

Reporting Entity

Please submit to fasab@fasab.gov

Date: July 3, 2013

Name of Respondent: Joseph D. Cummings, CPA, Director, Financial Statement Audits

**Organization: Department of Health and Human Services Office of Inspector General
Office of Audit Services (Federal Auditor)**

All responses are requested by July 3, 2013.

Q1. The Board is proposing three inclusion principles for an organization to be included in the government-wide GPFFR:

- An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” unless the organization is a non-federal organization receiving federal financial assistance
- An organization in which the federal government holds a majority ownership interest
- An organization that is controlled by the federal government with risk of loss or expectation of benefit

In addition, the Board is proposing that an organization be included in the government-wide GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles.

Refer to paragraphs 20-36 of the proposed standards and paragraphs A12- A29 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.**

The inclusion principles as presented provide a good basis for an organization to be included in the government-wide General Purpose Federal Financial Report (GPFFR). While the Budget of the United States is a good starting point, financial statement preparers and auditors can use the other inclusion principles to determine if an organization controlled or managed by the Federal government, but not necessarily noted in the budget, should be included in GPFFR.

- b. **Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.**

The definitions and indicators for the inclusion principles seem to be very clear and helpful. They provide very good explanations and give the appropriate guidance for preparers and the auditors to determine if organizations should be included in government-wide GPFFR.

- c. **Do you agree or disagree that an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles? Please provide the rationale for your answer.**

All organizations should be included in the government-wide GPFFR if it would be misleading not to include them even though they do not meet one of the three inclusion principles. Some organizations that do not necessarily fall under the inclusion principles could put the overall Federal government at risk. The decision to include or not include an organization should be decided in consultation between the preparer of the government-wide GPFFR (Treasury's Fiscal Service) and the auditor (Government Accountability Office (GAO)).

- d. **Do you agree the inclusion principles can be applied to all organizations, such as the Federal Reserve System, Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others, to determine whether such organizations should be included in the government-wide GPFFR? Please provide the rationale for your answer.**

The inclusion principles should be applied to all organizations to determine if they should be included in GPFFR. As indicated in the response to number Q1.c, organizations that can put the Federal government at risk should be disclosed and included in the GPFFR.

Q2. The Board proposes distinguishing between two types of organizations in GPFFRs and this distinction will ultimately determine how they are reported: consolidation entities and disclosure organizations. Consolidation entities generally are (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure organizations are those that (1) receive limited or no funding from general tax revenues, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) impose limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis.

The Board proposes consolidation entities be consolidated in the government-wide financial statements and the information about disclosure organizations be disclosed in notes. The Board also proposes that certain factors and objectives be considered in determining the information about disclosure organizations to be disclosed in notes. The Statement allows flexibility in the information presented as long as the disclosure objectives are met. The Statement also provides examples of information that may meet objectives.

Refer to paragraphs 37- 53 and 64-77 of the proposed standards and paragraphs A30-A54, A62-A63 and A71-A81 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a) **Do you agree or disagree with the concept of distinguishing between consolidation entities and disclosure organizations? Please provide the rationale for your answer.**

There should be some differentiation between consolidation entities and disclosure organizations. For the most part, HHS is a consolidation entity and this portion would not affect its financial reporting. HHS really does not have any disclosure organizations. The determination between consolidation entities and disclosure organizations should be made in consultation between the preparers for agency GPFFR and their auditors.

- b) Do you agree or disagree with the attributes used to make the distinction between consolidation entities and disclosure organizations? Please provide the rationale for your answer and identify additional attributes, if any, that you believe should be considered.

The attributes properly distinguish between consolidation and disclosure organizations. They are logical and appear to follow what one would expect to find in proper Federal financial reporting. No additional attributes appear to be needed in the proposed standard.

- c) Do you agree or disagree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations? Please provide the rationale for your answer and identify any organizations you believe the attributes could not be adequately applied to, and additional attributes, if any, you believe are needed to address these organizations.

As indicated above, the attributes are adequate to make a determination whether the organizations included in number Q2 c. are consolidation entities or disclosure entities. These attributes, if properly applied by preparers and auditors of GPFFRs, define both consolidation entities and disclosure organizations.

- d) Do you agree or disagree with:
- i. the factors to be considered in making judgments about the extent of appropriate disclosures (see par. 69),
 - ii. the objectives for disclosures (see par. 72), and
 - iii. the examples provided (see par. 73)?

Please provide the rationale for your answers.

The factors to be considered, the objectives and the examples provided show very clear concepts on how disclosure organizations should be reported in the GPFFRs. These items follow what one would expect to see in normal Federal financial reporting. Again, if applied properly, the use of the areas described in paragraphs 69, 72 and 73 will help preparers and auditors of GPFFRS provide adequate disclosures for organizations where the Federal government has a financial, material and/or managerial interest.

Q3. The Board proposes each component reporting entity report in its GPFFR organizations for which it is accountable; that includes consolidation entities and disclosure organizations administratively assigned to it. Administrative assignments can be identified by evaluating:

- the scope of the budget process,
- whether accountability is established within a component reporting entity, or
- rare instances of other significant relationships such that it may be misleading to exclude an organization not administratively assigned based on the previous two principles.

The Board recognizes that in rare instances it also may be misleading to include an organization that is administratively assigned to a reporting entity based on the above principles. In such cases, the organization may be excluded.

Refer to paragraphs 54-63 of the proposed standards and paragraphs A55-A61 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it? Please provide the rationale for your answers.**

The component entity should report in its GPFFR all organizations for which it is accountable. This would include consolidation entities and disclosure organizations for which it has administrative responsibilities. Including all consolidation entities and disclosure organizations ensures completeness of the entity's GPFFR.

- b. **Do you agree or disagree that administrative assignments can be identified as provided in paragraphs 54-63? Please provide the rationale for your answers.**

Paragraphs 54-63 adequately identify administrative assignments. No additional administrative assignments need to be identified in the proposed standard at this time.

Q4. The Statement provides for each reporting entity (the government-wide and component reporting entities) to consolidate financial information for all consolidation entities for which it is accountable without regard to funding source (for example, appropriations or donations). For certain organizations, such as museums and performing arts organizations, this may lead to consolidating funds from sources such as donations that are presently not consolidated in the government-wide GPFFR.

Refer to paragraphs 54-64 of the proposed standards and paragraph A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that each component reporting entity (for example, museums) and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding

source, including those receiving appropriations and donations? Please provide the rationale for your answers.

The component and government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source. This should be for organizations that receive appropriations, donations and/or funding from non-Federal sources. Both component and the government-wide reporting entities need to take into account any funding sources from which there is increased risk to the component entity or to the Federal government, taken as a whole.

Q5. For consolidation entities, the Statement proposes that FASAB and Financial Accounting Standards Board (FASB) based information should be consolidated without conversion of FASB-based information to a FASAB basis.

Refer to paragraphs 65- 66 of the proposed standards and paragraphs A66-A70 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate? Please provide the rationale for your answers.

HHS prepares its financial statements in accordance with standards established by FASAB. This question is directed to those entities that prepare their GPFFR in accordance with standards established by FASB. A more appropriate response could be provided to Treasury, GAO and the agencies that prepare their standards in accordance with standards established by FASB.

Q6. Central banking (through the Federal Reserve System) is a unique federal responsibility with distinctive characteristics. The proposed standards do not specify that the central banking system be included in GPFFRs or whether, if included, it would be classified as a consolidation entity or a disclosure organization. Because of the unique nature and magnitude of central banking transactions, and the fact there is only one organization of this type, the Board proposes certain minimum disclosures regarding the central banking system. These disclosures would be required in addition to any other reporting requirements regarding the central banking system. The information should be disclosed in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated with or administratively assigned. Depending on the circumstances, some of the minimum disclosures may have been addressed in other requirements. The resultant disclosures should be integrated so that concise, meaningful, and transparent information is provided and information is not repetitive.

Refer to paragraph 77 of the proposed standards and paragraphs A30-A37 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the minimum disclosures for the central banking system or believe there are additional disclosures that should be considered? Please provide the rationale for your answer.**

Since HHS prepares its financial statements in accordance with standards established by FASAB and prepares its required disclosures, it is not appropriate to comment on this area. These questions are directed more to the Federal

Reserve, Treasury, OMB and GAO. A more appropriate response would be obtained by these entities.

- b. Do you believe there are other significant organizations for which minimum disclosures should be made? Please specify which entities, if any, and the nature of disclosures and provide the rationale for your answer.

Not aware of any other significant organizations for which minimum disclosures should be made.

Q7. The Board proposes a definition of related parties and disclosures for related parties where the relationship is of such significance that it would be misleading to exclude disclosures about the relationship. The proposal also provides a list of the types of organizations that generally would or would not be considered related parties.

Refer to paragraphs 78 -87 of the proposed standards and paragraphs A82-A84 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with the related parties definition and requirements? Please provide the rationale for your answer.

The definitions and requirements in paragraphs 78-87 adequately describe related parties. They are logical and define how related parties should be disclosed. The definitions and requirements follow what one would expect to find in normal Federal financial reporting.

- b. Do you agree or disagree with the list of the types of organizations that generally would be considered related parties? Please provide the rationale for your answer.

The list in paragraph 93 appropriately defines the types of organizations that would generally be considered related parties. The list follows what one would expect to find in normal Federal financial reporting.

- c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.

Not aware of additional organizations that should be considered related parties.

- d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.

The list of exclusion in Paragraph 84 appears complete and normal for what one might expect in Federal financial reporting.

- e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.

Not aware of additional exclusions that should be reported.

Q8. The Board proposes conforming changes to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, to rescind or amend language to remove criteria for determining what organizations are required to be included in a federal reporting entity's GPFFR from the concepts statement because criteria will be in a statement of federal financial accounting standards. Refer to paragraphs 88-101 of the proposed standards and paragraphs A85-A88 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the conforming changes to SFFAC 2? Please provide the rationale for your answer.

The conforming changes should be made to SFFAC 2 since what is required for inclusion in an entities' GPFFR will now be in a Statement of Federal Financial Accounting Standards (SFFAS). The SFFAS' have a higher priority than the concept statements in the Federal accounting hierarchy.

Q9. The Board proposes the Statement and Amendments to SFFAC 2, *Entity and Display*, be effective for periods beginning after September 30, 2016. Refer to paragraph 102 of the proposed standards.

Do you agree or disagree with this effective date? Please provide the rationale for your answer.

The effective date for the new Statement and Amendments to SFFAS 2 appears reasonable. This implementation date should give preparers and auditors of component and government-wide GPFFRs enough time to account or make any changes needed for reporting under the new statement.

Q10. The Statement provides two non-authoritative appendices to assist users in the application of the proposed standards. The Flowchart at Appendix B is a tool that can be used in applying the principles established. The Illustrations at Appendix C offer hypothetical examples that may be useful in understanding the application of the standards.

Refer to Appendix B-Flowchart and Appendix C-Illustration.

a. Do you agree the appendices are helpful in the application of the proposed standards?

The appendices were extremely helpful in defining how to apply the proposed standards. The flowchart in Appendix B is also extremely helpful in showing support for the illustrations described in Appendix C.

b. Do you believe the appendices should remain after the Statement is issued?

The appendices should remain in the Statement when issued by FASAB. They are especially helpful to those who have limited experience in Federal financial reporting.

c. Do you believe there should be any changes or additional examples regarding the illustrations that would be useful in understanding the application of the standards? Please provide rationale to support your answer

Not aware of any additional examples that would be useful in understanding the application of the standards

Q11. Are there other unique situations that should be addressed within this Statement? Please explain fully and also how the situation is not addressed by this Statement when considered in its entirety.

Not aware of other unique standards that should addressed within this Statement.

Q12. One member has an alternative view regarding receiverships, conservatorships, and interventions. The Board member does not believe receiverships, conservatorships, and intervention organizations should be equated with other disclosure organizations. He believes guidance in the proposed standards gives the impression that these organizations are part of the federal government. Further, he believes all types of interventions should be addressed in the Board's project on risk assumed.

The other members believe the proposed standards appropriately distinguish between consolidation entities and disclosure organizations including receiverships, conservatorships, and interventions resulting in ownership or control. The Board deliberated alternatives regarding such organizations, including creating an "exception" similar to the approach taken in SFFAC 2, but determined an exception would be rules-based rather than principles-based. Such an exception would require more detailed guidance, or "rules," to aid in determining whether ownership or control of such organizations is expected or intended to be permanent.

Instead, the proposed standards establish principles for when relationships with organizations create a need for accountability, and how information should be included in GPFFRs. The Board believes it is important to address these relationship matters in a single Statement of Federal Financial Accounting Standards and has not proposed exceptions. The Board also addresses in this proposed Statement whether organizations are required to apply the GAAP hierarchy for federal reporting entities. Disclosure organizations are not required to apply the GAAP hierarchy for federal reporting entities and this should avoid giving the impression that all disclosure organizations included in GPFFRs are federal reporting entities or "part of the federal government." To further avoid giving this impression, the Board clarified that it is not the purpose of this Statement of Federal Financial Accounting Standards to assist in determining what entities are "part of the federal government" for legal or political purposes.

Refer to paragraphs 7, 13-14, 41, 49-53, and 65 of the proposed standards and paragraphs A1-A2, A9-A11, A20-A23, A30-A31, A44-A54, and A89-A93 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government? Please provide the rationale for your answer.**

The alternative view should not be considered based on the fact these are still disclosures organizations. All Federal reporting entities should disclose areas where the component reporting entities or the Federal government taken as whole would be at risk. Receiverships, conservatorships and interventions

provide a great deal of risk for Federal agencies. Disclosure of these items helps report on actual financial condition of the Federal government.

- b. Do you agree or disagree with the alternative view that the guidance for all interventions, regardless of type, should be presented in a single Statement of Federal Financial Accounting Standard? Please provide the rationale for your answer.

All requirements for reporting entities should be included in one single Statement of Federal Accounting Standards. Two different Statements of Federal Financial Accounting Standards that define potential reporting entities or disclosure organizations could create different interpretations and lead to inconsistent financial reporting.