

**Department of Energy**

Washington, DC 20585

March 20, 2017

MEMORANDUM FOR THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**FROM:**

Tom Park

Director, Office of Finance and Accounting

SUBJECT:

Comments on the Federal Accounting Standards Advisory Board's Exposure Draft: Budget and Accrual Reconciliation Amending Statement of Federal Financial Standards (SFFAS) 7, SFFAS 22, and SFFAS 24.

The Department of Energy (DOE) appreciates the opportunity to comment on the Exposure Draft: *Budget and Accrual Reconciliation Amending Statement of Federal Financial Standards (SFFAS) 7, SFFAS 22, and SFFAS 24*. We believe implementing a New Budget and Accrual Reconciliation (New BAR) could provide improvements over the existing Reconciliation of Net Cost of Operations to Budget. However, we do not agree with the proposed implementation date for the New BAR, and it is our position that an essential requirement and prerequisite for implementation of the New BAR is the development of a comprehensive SGL crosswalk that has been thoroughly tested and verified as correct and complete between Treasury and the agencies with clear milestones and objectives of the crosswalk. Furthermore, DOE noted that this project undertaken by the Board is more of a reconciliation tool rather than an amendment of the requirements for a reconciliation between the budgetary and financial accounting information established by SFFAS 7.

Our responses to the specific questions in the Exposure Draft are provided below.

Q1. The Board proposes to replace the current Statement of Finance (SOF) requirement with the new budget and accrual reconciliation (NBAR). The NBAR reconciles the net outlays to net cost of operations. This presentation explains the difference between budgetary and financial accounting. The proposed Statement would apply to component reporting entities and describes the NBAR method and related disclosures. Refer to paragraphs six to nine. Do you agree or disagree with the proposal to replace the SOF with the NBAR? If you agree, should the NBAR be presented as a part of basic financial statements or as a footnote? Please provide the rationale for your answer.

We believe the New BAR could be a potentially positive improvement over the current SOF/Reconciliation of Net Cost of Operations to Budget. We agree with the purposes of the New BAR, i.e., to (a) enhance the understandability of the relationship between budgetary resources and the costs of program operations, (b) reduce the complexity of the agency's budgetary and financial accounting reconciliation, and (c) improve financial reporting. However, to ensure successful implementation, we believe it is important to focus on the steps that are necessary to implement the New BAR. As noted in paragraph A15 of the Exposure

Draft, the New BAR taskforce preferred that Treasury provide a crosswalk to increase the consistency across agencies and to effectively balance the new reconciliation for major funds. Paragraph A15 also noted that Treasury's Bureau of the Fiscal Service was collaborating with the New BAR task force to develop a crosswalk for the New BAR. Paragraph A16 noted, "The Board agreed on the importance of getting the New BAR crosswalk developed by the Treasury before the New BAR is implemented, as it will reduce agencies' implementation time and facilitate audit efforts."

The importance of paragraphs A15 and A16 in implementing the New BAR cannot be overemphasized. It is the Department's position that an essential requirement and prerequisite for implementation of the New BAR is a comprehensive SGL crosswalk that has been thoroughly tested and verified as correct and complete. The crosswalk should be a **collaborative product** of Treasury and reporting agencies to ensure the process is properly vetted with the financial reporting community before a finalized crosswalk is issued. At a minimum, we believe the crosswalk should provide a level of detail similar to the crosswalk that was provided for the SOF in the 2006 Treasury Financial Manual (TFM) Supplement S2-06-02a, which agencies continue to use as a guide for preparation of the Reconciliation of Net Cost of Operations to the Budget note to the financial statements. However, as was noted in TFM S2-06-02a, the SOF requires "a level of detail beyond that of the USSGL accounts," and "agencies must analyze transactions to obtain required data." This aspect of preparing the SOF/Reconciliation of Net Cost of Operations to Budget has complicated the process and presented challenges to agencies preparing it. Our belief is, should the New BAR replace the SOF/Reconciliation of Net Cost of Operations to Budget, the process to prepare the New BAR should be straightforward and the crosswalk standardized as much as possible so that preparation requires a minimum of analysis beyond application of an SGL account crosswalk. However, the FASAB guidance should provide agencies with flexibility in preparing the reconciliation to allow agencies the ability to accommodate their unique operations and circumstances. These process improvements should increase the accuracy and integrity of the New BAR and improve the ability to compare it across agencies with the understanding that a Treasury crosswalk in collaboration with the agencies will support this process.

The format of the New BAR also requires the presentation of costs, outlays, and other related amounts reported on the Statement of Budgetary Resources as "intra-governmental" or "with the public." This presentation is not required for the current SOF/Reconciliation of Net Cost of Operations to Budget. Therefore, once a working crosswalk has been tested and agreed on, agencies may still need to evaluate the need for other system and business process changes that may be required to populate the "intra-governmental" and "with the public" components of the New BAR. Given this additional level of complexity over the existing reconciliation note, consideration must be given to the time and cost of implementing such changes.

As was noted in the Exposure Draft, DOE was an active participant in the New BAR task force. The DOE participants worked with other agencies and Treasury to draft a crosswalk and refine the process to prepare the New BAR. However, differences in accounting within various DOE components have complicated these efforts, and DOE has not yet been able to produce the New BAR at the Department level. We understand some other agencies are experiencing similar challenges. Therefore, we strongly recommend the Board consider further government wide research and analysis to include the unique aspects of various agencies that may be impacting their ability to produce the New BAR before voting on a final

New BAR template, crosswalk, and implementation date. In consideration of these concerns, we request the Board reassess whether the objectives in proposing these changes warrant the level of effort that will be required of all of agencies and the potential impact of funding challenges posed as a result of making this change in reporting/reconciliation.

Finally, since the New BAR is a reconciliation, its purpose is different from the purposes of the financial statements that report financial position, results of operations, budgetary resources and the status of those resources, changes in net position, and custodial activities. Although the financial statements have various tie points with each other, the primary purpose of the statements is not to provide a reconciliation. Accordingly, as is the case with the current SOF/Reconciliation of Net Cost of Operations to Budget, we believe the New BAR, if implemented, should remain a note to the financial statements.

Q2. The Board proposes to require a narrative disclosure regarding the reconciliation and disclosure of the amount and nature of non-cash outlays. Refer to paragraphs six and 12. Do you agree or disagree that a narrative disclosure should accompany the NBAR? Please provide the rationale for your answer.

The current SOF/Reconciliation of Net Cost of Operations to Budget does not require narrative disclosures. If a high level generic explanation of the nature of the reconciliation must be provided, we request the FASAB coordinate with the Office of Management and Budget (OMB) on standard language, and that such language be included in OMB Circular A-136. We do not agree that any narratives should be provided for reconciling items because those would be disclosed and explained elsewhere in the financial statements and notes. Examples include accounts receivable, investments, inventory, salaries and benefits, environmental and disposal liabilities, and pension and other actuarial liabilities. As was noted in paragraph A9 of the Exposure Draft, "The majority of the reconciliation items come directly from the other financial statements' line items, line items' prior year and current year comparison, or financial statement note disclosures".

Q3. The Board proposes that this Statement be effective for periods beginning after September 30, 2017 with early adoption permitted. In addition, restatement of comparative prior period information would be required. Refer to paragraph 13. Do you agree or disagree that the effective date, the early adoption, and restatement of comparative prior period information are reasonable? Please provide the rationale for your answer.

For the reasons identified in our response to Q1, the Department has strong concerns about agencies' states of readiness to implement the New BAR within the proposed implementation timeline, and we do not agree with the proposed effective date of this Statement. We estimate business process changes, system limitations, and resource constraints will limit our ability to successfully implement the New BAR before Fiscal Year 2019 at the earliest. The following issues are impacting our implementation:

1. DOE will need to implement significant business process changes and system modifications that will require configuration, testing, and training.

2. DOE will require additional system programming changes if we are required to break out data between "intragovernmental" and "with the public" rather than continuing to present combined data.
3. DOE will require additional time to work with Treasury on an updated and fully vetted crosswalk that accommodates unique SGL subaccounts that are applicable to our operations.

In addition, we do not agree with the option of early adoption of the New BAR, as that would preclude comparability between agencies' financial statements. All agencies impacted by implementation of the New BAR will need to be certain that implementation is feasible since this reconciliation will be subject to audit. We believe there should be a testing period prior to implementation, and Treasury and OMB should consider any issues agencies are experiencing before mandating use of the New BAR. The only option we envision for early implementation of the New BAR is to provide the New BAR as unaudited optional supplemental information and that is not recommended until fiscal year 2019 at the earliest.

We do not believe there should be a restatement of prior year data in the New BAR unless all agencies are either able to verify that the New BAR crosswalk can be applied to their prior year data or if there is a one-year phase-in period during which comparative data can be collected and reported while continuing to provide the SOF/Reconciliation of Net Cost of Operations to Budget. Otherwise, a change to the New BAR should be done prospectively. We also request that the Board consider the potential for additional audit costs if there is a significant increase in the scope of work required to audit a restatement of prior year data in the New BAR format. Furthermore, we ask that the Board consider whether restating prior period data would provide an added value to both Federal agencies and end users of the financial statements.

In addition to the above responses to the FASAB's specific questions, attached is a list of editorial changes on the Exposure Draft for the Board's consideration.

The Department appreciates the opportunity to provide comments on the Exposure Draft. If there are questions concerning our responses they may be referred to William Truitt, Director, Financial Policy Division, Office of Finance and Accounting, at William.Truitt@hq.doe.gov or (202) 586-1065.

Attachment: Proposed Editorial Changes to the Exposure Draft

Attachment: Proposed Editorial Changes to the Exposure Draft: Budget and Accrual Reconciliation Amending Statement of Federal Financial Standards (SFFAS) 7, SFFAS 22, and SFFAS 24

The following table provides the Department of Energy's proposed editorial changes to the Exposure Draft.

Paragraph	Exposure Draft Excerpt	Comments
2	"...this Statement requires a narrative disclosure explaining the nature of the reconciliation."	The current format of the agency-level financial statements does not go into a narrative disclosure explaining the nature of the SOF reconciliation or the purpose of the footnote. While the purpose of the New BAR is to replace the existing SOF for enhanced understandability by the reader, the concept of the reconciliation of New BAR is not a significant and exhaustive departure from the SOF footnote which currently does not require a narrative disclosure. The Department suggests the nature of the New BAR should reside within the Board's guidance issued and not as part of the agency footnote.
3	2nd sentence, "(required by SFFAS 7...and Financial Accounting) with the..."	There should be a space after "...Accounting)" and "with".
6	"82. The adjustments...and explained in appropriate detail..."	The format and layout of the New BAR reconciliation itself includes categories of the adjustments that need to be included in order to account for the differences in net cost and net outlays (e.g. capitalized assets, etc.). Therefore, the Department does not believe a narrative for this footnote is necessary. Thus, we suggests this section be revised or removed.
7	'93. Example of footnote to be added in SFFAC No. 2: "OMB will provide guidance...including whether it should be presented as a basic financial statement or as a schedule in the notes..."	FASAB should consider omitting verbiage regarding whether BAR reconciliation will be presented as a basic financial statement or a schedule in the notes. The New BAR Reconciliation is a reconciliation between different statements already included in the basic financial statements section and therefore should not be considered a new financial statement. The Department does not agree that New BAR reconciliation should be a

Paragraph	Exposure Draft Excerpt	Comments
		financial statement; it should be part of a schedule in the notes.
9	SFFAC No. 2 "Entity and Display, Appendix 1-G" example of narrative	1) Should the word "Example Financial Statement Formats..." be changed to "Example BAR Footnote Format"?
9	Example of format/layout of BAR template (page 13)	<p>1) The Department does not currently have an automated report that generates breakout of the Statement of Net Cost and the Statement of Budgetary Resources between Intra-governmental and Public and therefore the breakout of this for this footnote will be burdensome. The Department would like the FASAB to consider only requiring agencies to report a combined balance instead of breaking out between "Intra-governmental" vs. "With the public" as this combination would ease the burden on the preparer while still providing the necessary reconciliation.</p> <p>2) We suggest Treasury, in collaboration with agencies, consider adding guidance to address non-budgetary resources in the New BAR template. The inability to enter "significant" non-budgetary resources into the New BAR template may impact some agencies ability to completely reconcile its net cost with its net outlays. For example, Federal Energy Regulatory Commission (FERC), a Departmental component, will need to use a non-budgetary resource line item to account for and reconcile:</p> <ul style="list-style-type: none"> • Appropriation offsets through the collection of annual charges and fees • Excess receipts over appropriation that are deposited directly to Treasury • Full cost recovery • Custodial receipts reported as non-exchange revenue with a disposition to Treasury (no cost associated with these transactions)

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12	Disclosure Requirements	The Department believes high-level and/or general information regarding the reason and narrative of what makes up the BAR footnote and template should be provided in the guidance but not required in the footnote as narrative disclosure.
13	Implementation date	As mentioned in the Department's response to question 3, the 9/30/2017 or sooner implementation would not be feasible. A lot is dependent upon the finalization of what adjustments should or can be included/excluded from the net cost to net outlays reconciliation, with an agreed upon method and/or calculation that an agency can take in presenting this footnote even with an implementation date later than September 30, 2017. The Department strongly recommends an implementation date of fiscal year 2019 at the earliest.
Pg. 16, A9	"To provide detailed support to the GWA reconciliation, the intra-governmental reconciliation items will be presented separately."	Please refer to our editorial comments for Paragraph 9, page 13 on the format of the BAR template.
Pg. 17, A13	"...detailed account-level crosswalk..."	With the mention of "Crosswalk", does FASAB expect: a) Treasury will issue a crosswalk to this footnote, which would be a departure since Treasury has not provided crosswalks to footnotes, nor are we aware of the crosswalk being finalized at this time; also b) Will agencies have flexibility to account for agency-specific activities which may not fit the mold of the crosswalk and therefore contribute to Net Cost adjustments that need to be listed in order to reconcile with net outlays?
Pg. 17, A15	"The taskforce prefers that Treasury provide a crosswalk..."	The 9/30/2017 or earlier implementation of the New BAR is not feasible nor practicable. At the minimum before any implementation date is established, the

Paragraph	Exposure Draft Excerpt	Comments
		<p>following should be considered: 1) whether or not a crosswalk will be provided that all agencies can agree on that will work for the agency (although this could potentially make the crosswalk larger than most agencies need) and 2) what sort of presentation and reconciliation flexibility does an agency have if a crosswalk is to be created and therefore required to be used by agencies?</p> <p>What is the status on the crosswalk? As of beginning of FY2017, the crosswalk was not fully complete.</p>
Pg. 19	Appendix B: Abbreviations	<p>BAR vs. NBAR: Consider only using BAR and then using term "new BAR" since the BAR will no longer be considered "New" in subsequent fiscal years after the implementation and using BAR vs. NBAR could be confusing.</p> <p>Alternatively, the Board should also consider renaming the new statement to more clearly align with the statement's contents. Change from Budget and Accrual Reconciliation (BAR) to Net cost to Net Outlays (NCNO).</p>