposure draft, *Amendments to Property, Plant, and Equipment*. Those wishing to speak should contact Rick Wascak on 512-7363. Written statements and speakers' bios should be provided by June 12, two weeks before the hearing.

AAPC: Upcoming meeting dates are June 11 and July 9 (1:30 to 4 pm). Topics will be Guidance on Auditing Credit Reform Estimates and Inter-Entity Costs.

Public Hearing on Social Insurance : There will be a public hearing on the exposure draft, *Accounting for Social Insurance*, on Monday and Tuesday, October 5 and 6, 1998. Those wishing to speak should contact Richard Fontenrose on 202-512-7358. Written statements and speakers' bios should be provided by September 21, two weeks before the hearing.

For further information, contact Dick Tingley at 202-512-7361, or email at tingleyr.fasab@gao.gov.

Note: FASAB News is a publication of the staff of the Federal Accounting Standards Advisory Board. This publication is intended to provide readers with an understanding of issues that the Board is considering by providing the highlights of proceedings of Board meetings. When an article refers to a Board decision, it should be understood that all Board decisions are tentative until a concept or standard is formally recommended by the Board to its principals, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General. Moreover, formal recommendations of the Board are not considered final until they have been officially approved by the Board's principals, and issued by the Office of Management and Budget.

FASAB Projects and Points of Contact

Point of Contact	Telephone and Email Address	Past Projects	Current Projects
Bob Bramlett	202-512-7355; bramlettr.fasab@gao.gov	Rules of Procedure & other Board administrative matters; Objectives; Entity and Display; Liabilities; Revenue; Interpretations 1 and 3	Management's Discussion and Analysis
Rich Fontenrose	202-512-7358; fontenroser.fasab@gao.gov	Stewardship Responsibilities; Liabilities; Interpretation 4	Social Insurance, Internal Use Software
Lucy Lomax	202-512-7359; lomaxm.fasab@gao.gov	Selected Assets & Liabilities; Direct & Guaranteed Loans; Standard General Ledger Support; Stewardship Human Capital and RDT&E; Governmentwide Supplementary Stewardship	Cost of Capital; Combination Statement (6,8, Governmentwide); Expense/Expenditure; Newsletter Editor; FASAB Presentations
Richard Mayo	202-512-7356; mayor.fasab@gao.gov	Selected Assets & Liabilities; Direct & Guaranteed Loans; Managerial Cost Accounting; Amendments to SFFAS 6 & 8	Cost of Capital; Amendments to Direct and Guaranteed Loans
Andrea Palmer	202-512-7360; palmera.fasab@gao.gov	(new to staff, Jan. 1998)	Codification, Volume 2
Monica Valentine	202-512-7362; valentinem.fasab@gao.gov	Liabilities; Interpretation 2	Natural Resources
Rick Wascak	202-512-7363; wascakr.fasab@gao.gov	Inventory; Property, Plant, & Equipment; Stewardship PP&E and Nonfederal Physical Property	Natural Resources; Standard General Ledger Support; Amendments to SFFAS 6 & 8

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