

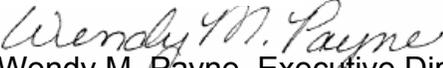


**February 9, 2011**

Memorandum

To: Members of the Board

From:  Julia E. Ranagan, Assistant Director

Through:  Wendy M. Payne, Executive Director

Subj: Exposure Draft: Deferral of the Effective Date of SFFAS 38,  
*Accounting for Federal Oil and Gas Resources*  
Comment Letters Received through February 8, 2011<sup>1</sup> – **Tab B**

## MEETING OBJECTIVE

The purpose of this session is to review comments received on the subject exposure draft (ED) as well as related staff analysis and recommendations. Board decisions and direction on issues will enable staff to work towards submitting a pre-ballot draft of the final standard by e-mail after the February meeting. One issue for your consideration is discussed on pages 13 – 14.

**Staff is asking members to read the comment letters along with staff's analysis and either (a) approve or (b) provide feedback on the enclosed draft standard (see Appendix 1).**

## BRIEFING MATERIAL

- Attachment 1**, beginning on page 7 of this memo, provides the staff summary to all responses to the single question for respondent on page 6 of the ED. The staff summary presents:
  - a) Tally Of Responses By Question,
  - b) Quick Table Of Responses By Question,
  - c) Detailed table of Answers and Comments by Question and by Respondent, and
  - d) Listing Of Additional Comments from Respondents.

- ❑ **Attachment 2**, beginning on page 11 of this memo, provides the full text of the comment letters organized by type of respondent. This is a copy of all comment letter text without the letterheads and transmittal paragraphs and is intended for quick reference purposes; it is not necessary to read this attachment in addition to the comment letters.
- ❑ **Attachment 3**, beginning on page 13 of this memo, contains the related staff analysis and recommendations.
- ❑ **Attachment 4**, beginning on page 15 of this memo, contains the complete set of comment letters in the order they were received.
- ❑ **Appendix 1** contains a draft Statement of Federal Financial Accounting Standards 41, Deferral of the Effective Date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*, with respondent comments incorporated, as staff deemed appropriate.

## NEXT STEPS

If the board directs staff to prepare a pre-ballot draft standard, staff will incorporate member comments into a pre-ballot draft standard and email to members for review on Wednesday, March 2, 2011.

## BACKGROUND

In April 2010, FASAB issued SFFAS 38, *Accounting for Federal Oil and Gas Resources*. SFFAS 38 requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, the standard requires the value of estimated petroleum royalty revenue designated for others to be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others. These schedules are to be presented in required supplementary information (RSI) as part of a discussion of all significant federal oil and gas resources under management by the entity.

SFFAS 38 as issued will be effective as RSI for periods beginning after September 30, 2011, with earlier implementation encouraged. It is the board's intent that the information required by the Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. SFFAS 38 will remain in effect until such time a determination is made.

On November 18, 2010, the Department of the Interior's (DOI) Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE, formerly part of the Minerals

Management Service (MMS)) formally requested that FASAB consider deferring the effective date of Statement of Federal Financial Accounting Standards (SFFAS) 38, *Accounting for Federal Oil and Gas Resources*, for one year. The request explained that a variety of issues and challenges have arisen as a direct result of a major reorganization of MMS that will greatly complicate the implementation of SFFAS 38 for fiscal year 2012.

At the December 16, 2010, meeting, members considered BOEMRE's request and discussed a draft exposure draft of a standard that would defer the effective date of SFFAS 38 for one year. If approved, the new effective date of SFFAS 38 would be for periods beginning after September 30, 2012 (i.e., fiscal year 2013).

While a reorganization in and of itself would not normally be a justification for deferring a standard, members noted that the nature and extent of the MMS reorganization goes above and beyond what would be considered within the normal course of operations. The board unanimously supported the proposal but emphasized that earlier implementation is encouraged and strongly urged that the standard be implemented for fiscal year 2012 if at all possible.

The Exposure Draft, *Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources*, was released on January 5, 2011, with comments requested by February 7, 2011.

## **SUMMARY OF OUTREACH EFFORTS**

Upon release of the exposure draft on January 5, 2011, notices and press releases were provided to:

- a) the FASAB email listserv;
- b) the Federal Register;
- c) the *Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, and *Government Accounting and Auditing Update*;
- d) the CFO Council, the Presidents Council on Integrity and Efficiency, and the Financial Statement Audit Network; and,
- e) Committees of professional associations generally commenting on exposure drafts in the past (e.g., Greater Washington Society of CPAs, AGA Financial Management Standards Board).

This broad announcement was followed by direct e-mailings of the press release to:

- a) Relevant congressional committees
  - 1. Senate Committee on Energy and Natural Resources

2. Senate Committee on Finance
3. House Committee on Financial Services
4. House Committee on Natural Resources

b) Public interest groups and think tanks

1. Alliance to Save Energy
2. The Brookings Institution
3. The Cato Institute
4. Center on Budget and Policy Priorities
5. Citizens Against Government Waste
6. The Concord Coalition
7. The Heritage Foundation
8. National Parks Conservation Association (NPCA)
9. Natural Resources Defense Council (NRDC)
10. OMB Watch
11. Resources for the Future (RFF)
12. Sierra Club
13. The Urban Institute
14. World Resources Institute (WRI)

c) Respondents to SFFAS 38 and related EDs (or their successors)

1. Helene A. Baker, AGA Regional VP-Elect
2. Christopher Osborne, Environmental Protection Agency (EPA)
3. Robert Childree AGA, FMSB
4. James Short DOD, (succeeded by Robert Hale in Comptroller position – contacts are DCFO Mark Easton or Assistant DCFO Dave Smith)
5. Joseph Bakies (API, current contacts are Jim Williams or Paula Watkins)

6. Jeanette Franzel, GAO FMA Managing Director
7. Andrew Lewis, GWSCPA chair
8. Osman Masahudu , Department of Agriculture, Forest Service
9. Jerry Tucker, Department of Housing and Urban Development, Director Financial Policies and Procedures Division
10. Stefan Silzer, EPA, OFM Director
11. Bert Edwards, Self

d) Agencies that manage and / or account for federal natural resources

1. Department of the Interior (DOI) Office of the Secretary
2. DOI Bureau of Land Management
3. DOI Bureau of Ocean Energy Management, Regulation and Enforcement
4. DOI U.S. Geological Service (USGS)
5. Department of Agriculture (USDA), Deputy CFO
6. USDA Forest Service

To encourage responses, reminder notices were provided to the FASAB email listserv on January 28, 2011, and February 8, 2011.

**RESULT**

As of February 8, 2011, we have received 4 responses from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others	0	2
Auditors	0	0
Preparers and financial managers	2	0

In addition to the above responses, Dale Miller, Associate Director, Financial Policy and Planning Staff, Office of Financial Management, Environmental Protection Agency (EPA) sent an email stating that EPA has no comments on the exposure draft.

The complete set of comment letters is provided at Attachment 4. The comment letters include a table of contents and identify respondents in the order their responses are received. The comment letters appear as the final component of this memo to facilitate compilation and pagination. However, I encourage you to read the letters in their entirety before reading the staff summary below and at Attachment 3.

\*\*\*\*\*

If you require additional information or wish to suggest another alternative not considered in the staff paper, please contact me as soon as possible. If you have any questions or comments, please contact me by telephone at 202.512.7377 or by e-mail at [ranaganj@fasab.gov](mailto:ranaganj@fasab.gov).

Attachments (4)  
Enclosure (1)

## ATTACHMENT 1 – STAFF SUMMARY OF RESPONSES

### Tally of Responses by Question

QUESTION	YES/AGREE	NO/DISAGREE
Q1. Do you agree or disagree with the proposed one-year deferral of the effective date of SFFAS 38, <i>Accounting for Federal Oil and Gas Resources</i> (see paragraph 2 and further discussion in paragraphs A1 through A7)? Please explain the reasons for your position in as much detail as possible.	3	1

### Quick Table of Responses by Question

Quick Table of Responses by Question				Q1. Do you agree with the proposed one-year deferral of SFFAS 38?
No.	Respondent	Organization	Category	
1	Andrew Lewis	GWSCPA FISC	Non-Federal – Other	Yes
2	Tammy Smutny	Housing and Urban Development	Federal – Preparer	Yes
3	Eric Berman	AGA FMSB	Non-Federal – Other	No
4	Edward King	Department of the Interior - OCFO	Federal – Preparer	Yes

### Answers and Comments by Question and by Respondent

No.	Q1. Do you agree with the proposed one-year deferral of SFFAS 38?
1	The FISC agrees with the deferral to allow the applicable government agencies together and present accurate and meaningful information.
2	We agree with the proposed one-year deferral of the effective date of SFFAS 38, <i>Accounting for Federal Oil and Gas Resources</i> . As stated by the Board, the reorganization of MMS is unusual in nature and goes beyond the normal course of operation. These increased challenges make implementation difficult. The one-year deferral would allow MMS to properly implement the standard.
3	We disagree with the proposed deferral of the effective date, which has been requested due to Minerals Management Service reorganization within the Department of the Interior. SFFAS 38 states that the standard would become effective as required supplementary information (RSI) for periods beginning after September 30, 2011 with earlier implementation encouraged.

<b>No. Q1. Do you agree with the proposed one-year deferral of SFFAS 38?</b>	
	<p>Since the reorganization under the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) will require establishment of financial accounting and reporting, it seems best that the BOEMRE incorporate the RSI for natural resources immediately as part of its new reporting structure. Fiscal year 2012 should be achievable without undue hardship. FASAB itself in App. A, Basis for Conclusions, A7, “strongly urged that the standard be implemented for 2012 if at all possible”</p>
<p>4</p>	<p>The DOI agrees with the proposed one-year deferral of the effective date of SFFAS 38.</p> <p>On May 19, 2010, Secretary Salazar announced the restructuring of the Minerals Management Service (MMS), the component entity responsible for collecting federal oil and gas royalties and charged with preparing the information to be reported under SFFAS 38, by issuing Secretarial Order No. 3299. The structure established in Secretarial Order No. 3299 reflects Interior’s conclusions regarding how best to achieve the goals of mission independence, appropriate checks and balances, and rigorous oversight, while maintaining ongoing communication and coordination necessary to facilitate an effective, efficient and predictable process. As an interim step, MMS was also renamed the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE).</p> <p>MMS’s successor organization will be divided into three new entities. First, the BOEMRE and the Bureau of Safety and Environmental Enforcement will divide the duties of the former Offshore Energy and Minerals Management organization, with the former managing the development of conventional and renewable resources and minerals on the OCS, and the latter providing safety and environmental oversight. Second, the Office of Natural Resources Revenue (ONRR) will perform the royalty collection and disbursement roles of the former Minerals Revenue Management organization. On October 1, 2010, ONRR was transferred to DOI’s Assistant Secretary for Policy, Management and Budget.</p> <p>As a result of these significant organizational changes, many challenges and issues have arisen which will complicate the successful implementation of SFFAS 38. Numerous decisions remain regarding the reorganization and final make-up of the successor entities and the accounting and reporting support for each of the entities. Additionally, further analysis should be given to some of the underlying assumptions used in developing the requirements for the Standard, to determine potential impacts to reporting in light of the new organizational structure.</p> <p>Accordingly, DOI concurs with the Exposure Draft which proposes a one-year deferral of the effective date of SFFAS 38, and we appreciate the opportunity to provide comments on the matter.</p>

### Listing Of Additional Comments from Respondents

No.	COMMENT
1	We recommend that the Board address the following editorial matters: <ul style="list-style-type: none"><li data-bbox="264 461 1354 493">• Remove the duplicative reference to the “Table of Contents” at the top of page 5.</li><li data-bbox="264 506 1333 539">• In paragraph A7, add the words “fiscal year” before “2012” in the last sentence.</li></ul>

[page intentionally left blank]

## ATTACHMENT 2 – FULL TEXT OF COMMENT LETTERS ORGANIZED BY TYPE OF RESPONDENT

---

### **FP – Tammy Smutny, Department of Housing and Urban Development, OCFO (#2)**

We agree with the proposed one-year deferral of the effective date of SFFAS 38, Accounting for Federal Oil and Gas Resources. As stated by the Board, the reorganization of MMS is unusual in nature and goes beyond the normal course of operation. These increased challenges make implementation difficult. The one-year deferral would allow MMS to properly implement the standard.

#### **Key / Legend**

FP = federal preparer  
NFO = non-federal other  
(#) = comment letter number

### **FP – Ed King, Department of the Interior, OFM (#4)**

The DOI agrees with the proposed one-year deferral of the effective date of SFFAS 38.

On May 19, 2010, Secretary Salazar announced the restructuring of the Minerals Management Service (MMS), the component entity responsible for collecting federal oil and gas royalties and charged with preparing the information to be reported under SFFAS 38, by issuing Secretarial Order No. 3299. The structure established in Secretarial Order No. 3299 reflects Interior's conclusions regarding how best to achieve the goals of mission independence, appropriate checks and balances, and rigorous oversight, while maintaining ongoing communication and coordination necessary to facilitate an effective, efficient and predictable process. As an interim step, MMS was also renamed the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE).

MMS's successor organization will be divided into three new entities. First, the BOEMRE and the Bureau of Safety and Environmental Enforcement will divide the duties of the former Offshore Energy and Minerals Management organization, with the former managing the development of conventional and renewable resources and minerals on the OCS, and the latter providing safety and environmental oversight. Second, the Office of Natural Resources Revenue (ONRR) will perform the royalty collection and disbursement roles of the former Minerals Revenue Management organization. On October 1, 2010, ONRR was transferred to DOI's Assistant Secretary for Policy, Management and Budget.

As a result of these significant organizational changes, many challenges and issues have arisen which will complicate the successful implementation of SFFAS 38. Numerous decisions remain regarding the reorganization and final make-up of the successor entities and the accounting and reporting support for each of the entities. Additionally, further analysis should be given to some of the underlying assumptions used in developing the requirements for the Standard, to determine potential impacts to reporting in light of the new organizational structure.

Accordingly, DOI concurs with the Exposure Draft which proposes a one-year deferral of the effective date of SFFAS 38, and we appreciate the opportunity to provide comments on the matter.

**NFO – Andrew Lewis, Greater Washington Society of CPAs (#1)**

The FISC agrees with the deferral to allow the applicable government agencies together and present accurate and meaningful information.

We recommend that the Board address the following editorial matters:

- Remove the duplicative reference to the “Table of Contents” at the top of page 5.
- In paragraph A7, add the words “fiscal year” before “2012” in the last sentence.

**NFO – Robert Childree, AGA, the Financial Management Standards Board (#3)**

We disagree with the proposed deferral of the effective date, which has been requested due to Minerals Management Service reorganization within the Department of the Interior. SFFAS 38 states that the standard would become effective as required supplementary information (RSI) for periods beginning after September 30, 2011 with earlier implementation encouraged. Since the reorganization under the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) will require establishment of financial accounting and reporting, it seems best that the BOEMRE incorporate the RSI for natural resources immediately as part of its new reporting structure. Fiscal year 2012 should be achievable without undue hardship. FASAB itself in App. A, Basis for Conclusions, A7, “strongly urged that the standard be implemented for 2012 if at all possible”.

**--- END OF COMMENT LETTERS ---**

---

## ATTACHMENT 3 – STAFF ANALYSIS AND RECOMMENDATIONS

Staff has summarized and analyzed the responses to the sole question for respondents as well as other comments received. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. When feasible, staff provides a recommendation in response to issues identified.

### **One-year Deferral of SFFAS 38**

3 of 4, or 75%, of respondents to the ED **agreed** with the proposed one-year deferral of the effective date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*. The other respondent disagreed with the proposed deferral, stating that since the reorganization of MMS “will require establishment of financial accounting and reporting, it seems best that the BOEMRE incorporate the RSI for natural resources immediately as part of its new reporting structure. Fiscal year 2012 should be achievable without undue hardship.”

Staff believes this issue was already discussed by members at the December 2009 board meeting prior to the issuance of the final SFFAS 38. The staff memo for the meeting included the following paragraph under Issue 1: Ending Period for RSI – To be explicit or not to be explicit?<sup>1</sup>

At the October board meeting and in his comment above, Mr. Steinberg stated that the board needs to be more explicit in order to keep the pressure moving on the preparers to develop the necessary systems and data bases. Interior has reviewed a copy of the draft pre-ballot draft and staff has specifically spoken with the field test team lead about the board's intent; there is no misunderstanding on Interior's part about the intent of the board. However, double-entry bookkeeping is not a requirement for RSI or note disclosure; the Treasury standard general ledger (SGL) does not provide accounting general ledger accounts or account transactions for transactions or events that do not result in financial statement recognition... Therefore, staff believes it is not at all likely that Interior would incur the expense to update its systems until the information is actually required as financial statement recognition and the required accounts and account transactions are added to the SGL.

The minutes from the December 2009 board meeting documented the discussion regarding this issue as follows:

Ms. Ranagan stated that the majority board vote at the October meeting was to require that the dollar amount of the government's royalty share of federal oil and gas proved reserves and the dollar amount of those royalties designated to be distributed to others be reported as Required Supplementary Information (RSI) for three years. The board decided that it would reconvene prior to the end of the RSI period to decide whether to require the information to be recognized in the financial statements or disclosed in the notes to the financial statements. The board plans to utilize the experience gained by the Department of Interior (DOI) and others during the RSI period to inform their decision regarding financial statement recognition versus note disclosure.

Staff pointed out that additional implementation time might need to be provided if the board decides to require that the information be recognized in the financial statements. This will allow

---

<sup>1</sup> December 3, 2009, Issue Paper: Tab C – Natural Resources ; available online at <http://www.fasab.gov/pdffiles/natres-tabc.pdf>; last accessed February 9, 2011.

time for the Standard General Ledger (SGL) Board to finalize the accounts and transactions and for system changes. Mr. Dacey said that since the information would most likely be gathered outside of the system and then entered with a journal voucher, he does not believe a significant amount of lead time would be required. He noted how quickly transactions were recorded and reported for the new initiatives that were undertaken this past year as a result of the Troubled Assets Relief Program and other stabilization activities.

Mr. Jackson commented that the board could require the information to move from RSI to note disclosure for a period and then to recognition in the financial statements so there would be a nice continuum while allowing time for the (SGL) Board to create the entries and the agencies to modify their systems. Mr. Steinberg said he would like to turn the footnote suggested by staff <sup>[FN]</sup> into an actual paragraph in the standard in order to better highlight the board's decision. The majority of the board agreed with Mr. Steinberg's proposal.

<sup>[FN]</sup> It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. The Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure prior to the conclusion of the three-year RSI period.

**Staff recommendation:** Staff believes the board previously discussed a concern similar to the one presented by the respondent. It was agreed that the ability to present information as RSI would not be affected by the current systems or reporting structures in place at the reporting date. As noted by staff, it is not at all likely that Interior would incur the expense to update its systems until the information is actually required as financial statement recognition and the required accounts and account transactions are added to the SGL. In addition, Interior is aware of the upcoming requirements and will incorporate them into their reporting structure as they deem appropriate. Staff recommends that the proposed deferral be issued as final.

**Do you agree with staff's recommendation?**

**ATTACHMENT 4 –Exposure Draft,  
Deferral of SFFAS 38, Accounting for Federal Oil and Gas Resources  
Comment Letters**

---

<b>#</b>	<b>Respondent</b>	<b>Affiliation</b>	<b>Page</b>
<b>1</b>	Andrew Lewis	Greater Washington Society of CPAs, FISC	16
<b>2</b>	Tammy Smutny	Dept of Housing and Urban Development, OCFO	18
<b>3</b>	Eric Berman	Assoc. of Government Accountants, FMSB	20
<b>4</b>	Edward King	Dept. of the Interior, OCFO	22



## Greater Washington Society of CPAs and GWSCPA Educational Foundation

---

1111 19<sup>th</sup> Street, NW, Suite 1200, Washington, DC 20036  
202-464-6001 (v) 202-238-9604 (f) [www.gwscpa.org](http://www.gwscpa.org) [info@gwscpa.org](mailto:info@gwscpa.org)

January 31, 2011

Wendy Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW – Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB or the Board) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards entitled *Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes 26 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED questions follow.

Q1. Do you agree or disagree with the proposed one-year deferral of the effective date of SFFAS 38, Accounting for Federal Oil and Gas Resources (see paragraph 2 and further discussion in paragraphs A1 through A7)? Please explain the reasons for your position in as much detail as possible.

A1. The FISC agrees with the deferral to allow the applicable government agencies together and present accurate and meaningful information.

### Other Comments

We recommend that the Board address the following editorial matters:

- Remove the duplicative reference to the "Table of Contents" at the top of page 5.
- In paragraph A7, add the words "fiscal year" before "2012" in the last sentence.

\*\*\*\*\*

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in black ink that reads "Andrew Lewis". The signature is written in a cursive, flowing style with a prominent initial 'A' and a long, sweeping underline.

Andrew C. Lewis  
FISC Chair

**From:** Smutny, Tammy L [<mailto:Tammy.L.Smutny@hud.gov>]  
**Sent:** Tuesday, February 01, 2011 7:24 AM  
**To:** FASAB  
**Subject:** Resending: Accounting for Federal Oil and Gas Resources/Federal Natural Resources Exposure Drafts (Deferral of the Effective Date of SFFAS38 and Technical Bulletin 2011-1)

I am resending the email submission below because Microsoft Exchange sent a "delivery delayed" message at 6:30pm yesterday. I am sorry for the delayed submission of our comments.

Tammy L. Smutny  
Financial Policies & Procedures Division  
Office of the Chief Financial Officer

---

**From:** Smutny, Tammy L  
**Sent:** Monday, January 31, 2011 2:09 PM  
**To:** 'fasab@fasab.gov'  
**Cc:** SIDARI, David P; Vaiana, Jerome A; Tucker, Gerald A  
**Subject:** Accounting for Federal Oil and Gas Resources/Federal Natural Resources Exposure Drafts (Deferral of the Effective Date of SFFAS 38 and Technical Bulletin 2011-1)

Thank you for the opportunity to provide comments on the above exposure drafts. Attached are the Department of Housing and Urban Development's comments for these exposure drafts. Please direct any questions concerning our response to me at the number listed below.

Tammy L. Smutny  
Financial Policies & Procedures Division  
Office of the Chief Financial Officer

**Deferral of the Effective Date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*****Executive Summary**

The Board is proposing to defer the effective date for Statement of Federal Financial Accounting Standards 38, *Accounting for Federal Oil and Gas Resources*, for one year. Under this proposal, the standards would become effective as required supplementary information for periods beginning after September 30, 2012, with earlier implementation encouraged.

**Questions for Respondents**

Q1. Do you agree or disagree with the proposed one-year deferral of the effective date of SFFAS 38, *Accounting for Federal Oil and Gas Resources* (see paragraph 2 and further discussion in paragraphs A1 through A7)? Please explain the reasons for your position in as much detail as possible.

Response: We agree with the proposed one-year deferral of the effective date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*. As stated by the Board, the reorganization of MMS is unusual in nature and goes beyond the normal course of operation. These increased challenges make implementation difficult. The one-year deferral would allow MMS to properly implement the standard.



February 4, 2011

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

Advancing  
Government  
Accountability

2208 Mount Vernon Ave  
Alexandria, VA 22301

(703) 684-6931  
(703) 548-9367 (fax)

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide a response to the Federal Accounting Standards Advisory Board on the exposure draft of its proposed statement of federal financial accounting standards, *Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources*. The FMSB, comprising 24 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

*Q1. Do you agree or disagree with the proposed one-year deferral of the effective date of SFFAS 38, Accounting for Federal Oil and Gas Resources (see paragraph 2 and further discussions in paragraphs A1 through A7)? Please explain the reasons for your position in as much detail as possible.*

We disagree with the proposed deferral of the effective date, which has been requested due to Minerals Management Service reorganization within the Department of the Interior. SFFAS 38 states that the standard would become effective as required supplementary information (RSI) for periods beginning after September 30, 2011 with earlier implementation encouraged. Since the reorganization under the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) will require establishment of financial accounting and reporting, it seems best that the BOEMRE incorporate the RSI for natural resources immediately as part of its new reporting structure. Fiscal year 2012 should be achievable without undue hardship. FASAB itself in App. A, Basis for Conclusions, A7, “strongly urged that the standard be implemented for 2012 if at all possible”

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of members approved the issuance of this letter. If you have questions concerning the comments in this letter, please contact Anna D. Gowans Miller, CPA, AGA’s director of research and staff liaison for the FMSB, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or at 703.684.6931 ext. 313.

Sincerely,

Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Lisa Casias, CPA  
AGA National President



**Association of Government Accountants  
Financial Management Standards Board**

**July 2010 – June 2011**

Eric S. Berman, Chair  
Katherine J. Anderson  
Frank D. Banda  
Robert L. Childree  
Irwin T. David  
Jeanne B. Erwin  
Jeffrey W. Green  
J. Dwight Hadley  
David R. Hancox  
Ruthe Holden  
Rashad A. Holloway  
David C. Horn  
Albert A. Hrabak  
Drummond Kahn  
Simcha Kuritzky  
Valerie A. Lindsey  
Edward J. Mazur  
Craig M. Murray  
Suesan R. Patton  
Clarence L. Taylor, Jr.  
Roger Von Elm  
Donna J. Walker  
Stephen B. Watson  
Sheila Weinberg

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)  
Anna D. Gowans Miller, Technical Manager, AGA, Staff Liaison



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
Office of the Secretary

February 8, 2011

Ms. Wendy M. Payne, CPA, CGFM  
Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW - Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Department of Interior (DOI) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft proposing a one-year deferral of the effective date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*.

**Q1. Do you agree or disagree with the proposed one-year deferral of the effective date of SFFAS 38, *Accounting for Federal Oil and Gas Resources* (see paragraph 2 and further discussion in paragraphs A1 through A7)?**

The DOI agrees with the proposed one-year deferral of the effective date of SFFAS 38.

On May 19, 2010, Secretary Salazar announced the restructuring of the Minerals Management Service (MMS), the component entity responsible for collecting federal oil and gas royalties and charged with preparing the information to be reported under SFFAS 38, by issuing Secretarial Order No. 3299. The structure established in Secretarial Order No. 3299 reflects Interior's conclusions regarding how best to achieve the goals of mission independence, appropriate checks and balances, and rigorous oversight, while maintaining ongoing communication and coordination necessary to facilitate an effective, efficient and predictable process. As an interim step, MMS was also renamed the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE).

MMS's successor organization will be divided into three new entities. First, the BOEMRE and the Bureau of Safety and Environmental Enforcement will divide the duties of the former Offshore Energy and Minerals Management organization, with the former managing the development of conventional and renewable resources and minerals on the OCS, and the latter providing safety and environmental oversight. Second, the Office of Natural Resources Revenue (ONRR) will perform the royalty collection and disbursement roles of the former Minerals Revenue Management

organization. On October 1, 2010, ONRR was transferred to DOI's Assistant Secretary for Policy, Management and Budget.

As a result of these significant organizational changes, many challenges and issues have arisen which will complicate the successful implementation of SFFAS 38. Numerous decisions remain regarding the reorganization and final make-up of the successor entities and the accounting and reporting support for each of the entities. Additionally, further analysis should be given to some of the underlying assumptions used in developing the requirements for the Standard, to determine potential impacts to reporting in light of the new organizational structure.

Accordingly, DOI concurs with the Exposure Draft which proposes a one-year deferral of the effective date of SFFAS 38, and we appreciate the opportunity to provide comments on the matter.

Sincerely,

/s/

Edward King  
Acting Deputy Director  
Office of Financial Management  
US Department of the Interior  
(202) 208-3425

# **Tab B – Appendix 1**

**Draft SFFAS 41,  
Deferral of the Effective  
Date of SFFAS 38,  
*Accounting for Federal Oil  
and Gas Resources***

[This page intentionally left blank.]



Federal Accounting Standards Advisory Board

---

**Deferral of the Effective Date of SFFAS 38, *Accounting for Federal Oil and Gas Resources***

**Statement of Federal Financial Accounting Standards 41**

**Deleted:** Exposure Draft

**Deleted:** Written comments are requested by February 7, 2011

August 1, 2011

**Deleted:** January

**Deleted:** 5

---

## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: [www.fasab.gov](http://www.fasab.gov).

Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail stop 6K17V  
Washington, DC 20548  
Telephone 202-512-7350  
Fax 202-512-7366  
[www.fasab.gov](http://www.fasab.gov)

This is a work of the U. S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

**Deleted:** January 5, 2011¶

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION¶

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources*. A specific question for your consideration appears on page 6 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by February 7, 2011.¶

¶ All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.¶ We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:¶

Wendy M. Payne, Executive Director¶  
Federal Accounting Standards Advisory Board¶  
Mailstop 6K17V¶  
441 G Street, NW, Suite 6814¶  
Washington, DC 20548¶  
The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.¶  
Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter. ¶

¶

Tom L. Allen¶

Chairman

Summary

~~This Statement defers~~ the effective date ~~of~~ Statement of Federal Financial Accounting Standards ~~(SFFAS)~~ 38, *Accounting for Federal Oil and Gas Resources*, for one year. ~~The standards contained in SFFAS 38 will~~ become effective as required supplementary information for periods beginning after September 30, 2012, with earlier implementation encouraged.

- Deleted:** Executive
- Deleted:** The Board is proposing to defer
- Deleted:** for
- Deleted:** Under this proposal,
- Deleted:** t
- Deleted:** ould

---

**Table of Contents**

Summary ..... 3

Standards ..... 6

    Scope ..... 6

    Amendment to SFFAS 38..... 6

    Effective Date ..... 6

Appendix A: Basis for Conclusions ..... 7

    Project History ..... 7

    Request for Deferral ..... 8

    Due Process ..... 8

        Comment Letters..... 9

Appendix B: Abbreviations ..... 11

Appendix 1

Deleted: Question for Respondents

Deleted: Question for Respondents¶

Respondents may offer a response to the specific question posed below, raise new issues, or respond generally. It is most helpful if your response includes an explanation for your position and any alternatives you propose. ¶

Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to: ¶  
Wendy M. Payne, Executive Director ¶  
Federal Accounting Standards Advisory Board ¶  
Mailstop 6K17V ¶  
441 G Street, NW, Suite 6814 ¶  
Washington, DC 20548 ¶

¶  
All responses are requested by February 7, 2011.¶

**<#>Do you agree or disagree with the proposed one-year deferral of the effective date of SFFAS 38, Accounting for Federal Oil and Gas Resources (see paragraph 2 and further discussion in paragraphs A1 through A7)? Please explain the reasons for your position in as much detail as possible.¶**

**Formatted:** Questions, Indent: Left: 0", Hanging: 0.4", Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.1" + Tab after: 0.1" + Indent at: 0.11"

---

**Standards**

Deleted: Proposed

**Scope**

1. This Statement applies to federal entities that report information about federal oil and gas resources in general purpose federal financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

**Amendment to SFFAS 38**

2. Paragraphs 5 and 30 of SFFAS 38, *Accounting for Federal Oil and Gas Resources*, are amended as follows:

The standards are effective as RSI for periods beginning after September 30, ~~2011~~2012. Earlier implementation is encouraged.

**Effective Date**

3. This standard is effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.

---

**Appendix A: Basis for Conclusions**

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

**Project History**

- A1. FASAB issued Statement of Federal Financial Accounting Standards (SFFAS) 38, *Accounting for Federal Oil and Gas Resources*, on April 13, 2010. This standard requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, this standard requires the value of estimated petroleum royalty revenue designated for others be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others. These schedules are to be presented in required supplementary information (RSI) as part of a discussion of all significant federal oil and gas resources under management by the entity. SFFAS 38 is effective as RSI for periods beginning after September 30, 2011 with earlier implementation encouraged.
- A2. It is the Board's intent that the information required by SFFAS 38 transitions to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. SFFAS 38 will remain in effect until such time a determination is made.
- A3. On September 30, 2010, FASAB staff was informed that the Department of the Interior (DOI) was considering requesting a one-year deferral of the effective date of SFFAS 38 due to the recent reorganization of the Minerals Management Service (MMS) into several different bureaus under the newly created Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). MMS had been the component entity responsible for collecting royalties and charged with preparing the information to be reported under SFFAS 38.
- A4. On October 7, 2010, FASAB staff notified a BOEMRE representative that in order to issue an amendment to the standard by September 2011, staff would need to receive DOI's formal deferral request in time to prepare a draft exposure draft (ED) for the December 2010 board meeting.

## Request for Deferral

- A5. The formal request was received from BOEMRE on November 18, 2010. The request explained that MMS's successor organization will be divided into three new entities. First, the BOEMRE and the Bureau of Safety and Environment Enforcement will divide the duties of the former Offshore Energy and Minerals Management organization, with the former managing the development of conventional and renewable resources and minerals on the Outer Continental Shelf, and the latter providing safety and environmental oversight. These new bureaus will report to the Assistant Secretary of Land and Minerals Management. Second, the Office of Natural Resources Revenue (ONRR) will perform the roles of the former Minerals Revenue Management organization and report to the Assistant Secretary for Policy, Management and Budget.
- A6. BOEMRE's request stated that many issues and challenges have arisen as a direct result of these organizational changes that will greatly complicate the implementation of SFFAS 38 for fiscal year 2012. Accordingly, a one-year deferral of SFFAS 38 was requested.
- A7. While a reorganization in and of itself would not normally be a justification for deferring a standard, the Board members noted that the nature and extent of the MMS reorganization goes above and beyond what would be considered within the normal course of operations. The Board therefore approved the one-year deferral, but emphasized that earlier implementation is encouraged and strongly urged that the standard be implemented for fiscal year 2012 if at all possible.

## Due Process

- A8. The Exposure Draft (ED), Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources, was released on January 5, 2011, with comments requested by February 7, 2011.
- A9. Upon release of the ED, notices and press releases were provided to the FASAB email listserv, the Federal Register, The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive, the CPA Letter, Government Accounting and Auditing Update, the CFO Council, the Council of Inspectors General on Integrity and Efficiency, and the Financial Statement Audit Network, and committees of professional associations generally commenting on exposure drafts in the past (e.g., Greater Washington Society of CPAs, AGA Financial Management Standards Board).
- A10. This broad announcement was followed by direct e-mailings of the press release to:

Formatted: Heading 2

Formatted: Bullets and Numbering

a) Relevant congressional committees: Senate Committee on Energy and Natural Resources, Senate Committee on Finance, House Committee on Financial Services, and House Committee on Natural Resources;

**Formatted:** Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.75" + Tab after: 1" + Indent at: 1"

b) Public interest groups and think tanks: Alliance to Save Energy, The Brookings Institution, The Cato Institute, Center on Budget and Policy Priorities, Citizens Against Government Waste, The Concord Coalition, The Heritage Foundation, National Parks Conservation Association (NPCA), Natural Resources Defense Council (NRDC), OMB Watch, Resources for the Future (RFF), Sierra Club, The Urban Institute, and World Resources Institute (WRI);

**Formatted:** Bullets and Numbering

c) Respondents to SFFAS 38 and related EDs (or their successors);

d) Agencies that manage and / or account for federal natural resources: Department of the Interior (DOI) Office of the Secretary; DOI Bureau of Land Management ; DOI Bureau of Ocean Energy Management, Regulation and Enforcement; DOI U.S. Geological Service (USGS); Department of Agriculture (USDA), Deputy CFO; and USDA Forest Service.

**Formatted:** Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.75" + Tab after: 1" + Indent at: 1", Tabs: 0.94", List tab

A11. To encourage responses, reminder notices were provided to the FASAB email listserv on January 28, 2011, and February 8, 2011.

**Formatted:** Bullets and Numbering

Comment Letters

A12. Four comment letters were received from the following sources:

	<u>FEDERAL (Internal)</u>	<u>NON-FEDERAL (External)</u>
<u>Users, academics, others</u>		<u>2</u>
<u>Auditors</u>	<u>0</u>	
<u>Preparers and financial managers</u>	<u>2</u>	

**Formatted:** Space After: 0 pt

**Formatted:** Bullets and Numbering

**Formatted:** Space Before: 0 pt, After: 0 pt

**Formatted Table**

A13. The Board considered responses to the exposure draft at its February 23, 2011, public meeting. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The respondents' comments are summarized below.

**Formatted:** Space Before: 12 pt

**Formatted:** Bullets and Numbering

A14. Three of the four respondents were in favor of deferring the effective date. One respondent disagreed, citing the need for DOI to incorporate the reporting for oil and gas resources into its newly reorganized reporting structure as it is being developed. The Board considered both views and decided to approve the one-year deferral, noting that the additional time provided to DOI to improve upon its estimation process in light of the major reorganization of MMS would be preferable.

A15. This statement was approved **[UPDATE]** Written ballots are available for public inspection at the FASAB's offices.

---

**Appendix B: Abbreviations**

BOEMRE	Bureau of Ocean Energy Management, Regulation and Enforcement
CFR	Consolidated Financial Report of the U.S. Government
DOI	Department of the Interior
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
MMS	Minerals Management Service
ONRR	Office of Natural Resources Revenue
RSI	Required Supplementary Information
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

**FASAB Board Members**

Tom L. Allen, Chair

Debra J. Bond

Robert F. Dacey

Michael H. Granof

Mark Reger

Norwood J. Jackson, Jr.

Alan H. Schumacher

D. Scott Showalter

Harold I. Steinberg

**FASAB Staff**

Wendy M. Payne, Executive Director

**Project Staff**

Julia Ranagan

Federal Accounting Standards Advisory Board  
441 G Street NW, Suite 6814  
Mail Stop 6K17V  
Washington, DC 20548  
Telephone 202-512-7350  
FAX 202-512-7366  
[www.fasab.gov](http://www.fasab.gov)

---

Federal Accounting Standards Advisory Board  
*Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources*  
August 1, 2011