

Standards Watch

FASAB at 20: Looking Back and Thinking Ahead

By: Tom L. Allen, CPA

The information contained in this article is the unofficial view of one of the FASAB board members. Official positions of FASAB are determined only after extensive due process and deliberations.

This issue of *The Journal* celebrates the 60th anniversary of the Association of Government Accountants (AGA). Congratulations! AGA has made many noteworthy contributions to advancing federal, state and local government accountability but the most significant for the Federal Accounting Standards Advisory Board (FASAB) was AGA's early support for the Chief Financial Officers Act. October 2010 marks the 20th anniversary of both the CFO Act and FASAB. I thought it would be interesting to take a look at where FASAB came from and where it might be headed.

In the Beginning... (1990 – 1999)

The driving force behind the establishment of FASAB was passage of legislation intended to reform federal financial management—the Chief Financial Officers Act (CFO Act) of 1990. That law required audited financial statements in accordance with “applicable standards” for selected federal reporting entities. However, the CFO Act did not identify the “applicable standards.” At that time, the federal government was the only major U.S. entity without a set of generally accepted accounting principles (GAAP).

The federal government needed to bridge the gap between the executive and legislative branches' authorities and adopt an open, public process to develop federal accounting standards. In October 1990, then-Secretary of the Treasury Nicholas Brady, Director of the Office of Management and Budget (OMB) Richard Darman and Comptroller General Charles Bowsher jointly agreed to create and sponsor FASAB to develop the applicable standards that the CFO Act required.

During its first six years of operation, FASAB developed a core set of accounting standards and concepts statements. Concepts statements on the objectives of federal financial reporting and entity and display provided guiding principles. Standards covering inventory; property, plant and equipment; direct loans and loan guarantees; liabilities; and revenue ensured coverage of the fundamentals in accounting.

One of the early standards went beyond the fundamentals—Statement 4 on managerial cost accounting.¹ Statement 4 was developed in response to the view expressed by the National Performance Review that “the demand for consistent cost information across government will rise dramatically” as a result of the Government Performance and Results Act of 1993. With the fundamentals and a requirement for sound cost accounting, by 1999 the federal government had a comprehensive basis of accounting. The question became whether this significant federal accomplishment met the tests of the broader profession and the public—general acceptance.

“General acceptance” implies more than that professionals serving on a board reached consensus. Therefore, the accounting profession has a long-established expectation that the term “GAAP” should be applied judiciously. Audits are performed to attest that GAAP is met but the profession must attest that GAAP itself is sound. In October 1999, following an extensive review and some changes in governance of FASAB, the American Institute of Certified Public Accountants' (AICPA) Council designated FASAB as the accounting standards-setting body

for federal governmental entities under Rule 203 of the AICPA's Code of Professional Conduct. Therefore, FASAB became the board that promulgates GAAP for federal entities.

After 10 Years... (2000 – 2010)

In FASAB's 10th anniversary newsletter issue from October/November 2000, then-chair David Mosso and seven FASAB members, as well as former chair Elmer Staats, had opined on what they foresaw as FASAB's role in most effectively improving federal financial management in the future (see sidebar). Many of their predictions were met through FASAB's work on the statement of long-term fiscal projections, the statement of social insurance, heritage assets and stewardship land, and accounting for federal oil and gas resources. However, some areas are still a work in progress, such as FASAB's refinement of the conceptual framework through several phases, including a comprehensive user needs study, and its evaluation of current standards, including grants and earmarked funds.

On the other hand, other areas did not play out the way the former members had predicted. For example, in the 2000 newsletter, Staats, FASAB's first chair, mentioned the need for standards related to the cost of capital. Some believe that a charge for holding capital assets such as land or buildings would lead agencies to optimize their portfolio of capital assets. After studying the issue, FASAB concluded that an imputed cost of capital was not likely to have an effect on behavior and deferred action.

While FASAB has addressed many unique federal issues—such as fiscal sustainability—the biggest challenge still ahead of us is the one Mosso identified. The need to educate users

10 Years Ago...

What do you see as FASAB's role in most effectively improving federal financial management in the future?

October/November 2000 (From FASAB News, Issue 64)

Elmer Staats (former chairman 1991 – 1997): FASAB's future role will, of course, be determined by the participating agencies, but particular care should be given to issues that represent new ground or future concerns. In other words, FASAB can be up-front in anticipating problems before they arise. One such issue, as I recall, was the need for standards with respect to the cost of capital. I recognize that FASAB really did break new ground with respect to many other issues.

David Mosso (former chairman 1997 – 2006): In addition to continuing to explore the most effective treatment for those areas and issues that are unique to the federal government, I believe that one of FASAB's major contributions will be to increase the awareness of the significant developments in federal accounting and reporting and their potential to enhance accountability. FASAB already is undertaking efforts to increase its presence in the academic community and in the private sector. Just as important, however, is that it continue to reach out to federal agencies and organizations to underscore the purpose and benefit of the accrual-based accounting structure on which the standards are based. Only when all who prepare, audit and use federal financial statements understand the nature of the information, the need to review and question what such information means, and the potential of the information for improving the resource management and stewardship of the government, will FASAB's efforts be fully actualized.

Barry B. Anderson (former Congressional Budget Office representative 1999 – 2002): FASAB's understanding of the differences between federal and private accounting has been and will continue to be instrumental in establishing reasonable, achievable and appropriate standards for the federal government.

Philip T. Calder (former Government Accountability Office representative 1997 – 2004): We have only begun the process of communicating vital, reliable information in heavier doses to citizens, Congress and management. Each will benefit and each will be able to make better, more informed decisions in the future. We have thus far focused mainly on financial reporting. As we combine detailed financial information with performance results and use the resulting information in the process of formulating future plans, the decision-making process will benefit.

Joseph L. Kull, CGFM (former OMB representative 2000 – 2003): FASAB must figure out a way to make the information meaningful to users. First, though, I believe the board must reassess who the users are, and what information they need. I believe the users and their needs as perceived back in the early '90s are different than they are now; the board may need to stay in a dynamic state until we

better understand what is useful and relevant, and to whom. In the interim, FASAB needs to continue to discuss and develop standards and/or concepts in a number of secondary but important areas such as: natural resources (following up on a board-commissioned task force report); grants; performance measures (provided the board does not attempt to define audit requirements); and imputed interest on capital (addressed as "cost of capital" in the board's 1996 Invitation for Views).

James M. Patton (former non-federal member 1999 – 2009): The majority of the board is pragmatic in seeking solutions. However, without investing future resources to examine the conceptual underpinnings of the reporting model, it will be difficult to continue to produce guidance that is comprehensive and coherent.

Robert Reid (former Treasury representative 1999 – 2008): Our standards provide the basis for realistic comparisons of agency results with their own prior years' results and to other agencies. As our reports mature and our standards evolve to tackle some of the finer points we will, for the first time in 200 years, provide real accountability and effective communication with our constituents. That, coupled with improved systems, will transform federal financial management.

Nelson Toye, CGFM (former Department of Defense representative 1997 – 2002): Over the years, the board sometimes has been criticized as not giving enough credence to the notion of practicality, that is, do the benefits to be derived exceed the cost of implementation. By giving additional deliberation to the benefits to be derived compared to the costs that will be required to deliver those benefits, the board can demonstrate that its standards are practical, doable and worth every penny that it will cost the taxpayer to implement the standards. Additionally, the board will continue to build upon the track record that it already has established and continue to set accounting standards that ultimately provide meaningful and useful information to the users of financial statements.

Kenneth J. Winter, CGFM (former National Aeronautic and Space Administration member 1999 – 2002): The board can be expected to continue to play a key role in future federal financial management improvements. The board's current financial accounting standards framework will be refined and strengthened. The framework and related concepts and standards will be integrated into federal financial management and resources management (budget) practices. Such strengthened practices will support agency efficiencies and improved mission performance, including improved federal financial accountability to America's taxpayers.

Standards Watch Continued

about the nature of the information in financial reports remains. While management has become much more sophisticated in the last 10 years, we are at a crossroads with our users or potential users. The federal financial management community must find new ways to deliver information so that awareness and understanding are increased. We can not rely on a “build it and they will come approach”—we must actively market the product we have devoted two decades to creating.

And Beyond... (2010 – 2020)

FASAB is currently evaluating the federal reporting model. We will be considering ways to make it even more useful for decision-making than it currently is. In doing that, we will need to make difficult decisions about how to structure the model and how best to communicate information to the intended users of federal financial reports. However, much of what needs to be done is likely to be outside of our traditional mandate. For example, electronic reporting is the emerging vehicle to communicate financial information to citizens.

Imagine a portal where a citizen could begin with key information about what happened during the year and what the fiscal path looks like if we try to continue current policies. From there the interested citizen could access information about education, such as annual full cost of supporting education, trends in that cost over the past few years and key non-financial performance indicators. A very interested citizen could then drill down further to see the top 10 education programs, including related efforts and accomplishments information. All the financial information presented could be drawn from GAAP-based financial statements to ensure completeness and comparability.

In the next 10 years, FASAB’s role relative to electronic reporting may be ensuring that the data is available to populate such a system. The role of the audit is to give assurance over the quality of the information. While presenting paper (or PDF) GAAP-basis reports ensures completeness of data and facilitates presentation of an auditor’s opinion, it can also serve as a jumping off point for more effective delivery of information. Our reporting model project will enhance the

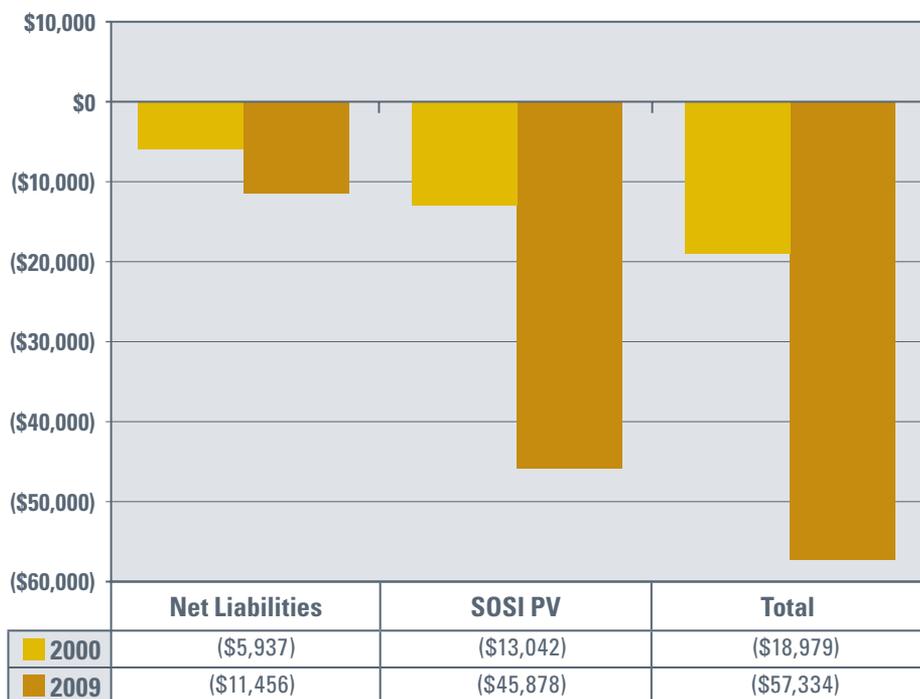
framework and hopefully make it more understandable to the various groups of financial statement users.

The need for timely, relevant financial reporting has never been more urgent. The federal government now faces a much larger fiscal challenge than it did 10 years ago. The need to convey both the short-term and long-term fiscal impact of difficult financial decisions in an understandable manner is even more critical now. If you compare net liabilities and the present value of long-term social insurance actuarial projections from 2000 and 2009, you can see that our fiscal outlook is downright scary (see graph).²

In a recent article in the *New York Times*,³ David Leonhardt wrote of some parallels in the Greek fiscal crisis and the U.S. debt woes. One of his basic premises is that citizens in the U.S. as well as other countries around the world want a larger government than they are willing to pay for. “We have not figured out the kind of government we want. We’re in favor of Medicare, Social Security, good schools, wide highways, a strong military—and low taxes. Dealing with this disconnect will be the central economic issue of the next decade, in Europe, Japan and this country.” The writer concludes the article discussing the “political will” needed to solve our fiscal problems.

Net Liabilities and Present Value (PV) of Long-Range Statement of Social Insurance (SOSI) Actuarial Projections

(Dollars in Billions)



I believe that relevant accrual-based GAAP financial reporting can and should inform the difficult political decisions that need to be made. There is another disconnect, and that is between the primarily cash-based budget information most people in Washington focus on and the economic realities that can be reflected in accrual-based financial reporting. An example of this disconnect is the fact that for more than 40 years money received from Social Security taxes in excess of each year’s Social Security payments has been reflected in the budget as resources that counted toward balancing the budget. This is a concept that has not been clearly communicated and/or understood by taxpayers.

Which numbers to use and how to present social insurance obligations in accrual-based financial statements has been a challenging debate for FASAB during the past 20 years and may be in the future. But at least the current

ANGELA BILLINGS, CGFM-RETIRED

federal financial statements contain social insurance actuarial projections that are added to federal liabilities by most media commentators addressing the U.S. fiscal challenges.

FASAB's new statement of long-term fiscal projections will clearly reflect, on a cash flow basis, the economic challenges ahead. The important disclosures accompanying this financial statement will also reflect the level of increased revenues and/or decreased expenditures necessary to stop the level of growth in our national debt as a percentage of gross domestic product (GDP). The significant increase in the level of adjustment necessary if decisions are delayed will also be reflected.

While I claim no expertise about predicting the next 10 years, it is evident that significant decisions must be made to ensure the economic vitality of our country. My hope is that we as a country will address these issues (informed by GAAP financial reporting) in a manner consistent with generational equity so that our children and grandchildren will not be left with the bill for services provided to our generations. ■

End Notes

1. Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, available online at www.fasab.gov/codifica.html; last accessed May 19, 2010.

2. Source: *2000 Financial Report of the United States Government* available online at www.fms.treas.gov/fr/00frusg.html; last accessed May 19, 2010; and, *2009 Financial Report of the United States Government* available online at www.fms.treas.gov/fr/index.html; last accessed May 19, 2010.

3. "In Greek Debt Crisis, Some See Parallels to U.S.," Leonhardt, David; *New York Times*; May 11, 2010; available online at www.nytimes.com/2010/05/12/business/economy/12leonhardt.html; last accessed May 24, 2010.



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She was Idaho's state financial officer, president of the Idaho Centennial Chapter, an active member of AGA's Professional Certification Board and someone who was known for never saying no, deftly handling any challenge put in front of her.

She could glance at a spreadsheet of the entire state general fund, know quickly what was "off," understand the story behind the numbers and not even realize that talent was something special. "It makes me wonder if that's true for all of us—that we have a gift that's so innate that we don't even know it's a gift," Billings said.

All that changed on Jan. 24, 2004. Her car was rear-ended, and she suffered a brain injury that erased her math abilities. Numbers on a spreadsheet, once rich with information, looked like scratch marks on a page. It was like speaking a foreign language fluently one day, and not understanding a word the next, Billings said.

Billings met with a speech pathologist for six months to get her brain's neurons firing again. Even a game of Yahtzee was a form of rehab that one day turned into a crying jag when the spots on the dice would not add up. "I couldn't do it, and I remembered what I used to be able to do, and I sat there and sobbed."

She never lost her knowledge of how to do the important work of her office, and she could teach others how to complete various tasks, but she couldn't actually do any of the work herself. She doesn't even remember much about the first year after her accident, but after several months, it became clear that she needed to leave state government and active AGA involvement.

But she made her mark on state finance and on AGA. Liz Yturalde, CGFM, CPA, who nominated Billings as a Member Who Made a Difference, said Billings got her involved in AGA, encouraged her to earn her CGFM and did it all with an assertiveness that never crossed into aggressiveness. For example, Billings made it seem as if Yturalde would be doing Billings a favor if she took the CGFM Examinations. Billings worked on updating the test questions and told Yturalde she wanted some feedback on the revised format. But in fact, Yturalde said earning the certification helped her own career.

Billings said of the CGFM, "I think it's one of the best things AGA has done. Bringing a certification and acknowledgement of professionalism to the government accounting sector was greatly needed. I think the test is a fair evaluation of candidates' knowledge. I just believe in that so strongly, I just did everything to promote it." The first in the Idaho Centennial Chapter to earn her CGFM by examination, Billings worked her way up through various board positions, became president and also served as a Regional Vice President, pushing the CGFM the entire time.

Yturalde ended up taking on leadership positions as well. She served on the chapter's board of directors for three years, a move Billings again pitched as a way to help out someone else. "She made me step up when I didn't really want to, and even though I wasn't working with her, we did have a couple of presidents who had some real challenges," Yturalde said. "I found that she was right. It was easy to step up and fill the gaps. It truly is worthwhile."

Yturalde is now a member of AGA's Professional Certification Board, a form of service to AGA that Billings herself once enjoyed and still misses. "I grieved that for years," she said.

Looking back, Billings says she made lifelong friends through AGA, and she learned valuable communication skills that help her even now. "I donated a lot of time and energy into AGA and was vastly rewarded for it." Certainly, many more professionals are CGFMs due to her work.

She also believes more professionals in state government are asking different questions following her service as state financial officer. She used to get phone calls from staff asking whether the accounting system could be tweaked to handle a certain kind of transaction, but Billings said she turned the question around: Instead of "Can we do this?" the question became "Should we do this?" Is it appropriate? Is this the right thing to do with the funds I'm entrusted with? "My sense is that there are people who still will look at it that way, that shift in perspective, which I think is critical as custodians of taxpayer dollars, and I'm proud of that legacy," Billings said.

Billings is now self-employed running two businesses from her home, nestled in what she calls a "magical little forest" in the middle of Boise. She is a consultant, setting up accounting systems for various entities, and she is a massage therapist. She was on her way to a massage, in fact, when she had the accident. A couple of months into her rehabilitation, she feared she would never regain her analytical skills, so she went to massage school and is now nationally certified to teach cranial sacral massage, which focuses on the head and neck to ease migraines and other health problems.

She says she is now "functional" in math—Yturalde says she's a "normal mere mortal" versus the whiz she was before—although Billings says math exhausts her after a short time, and she still has trouble with multiplication. That skill may be gone forever, she said, but she is not upset about all she has lost. Instead, she calls the accident "a far greater blessing than I ever would have imagined."

"My life is calmer and more balanced than I ever would have achieved without the accident."

—Christina M. Camara

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