



Federal Accounting Standards Advisory Board

April 11, 2018

Memorandum

To: Members of the Board

Monica R. Valentine

From: Monica R. Valentine, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subject: **Summaries of Comment Letters – Classified Activities¹ – Tab H**

MEMBER ACTION REQUESTED:

- Review responses in TAB H-Attachments to the exposure draft, *Classified Activities* and discuss steps to revise proposal for final issuance.

MEETING OBJECTIVE

The objective for this meeting is to review the comment letters received on the Classified Activities (CA) exposure draft (**Tab H- Attachments**).

BRIEFING MATERIAL

The staff summary consists of a brief background, summary of outreach efforts and an Executive Summary followed by tables identifying respondents by type and affiliation and analyses of their responses by question. **Tab H-Attachments** includes the comment letters and table of contents that identifies respondents in the order their responses were received. The attachments also include the original Exposure Draft.

The 90 day comment period ended on March 16th and as of April 13 we have received 17 responses.

Staff has summarized responses to each of the questions. Please note that to facilitate analysis staff's summary takes excerpts from respondent replies. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Staff also notes preparing the Tally of Responses and Quick Tables of Responses by Question was not as straight forward or as the Board might be accustomed to seeing because of the following reasons:

- Some respondents chose to address only portions of the ED
- Some respondents provided a narrative response to the question, without actually indicating agreement or disagreement
- Some respondents indicated agreement with the proposal but provided either a caveat or additional information for consideration (that may have been indicated as a reason for disagreement by another respondent)

As such, perceived correlations between questions should be carefully analyzed and considered in connection to the individual respondent's views.

During the meeting we will have the opportunity to discuss the ED responses and determine the next steps for revising the proposal. **Please note that specific edits to the proposed standard can only be discussed in closed session due to the sensitive nature of the surrounding topics.**

Thank you and I look forward to our meeting.

Table of Contents

| | |
|---|-----------|
| BACKGROUND | 4 |
| SUMMARY OF OUTREACH EFFORTS | 4 |
| TABLE 1.0 - SUMMARY OF RESPONDENT TYPES TO EXPOSURE DRAFT | 6 |
| TABLE 1.1 - SUMMARY OF RESPONDENT AGENCIES..... | 7 |
| TABLE 2.0 – TALLY OF RESPONSES BY QUESTION..... | 8 |
| TABLE 3.0 – QUICK TABLE OF RESPONSES BY QUESTION: QUESTIONS 1 – 4..... | 16 |
| TABLE 4.0 – QUICK TABLE OF RESPONSES BY QUESTION: QUESTIONS 5A – 5C.. | 18 |
| TABLE 6.0 – SUMMARY OF RESPONSES BY QUESTION | 20 |
| TABLE 6.0 - RESPONDENTS | 39 |

BACKGROUND

The Board is proposing guidance to protect classified national security information or activities from unauthorized disclosure in a publically issued General Purpose Federal Financial Report. This proposal represents the first step in balancing the need for financial reports to be publicly available with the need to protect classified information from public disclosure.

The proposal would permit modifications that do not affect net results of operations and net position. In addition, if classified information could be revealed by applying the requirements of Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, this proposal would permit certain modifications to protect classified information. Further, Interpretations, that may themselves contain classified information, would address the requirements of existing standards and permit other modifications when needed to protect classified information. Modifications permitted by future Interpretations may affect net results of operations and net position.

SUMMARY OF OUTREACH EFFORTS

The ED was issued December 14, 2017 with comments requested by March 16, 2018. Upon release of the exposure draft, notices and press releases went to the following organizations:

- a) The Federal Register
- b) *FASAB News*
- c) *The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive and the CPA Letter*
- d) The CFO Council, the Council of the Inspectors General on Integrity and Efficiency (CIGIE), the Financial Statement Audit Network; and members of the Central Reporting Team
- e) Committees of professional associations generally commenting on exposure drafts in the past

This broad announcement was followed by electronic mailings of the exposure draft to:

Relevant congressional committees

- a. House Oversight and Government Reform Committee
- b. House Homeland Security Committee
- c. House Permanent Select Committee on Intelligence
- d. House Armed Services Committee
- e. House Appropriations Committee
- f. Senate Homeland Security and Governmental Affairs Committee

- g. Senate Appropriations Committee
- h. Senate Select Committee on Intelligence
- i. Senate Armed Services Committee

Several reminder notices were provided during the comment period.

RESULT

We received a total of 17 responses. Table 1.0 summarizes all received responses below.

Table 1.0 - Summary of Respondent Types to Exposure Draft

| RESPONDENT TYPE | FEDERAL (Internal) | NON-FEDERAL (External) | TOTAL |
|---|-------------------------------|-----------------------------------|--------------|
| Preparers and financial managers | 10 | 0 | 10 |
| Users, academics, others | 1 | 3 | 4 |
| Auditors | 1 | 2 | 3 |
| Total | 12 | 5 | 17 |

Table 1.1 - Summary of Respondent Agencies

| RESPONDENT AGENCIES | FEDERAL (# Respondent Letters) |
|---------------------------------------|---|
| Defense | 2 |
| DHS | 1 |
| Energy | 1 |
| HUD | 1 |
| Interior | 1 |
| Labor | 1 |
| Office of Personnel Management | 1 |
| Other Government Agency | 1 |
| SEC | 1 |
| Treasury | 1 |
| Veterans Affairs | 1 |
| Total | 12 |

Table 2.0 – Tally of Responses by Question

Table 2.0 – Tally of Responses by Question

| Question Number | QUESTION | YES / AGREE | NO / DISAGREE or N/A | RATIONALE FOR “NO/DISAGREE” |
|-----------------|--|-------------|----------------------|---|
| 1. | Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer. | 12 | 2 3 | <ul style="list-style-type: none"> ■ The proposed guidance appears to allow entities to misrepresent their public financial statements to protect classified information. This proposal conflicts with the AICPA requirement that an auditor assess whether an entity's financial statements can be considered a fair representation of its use of Federal resources, regardless if the entity followed the accounting framework. ■ Generally Accepted Accounting Principles (GAAP) should not be modified to limit reporting of classified activities. Rather, GAAP reporting should remain the same as other Federal entities and redacted for public release or remain classified. This approach retains the benefits of GPFFR and audited financial statements in terms of improving underlying processes, systems, and controls, as well as the usefulness of GPFFR to users, even if those users are limited. |

Table 2.0 – Tally of Responses by Question

| Question Number | QUESTION | YES / AGREE | NO / DISAGREE or N/A | RATIONALE FOR “NO/DISAGREE” |
|-----------------|---|-------------|----------------------|--|
| 2a. | <p>Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.</p> | 10 | <p>2 5</p> | <ul style="list-style-type: none"> ■ Allowing reporting entities to modify presentations—such as presenting amounts associated with one account in another nontraditional account and not disclosing this departure—raises questions and concerns about accounting treatment of classified transactions. These concerns include balancing the risk of releasing classified information with the need to prepare meaningful financial statements, diminishing the ability for entities and auditors to work together to fairly state and protect classified information, advocating any accounting treatment for classified transactions, and demonstrating how this proposed standard protects classified information better than current practices. ■ This approach limits the value, usefulness, and benefits of financial statements as currently defined by GAAP. Financial statements of classified entities should remain classified or redacted like other classified documents before release to the public. |

Table 2.0 – Tally of Responses by Question

| Question Number | QUESTION | YES / AGREE | NO / DISAGREE or N/A | RATIONALE FOR “NO/DISAGREE” |
|-----------------|---|-------------|----------------------|--|
| 2b. | <p>Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, <i>Reporting Entity</i>, when necessary to protect classified information? Please provide the rationale for your answer.</p> | 10 | <p>2 5</p> | <ul style="list-style-type: none"> ■ The integrity of current GAAP as it applies to all Federal entities should be retained. As an alternative, management of the reporting entity could opt to prepare a special purpose financial statement or special purpose GPFFR, disclose this fact, and appropriately exclude the component. Under this scenario, the corresponding audit report would have to be for the special purpose financial statement, and not for the full and complete GPFFR. |
| 2c. | <p>Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.</p> | 10 | <p>1 6</p> | <ul style="list-style-type: none"> ■ The revisions proposed do not provide enough information for us to determine the potential impact of those omissions or non-disclosures to provide an informed response. |

Table 2.0 – Tally of Responses by Question

| Question Number | QUESTION | YES / AGREE | NO / DISAGREE or N/A | RATIONALE FOR “NO/DISAGREE” |
|-----------------|---|-------------|----------------------|--|
| 3. | <p>In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process.</p> <p>Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.</p> | 11 | 2 4 | <ul style="list-style-type: none"> ■ In our view, the use of Interpretations in this manner overreaches the purpose of an Interpretation since the Interpretation will result in non-public standards. If FASAB issues classified interpretations that modify net results of operations and net position of the entity, then the Interpretation changes the published standards. ■ Allowing only select individuals to view and accept the interpretations would limit due process and transparency. Both of these elements are crucial to the process of developing GAAP. |

Table 2.0 – Tally of Responses by Question

| Question Number | QUESTION | YES / AGREE | NO / DISAGREE or N/A | RATIONALE FOR “NO/DISAGREE” |
|-----------------|---|-------------|----------------------|---|
| 4. | <p>The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.</p> <p>Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.</p> | 11 | 6 | <ul style="list-style-type: none"> ■ Without additional information, we cannot agree or disagree. Specifically, the intent of this requirement appears to be to provide the public assurance that, even though the financial statements and disclosures are not a fair representation of the reporting entity, the underlying transactions are audited. ■ The first sentence in paragraph 9 is difficult to analyze: “Recorded amounts related to classified information must reconcile in aggregate to schedules or other documentation subject to audit.” How do “schedules or other documentation” relate to the financial statements? How does “reconcile in the aggregate” relate to the financial statements? Does this mean that the financial statements also reconcile in the aggregate? |

Table 2.0 – Tally of Responses by Question

| Question Number | QUESTION | YES / AGREE | NO / DISAGREE or N/A | RATIONALE FOR “NO/DISAGREE” |
|----------------------|--|-------------|----------------------|--|
| <p>5.</p> <p>5a.</p> | <p>The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.</p> <p>Do you agree or disagree with the disclosure requirements? Please provide the rationale for your answer.</p> | <p>8</p> | <p>6</p> <p>3</p> | <ul style="list-style-type: none"> ■ Treasury disagrees with the disclosure requirements as outlined in paragraphs 10-14, as we believe the requirement should be mandatory for all U.S. government agencies to state that classified information may be summarized, excluded, etc. Requiring all reporting entities to disclose will provide foreign enemies with less transparency as to those agencies with classified activities. ■ This disclosure casts doubt on the value of the financial statements and the related audit. ■ The FISC does not agree with the elective nature of paragraphs 10 and 11, which permit the preparers to determine whether to inform or not inform the readers of the GPFFRs whether modifications have been made to protect classified information. |

Table 2.0 – Tally of Responses by Question

| Question Number | QUESTION | YES / AGREE | NO / DISAGREE or N/A | RATIONALE FOR “NO/DISAGREE” |
|-----------------|---|-------------|----------------------|--|
| 5b. | <p>Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.</p> | 6 | <p>6 5</p> | <ul style="list-style-type: none"> ■ We do not agree that reporting entities should disclose that certain presentations may have been modified; as such disclosures could inadvertently cause classified information to be revealed. ■ Disagree. Disclosure may be necessary in the year when the new standards are implemented only. ■ We believe that component reporting entities should be required to disclose that modifications of presentations and omissions of disclosures were made. We recognize that the Board has put forward this proposal in the interest of national security; however, allowing entities to modify presentation and disclosures of the GPFFR without alerting the user impedes a user’s ability to assess how much weight to place on reported results in evaluating an entity’s operating performance. |

Table 2.0 – Tally of Responses by Question

| Question Number | QUESTION | YES / AGREE | NO / DISAGREE or N/A | RATIONALE FOR “NO/DISAGREE” |
|-----------------|--|-------------|----------------------|--|
| 5c. | <p>Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.</p> | 5 | 8 4 | <ul style="list-style-type: none"> ■ Revealing the mere presence of such information, in a particular reporting component, may compromise the classified information or the underlying reporting component entity that generated the classified information. ■ It would lead to questions from external parties if an agency with no expected classified activities adds a disclosure that presentations have been modified. |

Table 3.0 – Quick Table of Responses by Question: Questions 1 – 4

Table 3.0 – Quick Table of Responses by Question: Questions 1 – 4

| Respondent ▼ (see Table 6.0) | 1 Do you Agree? (Overall approach) | 2a Do you Agree? (Modifications w/o changing net results or net position) | 2b Do you Agree? (Modifications in applying SFFAS47) | 2c Do you Agree? (Modifications to disclosures and RSI) | 3 Do you Agree? (Classified Interpretations) | 4 Do you Agree? (Documentation to adequately support CI) |
|---|---|--|---|--|---|---|
| 1 – HUD | Yes | Yes | Yes | Yes | Yes | Yes |
| 2 – KPMG | N/A | N/A | N/A | N/A | N/A | N/A |
| 3 – VA | Yes | Yes | Yes | Yes | Yes | Yes |
| 4 – DHS | Yes | Yes | Yes | Yes | Yes | Yes |
| 5 – DOD OCFO | Yes | Yes | Yes | Yes | Yes | Yes |
| 6 – TREASURY | Yes | Yes | Yes | Yes | Yes | Yes |
| 7 – OPM | Yes | Yes | Yes | Yes | Yes | Yes |
| 8 – DOD OIG | No | No | No | N/A | No | N/A |
| 9 – AICPA | Yes | N/A | N/A | N/A | N/A | N/A |
| 10 – AGA-FMSB | Yes | Yes | Yes | Yes | Yes | N/A |

Table 3.0 – Quick Table of Responses by Question: Questions 1 – 4

| Respondent ▼ (see Table 6.0) | 1 | | 2a | | 2b | | 2c | | 3 | | 4 | |
|------------------------------------|---|----|---|----|--|----|---|----|---|----|---|----|
| | Do you Agree? (Overall approach) | | Do you Agree? (Modifications w/o changing net results or net position) | | Do you Agree? (Modifications in applying SFFAS47) | | Do you Agree? (Modifications to disclosures and RSI) | | Do you Agree? (Classified Interpretations) | | Do you Agree? (Documentation to adequately support CI) | |
| 11 – GSWCPA | Yes | | N/A | | N/A | | N/A | | Yes | | Yes | |
| 12 – OGA | Yes | | Yes | | Yes | | Yes | | Yes | | Yes | |
| 13 – SEC | N/A | | N/A | | N/A | | N/A | | N/A | | N/A | |
| 14 – KEARNEY | No | | No | | No | | No | | No | | Yes | |
| 15 – DOL | N/A | | N/A | | N/A | | N/A | | N/A | | N/A | |
| 16 - ENERGY | Yes | | Yes | | Yes | | Yes | | Yes | | Yes | |
| 17 – INTERIOR | Yes | | Yes | | Yes | | Yes | | Yes | | Yes | |
| Totals | 12 3 | 2 | 10 5 | 2 | 10 5 | 2 | 10 6 | 1 | 11 4 | 2 | 11 6 | 0 |
| KEY | YES N/A | NO | YES N/A | NO | YES N/A | NO | YES N/A | NO | YES N/A | NO | YES N/A | NO |

Table 4.0 – Quick Table of Responses by Question: Questions 5a – 5c

Table 4.0 – Quick Table of Responses by Question: Questions 5a – 5c

| Respondent ▼ (see Table 6.0) | 5a Do you Agree? (Disclosure requirements) | 5b Do you Agree? (Component entities can choose to consistently disclose that certain presentations may have been modified) | 5c Do you believe....? (Every federal component entity should be required to disclose that certain presentations may have been modified) | |
|---|---|--|---|--|
| 1 – HUD | Yes | Yes | No | |
| 2 – KPMG | No | No | N/A | |
| 3 – VA | Yes | Yes | No | |
| 4 – DHS | Yes | Yes | No | |
| 5 – DOD OCFO | Yes | Yes | No | |
| 6 – TREASURY | No | No | Yes | |
| 7 – OPM | Yes | No | Yes | |
| 8– DOD OIG | No | No | No | |
| 9 – AICPA | N/A | N/A | N/A | |
| 10 – AGA-FMSB | No | N/A | Yes | |

Table 4.0 – Quick Table of Responses by Question: Questions 5a – 5c

| Respondent ▼ (see Table 6.0) | 5a Do you Agree? (Disclosure requirements) | | 5b Do you Agree? (Component entities can choose to consistently disclose that certain presentations may have been modified) | | 5c Do you believe....? (Every federal component entity should be required to disclose that certain presentations may have been modified) | | | |
|------------------------------------|--|-----------|---|-----------|--|-----------|--|--|
| | | | | | | | | |
| 11 – GWSWCPA | No | | N/A | | N/A | | | |
| 12 – OGA | Yes | | Yes | | Yes | | | |
| 13 – SEC | N/A | | N/A | | No | | | |
| 14 – KEARNEY | No | | No | | No | | | |
| 15 – DOL | N/A | | N/A | | N/A | | | |
| 16 - ENERGY | Yes | | No | | No | | | |
| 17 – INTERIOR | Yes | | Yes | | Yes | | | |
| Totals | 8 | 6 | 6 | 6 | 5 | 8 | | |
| | 3 | | 5 | | 4 | | | |
| KEY | YES | NO | YES | NO | YES | NO | | |
| | N/A | | N/A | | N/A | | | |

Table 5.0 – Summary of Responses by Question ⁵

Table 6.0 – Summary of Responses by Question ²

| QUESTION - 1 | |
|--|--|
| <p>Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations³ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.</p> <p>Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.</p> | |
| 1. HUD | <p>HUD agrees with the Board's overall proposed approach to protecting classified information. This approach protects classified information that may be revealed through a FASAB Interpretation, yet still allows the Board to weigh-in on the accounting treatment or presentation of that classified information. HUD is in agreement that classified information should always be protected from unauthorized disclosure.</p> |
| 4. DHS OCFO | <p>HS agrees with the Board's overall proposed approach for protecting classified information. Classified information should be protected from unauthorized disclosure and the proposed Statement provides general guidance for protecting classified information.</p> |
| 5. DOD OCFO | <p>The DoD agrees with the Board's overall approach for protecting classified information.</p> <p>As the Board recognized in Paragraph A8 of the Basis for Conclusions in this ED, this proposed Statement permits certain techniques for protecting information within the GPFFR related to classified activities. Certain other techniques are expected to be addressed through classified guidance issued as Interpretations to this Statement.</p> |

² The staff's summary takes excerpts from each respondents' reply intended to support your consideration of the comments and *not* to substitute for a complete reading of the individual letters.

³ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

Table 5.0 – Summary of Responses by Question ⁵

| | |
|---------------------------|---|
| <p>6. TREASURY</p> | <p>Treasury agrees with the Board’s overall proposed approach with the requirement that the modification does not change net results of operations or net position.</p> |
| <p>7. OPM</p> | <p>Agree. This approach prevents unauthorized disclosure of classified information, and it also maintains accountability. It is important to have this guidance as US Generally Accepted Accounting Principles.</p> |
| <p>8. DOD OIG</p> | <p>Purpose of a financial statement. The proposed guidance appears to allow entities to misrepresent their public financial statements to protect classified information. This proposal conflicts with the AICPA requirement that an auditor assess whether an entity’s financial statements can be considered a fair representation of its use of Federal resources, regardless if the entity followed the accounting framework. The Board did not fully explain how it concluded that the optimal solution would be to allow reporting entities to issue unclassified, publically available financial statements that may or may not include modifications for classified transactions. The Board should consider explaining its rationale for establishing nontraditional accounting practices over other generally accepted alternatives for protecting classified information.</p> <p>Further analysis that this proposal protects national security. As written, paragraphs 5 and 6 of the draft standard appear to conclude that incorporating summary-level classified dollar amounts in the overall financial statement would result in public release of classified information. We do not agree that incorporating summary-level dollar amounts in the overall statements will necessarily result in the release of classified information. Further, we are not aware of any requirement or standard that the detailed dollar amounts included in a summary financial statement must be released to the public. The Board should clearly explain how entities would prevent public release of the information. We do not understand how reporting classified information through non-traditional accounts would protect national security.</p> <p>Apparent conflict with FASAB mission. This proposed standard (including any subsequent interpretations) coupled with the lack of specific footnote disclosures, jeopardizes the financial statements’ usefulness and provides financial managers with an arbitrary method of reporting accounting information. This proposed guidance is a major shift in Federal accounting guidance and, in our view, the potential impact is so expansive that it represents another comprehensive basis of accounting.</p> <p>Challenges in auditing the restated balances. The proposed guidance, as written, does not address circumstances in which classified adjustments (misstatements) result in situations where auditors express concerns that go beyond presentation to concerns</p> |

Table 5.0 – Summary of Responses by Question ⁵

| | |
|---------------------|---|
| | <p>about existence and completeness of account balances. The proposed guidance discusses presentation but not how displaying classified transactions in nontraditional accounts could impact an auditor’s view of the existence and completeness management assertions. It is unclear how an entity that knowingly reports classified transactions in nontraditional accounts while at the same time reporting non-classified transactions in accordance with current GAAP can only be considered to have a presentation issue (captured under this proposed standard), but not also have completeness and existence issues for the accounts being represented.</p> |
| 9. AICPA | <p>Overall, we recognize the challenges FASAB has encountered to ensure that classified national security information or activities is protected from unauthorized public disclosure. Based on our discussions with FASAB Appointments Panel members, representatives of a FASAB federal sponsor (the Government Accountability Office), and FASAB staff, we also understand that various other alternatives were considered prior to the issuance of the Exposure Draft that were discarded as they could not adequately protect the classified information or would result in other federal reporting challenges. In light of that fact, and our recognition of the need to ensure classified information is not disclosed publicly, we support FASAB’s issuance of this Exposure Draft and the modifications that would be permitted for that purpose.</p> |
| 10. AGA FMSB | <p>We agree with the overall approach. One element of national security is the ability to restrict the viewing of sensitive information. The approach is reasonable.</p> |
| 11. GWSCPA | <p>The FISC agrees with the Board’s proposed approach for protecting classified information.</p> |
| 12. OGA | <p>Agree, additional guidance is necessary to protect classified information in GPFFR while maintaining compliance with GAAP. FASAB Board classified Interpretations would provide additional guidance and clarification for agencies to follow when there is a need to protect classified information in the GPFFR.</p> |
| 14. KEARNEY | <p>Disagree. Generally Accepted Accounting Principles (GAAP) should not be modified to limit reporting of classified activities.</p> |
| 16. ENERGY | <p>We agree that the reporting entities should be able to modify unclassified financial statement presentations required by other standards to prevent the disclosure of classified information if the modification does not change the net result of operations or</p> |

Table 5.0 – Summary of Responses by Question ⁵

| | |
|---------------------|---|
| | net position. |
| 17. INTERIOR | Agree. The proposed approach will provide agencies guidance to protect classified information while still be compliant with GAAP. |

Table 5.0 – Summary of Responses by Question ⁵

| QUESTION – 2 | |
|--|--|
| <p>The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.</p> <p>a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.</p> <p>b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, <i>Reporting Entity</i>, when necessary to protect classified information? Please provide the rationale for your answer.</p> <p>c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.</p> | |
| 1. HUD | <p>a. HUD agrees with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position. This is the best possible scenario because it meets the objectives of EO 13526; by protecting classified information, yet “demonstrating a commitment to open government”.</p> <p>b. Agree. If an entity’s identification would disclose there is classified information, it makes sense to include that organization in another entity. Financial information will be transparent without identifying classified information.</p> <p>c. HUD agrees with permitting modifications, including omissions, to RSI, if the alternative would lead to disclosure of classified information. To do otherwise, would potentially jeopardize classified information.</p> |
| 4. DHS OCFO | <p>a. DHS agrees with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position. The proposed approach balances the public’s interest in financial information with the need to protect classified information.</p> <p>b. DHS agrees with permitting certain modifications when applying the provisions of SFFAS 47, <i>Reporting Entity</i>, when necessary to protect classified information. The</p> |

Table 5.0 – Summary of Responses by Question ⁵

| | |
|---------------------------|---|
| | <p>proposed approach balances the public’s interest in financial information with the need to protect classified information.</p> <p>c. DHS agrees with permitting modifications to disclosures and required supplementary information. The proposed approach balances the public’s interest in financial information with the need to protect classified information.</p> |
| <p>5. DOD OCFO</p> | <p>a. The DoD agrees with the Board’s proposal permitting reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information, that does not (1) change the net results of operations and net position.</p> <p>b. The DoD agrees with the Board’s proposal for permitting certain modifications when applying the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 47, Reporting Entity, and the inclusion of an organization in a manner that would not reveal classified information.</p> <p>c. The DoD agrees with the Board’s proposal for permitting modification of disclosures and required supplementary information.</p> |
| <p>6. TREASURY</p> | <p>a. As stated in Q1 above, Treasury agrees with the Board’s overall proposed approach with the requirement that the modification does not change net results of operations or net position.</p> <p>b. Treasury agrees with the Board’s overall proposed approach. In order to protect classified sources, methods and financial data, certain liberties must be utilized to disguise classified data yet not change the overall net results of operations or net position. The ability to alter the overall results of operations or net position, as this reads, we do not agree should be allowed.</p> <p>c. Treasury agrees with the Board’s overall proposed approach to allow for the modification of disclosures and RSI in order to protect classified information. Protection of this information should outweigh the public’s right to financial disclosure.</p> |
| <p>8. DOD OIG</p> | <p>a. This draft standard does not adequately explain how reporting certain amounts in a nontraditional account, as opposed to the GAAP compliant account, would not present the same national security risk of releasing classified information to the public. Without more information included in this standard, users would not be able to determine the</p> |

Table 5.0 – Summary of Responses by Question ⁵

| | |
|----------------------------|--|
| | <p>accuracy of the financial statements, with the exception of a few select individuals. As a result, financial statements would not be meaningful or comply with GAAP.</p> <p>c. The revisions proposed do not provide enough information for us to determine the potential impact of those omissions or non-disclosures to provide an informed response.</p> |
| <p>10. AGA FMSB</p> | <p>a. We agree that reporting entities should be permitted to modify their presentations when it doesn't change net results and net position. In addition, such modifications should not change the meaning of the information or be misleading.</p> <p>Where we disagree is in the lack of a proposed statement to explain modifications resulting in amounts associated with one financial statement line item being presented in another financial statement line item as discussed in paragraph 6(a). Although it is difficult to analyze the circumstances in the abstract, we believe a general statement that the information has been modified or omitted is necessary for full disclosure, in order to fully inform the reader.</p> <p>b. We agree the reporting entities should be permitted to modify their presentations when it doesn't change net results and net position or the meaning of the information or is misleading.</p> <p>c. We agree the reporting entities should be permitted to modify their presentations when it doesn't change net results and net position or the meaning of the information or is misleading.</p> |
| <p>11. GWSCPA</p> | <p>a. The FISC agrees with the Board's proposed approach to modify unclassified financial statement presentations, disclosures and RSI to protect classified information. FISC suggests that the Board consider the impact of classified information on total budgetary resources.</p> <p>b. The FISC suggests that the Board include in the final Standard whether a modification could be so material that the overall financial statement presentation no longer represents a fair presentation of the financial position and operations of the entity.</p> <p>c. The FISC suggests that the Board consider additional guidance or action on ensuring the consistent classification and presentation of transaction cycles or end items among component reporting entities.</p> |

Table 5.0 – Summary of Responses by Question ⁵

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| <p>12. OGA</p> | <p>a. Agree from an accounting standpoint, the protection of classified information and national security takes precedence over financial statements.</p> <p>b. Agree. The protection of classified information and national security takes precedence over financial statements.</p> <p>c. Agree. It is in the best interest of national security to allow for modification to the presentation of balances and reporting entity in the GPFFR. This would help protect classified information from unlawful disclosure. The protection of classified information and national security takes precedence over financial statements.</p> |
| <p>14. KEARNEY</p> | <p>a. Disagree. This approach limits the value, usefulness, and benefits of financial statements as currently defined by GAAP. Financial statements of classified entities should remain classified or redacted like other classified documents before release to the public.</p> <p>b. Disagree. The integrity of current GAAP as it applies to all Federal entities should be retained.</p> <p>c. Disagree.</p> |
| <p>16. ENERGY</p> | <p>a. We agree. We believe it is critical that reporting entities have the ability to modify the presentation of classified information as long as it does not change the net results of operations and net position.</p> <p>b. We agree. We believe it is critical that reporting entities have the ability to modify the presentation of classified information as long as it does not change the net results of operations and net position.</p> <p>c. We agree that reporting entities should be permitted to modify disclosures so that classified information is not revealed. However we do not agree that reporting entities should disclose that certain presentations may have been modified, as such disclosures could inadvertently cause classified information to be revealed.</p> |
| <p>17. INTERIOR</p> | <p>a. Agree. It's important to adhere to laws that protect classified information, and the modification has no effect on the financial statements, i.e., the underlying accounting information maintains its integrity.</p> |

Table 5.0 – Summary of Responses by Question ⁵

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| | <p>b. Agree. It is important to protect the reporting entity with the classified information.</p> <p>c. Agree. Agencies are required by law to protect classified information.</p> |
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Table 5.0 – Summary of Responses by Question ⁵

| QUESTION – 3 | |
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| <p>In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process.</p> <p>Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.</p> | |
| 1. HUD | HUD agrees with the proposed approach. This approach balances the need to protect classified information, with the need for FASAB to provide guidance and due process. |
| 4. DHS OCFO | HS agrees with the proposed approach. The six-step process established in the "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" to develop classified Interpretations is appropriate. |
| 5. DOD OCFO | The DoD strongly agrees with the Board’s proposal for issuing classified Interpretations of existing standards to permit other presentation and disclosure options as needed to produce the unclassified GPFFR and protect sensitive information. The DoD wants to emphasize the importance that the Board’s due process maintain the appropriate protections over sensitive information, and advocates for strictly enforcing mechanisms including validating a stakeholder’s need-to-know and obtaining a signed non-disclosure agreement prior to granting the stakeholder access to such information. |
| 6. TREASURY | Treasury agrees with the Board’s overall proposed approach and recommends that FASAB notify the Federal reporting community when a classified interpretation is issued for comment and final form to help ensure all affected parties are informed. |
| 7. OPM | Agree. The proposed approach provides flexibility to address special situations. |
| 8. DOD OIG | We disagree. Paragraph 8 of the proposed Standard states that the Board may issue Interpretations of existing Statements permitting other unclassified presentation and disclosure options as needed. Such options may modify net results of operations and net position. In our view, the use of Interpretations in this manner overreaches the purpose of an Interpretation since the Interpretation will result in non-public standards. |

Table 5.0 – Summary of Responses by Question ⁵

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| | <p>Specifically, FASAB states that Interpretations clarify original meaning, add definitions, and provide other guidance for existing SFFAS—the Interpretations should be narrow in scope. Interpretations are not intended to change or conflict with existing standards. However, if FASAB issues classified interpretations that modify net results of operations and net position of the entity, then the Interpretation changes the published standards.</p> <p>In addition, as discussed in A1, this approach would likely make the financial statements misleading to all but a select few individuals that are aware of the Interpretation. If this is the Board’s approach, we recommend that it change the type of accounting to “applicable financial reporting framework” since we believe there would be uncertainty whether this approach fits into the framework of current GAAP because some much information would be unknown, entities could have different uses, and the applications of the Standard are too vague.</p> |
| 10. AGA FMSB | We agree with the proposed standard. The process follows a rational due process approach for a complex subject. |
| 11. GWSCPA | The FISC agrees with the Board’s proposed approach. However, we suggest that the Board make available to the general public (such as via the FASAB’s website) the titles or at least the number of classified interpretations issued by the Board. |
| 12. OGA | <p>Agree. It is in the best interest of national security to allow for modification to the presentation of balances and reporting entity in the GPFFR. This would help protect classified information from unlawful disclosure.</p> <p>The protection of classified information and national security takes precedence over financial statements.</p> |
| 14. KEARNEY | Disagree. Allowing only select individuals to view and accept the interpretations would limit due process and transparency. Both of these elements are crucial to the process of developing GAAP. |
| 16. ENERGY | We agree with the Board’s proposed approach to issue classified interpretations of existing standards. |
| 17. INTERIOR | Agree. A due process will ensure accounting integrity without exposing classified information. |

Table 5.0 – Summary of Responses by Question ⁵

| QUESTION – 4 | |
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| <p>The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.</p> <p>Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.</p> | |
| 1. HUD | <p>HUD agrees with the proposed conditions. These conditions protect classified information through aggregation of data, yet allow properly cleared auditors to reconcile aggregated data to schedules and other documentation. This balances the need for protecting classified information, with accountability and openness of government. Adequate documentation must be maintained to support classified information.</p> |
| 4. DHS OCFO | <p>DHS agrees that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. This procedure allows for the review of the classified information and for auditors to examine if the modified reporting still accurately reflects the financial activity of the reporting entity. One of DHS's Components proposes that there be a requirement that classified activities be audited by cleared federal personnel in the OIG rather than contracted out to contractors to ensure that only cleared federal personnel in the OIG with the need to know have access to the classified information being audited.</p> <p>DHS also agrees that documentation must be retained in the appropriate environment and/or domain to adequately support classified information and that strong internal controls should exist to safeguard the supporting documentation.</p> |
| 5. DOD OCFO | <p>The DoD agrees with the Board's proposal that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit and documentation be retained in the appropriate environment and/or domain to adequately support classified information.</p> |
| 6. TREASURY | <p>Treasury agrees with the Board's conditions and agrees that a primary record of the classified financial and reporting information must be maintained in order to provide visibility to approved individuals for decision making purposes.</p> |

Table 5.0 – Summary of Responses by Question ⁵

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| <p>7. OPM</p> | <p>Agree. The accountability for the funds is maintained with this approach.</p> |
| <p>8. DOD OIG</p> | <p>Without additional information, we cannot agree or disagree. Specifically, the intent of this requirement appears to be to provide the public assurance that, even though the financial statements and disclosures are not a fair representation of the reporting entity, the underlying transactions are audited. However, perhaps in part because of the lack of specificity in this proposed standard, a financial statement auditor might not apply audit procedures to the classified information at all, or in as rigorous a manner as the unclassified transactions.</p> |
| <p>10. AGA FMSB</p> | <p>The following sentence in paragraph 9 is difficult to analyze: “Recorded amounts related to classified information must reconcile in aggregate to schedules or other documentation subject to audit.” How do “schedules or other documentation” relate to the financial statements? How does “reconcile in the aggregate” relate to the financial statements? Does this mean that the financial statements also reconcile in the aggregate?</p> |
| <p>11. GWSCPA</p> | <p>The FISC agrees with the conditions necessary to apply the proposed Statement.</p> |
| <p>12. OGA</p> | <p>Agree. It is important to demonstrate the completeness of accounting information so that it properly reconciles with other information within the GPFFR. Additional FASAB Interpretations would help clarify accounting practices designed to accurately reflect balances on the GPFFR.</p> |
| <p>14. KEARNEY</p> | <p>Agree.</p> <p>Should the Board proceed with the standard, additional requirements should be considered for the purpose of audit support, such as:</p> <ul style="list-style-type: none"> - Formalized crosswalks of the unmodified financial statements to modified/condensed financial statements - Further parameters for classification of a line item or disclosure should be included in the standard, if possible. <p>It should be noted that added costs will be incurred with the development of new financial reporting infrastructure to develop two sets of financial statements (modified and unmodified), as</p> |

Table 5.0 – Summary of Responses by Question ⁵

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| | well as additional audit costs, as both sets of financial statements will have to be reviewed and considered as part of the audit. |
| 16. ENERGY | We agree that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit, and that documentation must be retained in the appropriate environment and/or domain to adequately support classified information. |
| 17. INTERIOR | Agree. It is important that accountability still exists while protecting classified information. |

Table 5.0 – Summary of Responses by Question ⁵

| QUESTION – 5 | |
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| <p>The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.</p> <p>a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.</p> <p>b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.</p> <p>c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.</p> | |
| 1. HUD | <p>a. HUD agrees with the disclosure requirements in paragraphs 10 through 14 of the proposed standard. These proposed disclosure requirements allow reporting entities the flexibility to determine whether disclosing the fact that certain presentation may have been modified in accordance with the Statement or related Interpretations, will reveal the presence of classified information. The reporting entities in custody of this classified information are best suited to determine if the mere disclosure of the presence of such information, jeopardizes national security in some manner</p> <p>b. HUD agrees that component entities may choose to consistently disclose that certain presentations may have been modified. The rationale for this answer is the same as that for “a” above; the component entity that is presenting the information, is best suited to determine whether the mere disclosure of the presence of such information, even at the aggregate level, either jeopardizes this information, or does not.</p> <p>c. HUD does not believe that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified. Revealing the mere presence of such information, in a particular reporting component, may compromise the classified information or the underlying reporting component entity that generated the classified information.</p> |
| 2. KPMG | <p>a. & b. We believe that component reporting entities should be required to disclose that modifications of presentations and omissions of disclosures were made. We recognize that the Board has put forward this proposal in the interest of national security;</p> |

Table 5.0 – Summary of Responses by Question ⁵

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| | <p>however, allowing entities to modify presentation and disclosures of the GPFFR without alerting the user impedes a user’s ability to assess how much weight to place on reported results in evaluating an entity’s operating performance.</p> |
| 3. VA | <p>c. Disagree. Component reporting entities should not have to disclose certain presentations may have been modified, unless there are actual modifications. It would lead to questions from external parties if an agency with no expected classified activities adds a disclosure that presentations have been modified. Adding the disclosure to only entities with classified activities should not present a security concern to the United States or its citizens.</p> |
| 4. DHS OCFO | <p>a. DHS agrees with the disclosure requirements.</p> <p>b. DHS agrees that component reporting entities may choose to consistently disclose that certain presentations may have been modified.</p> <p>c. DHS agrees that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified.</p> |
| 5. DOD OCFO | <p>a. The DoD agrees with the Board’s proposal for disclosure requirements in Paragraphs 10 – 14.</p> <p>b. The DoD agrees that component reporting entities may choose to consistently disclose that certain presentations may have been modified. The DoD plans to apply a consistent approach within the Department to meet the disclosure requirements under this proposed standard.</p> <p>c. The DoD disagrees that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified.</p> <p>The DoD believes that, depending on the classified information that needs to be protected, a component reporting entity may or may not want to disclose that the report is modified. Paragraphs 10 – 14 allow for both options depending on the nature of the classified information.</p> |
| 6. TREASURY | <p>a. Treasury disagrees with the disclosure requirements as outlined in paragraphs 10-14, as we believe the requirement should be mandatory for all U.S. government agencies to state that classified information may be summarized, excluded, etc.</p> |

Table 5.0 – Summary of Responses by Question ⁵

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| | <p>Requiring all reporting entities to disclose will provide foreign enemies with less transparency as to those agencies with classified activities.</p> <p>c. Treasury agrees that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified in order to mask the agencies that do have classified information that has been modified or excluded from the financial reports.</p> |
| <p>7. OPM</p> | <p>a. Agree. It would be appropriate to disclose that the statements are presented in accordance with generally accepted accounting principles.</p> <p>b. Disagree. Disclosure may be necessary in the year when the new standards are implemented only.</p> <p>c. Agree, but only in the year of implementation.</p> |
| <p>8. DOD OIG</p> | <p>a. & b. We disagree. As we disagree with the proposed basis of accounting the Board introduced, we cannot agree that entities should disclose that certain information may have been modified to protect classified information. Allowing components to state, “Certain presentations may have been modified to protect classified information,” would lead the reader to conclude that the information in the financial statements is not reliable. This disclosure casts doubt on the value of the financial statements and the related audit.</p> <p>c. We disagree for the same reason we stated in a and b. In addition, this could be an inaccurate or misleading disclosure if that particular entity does not report classified transactions or if the entity followed established GAAP. This disclosure risks making all entity financial statements appear unreliable. Further, we do not believe that this disclosure—or the Board’s proposed guidance—would effectively protect classified information, comply with GAAP, or serve the public interest.</p> |
| <p>10. AGA FMSB</p> | <p>a. We disagree regarding the preparer having the option whether or not to disclose modifications. We believe the reader should be informed of any modifications however we also believe that disclosure should be general in nature, so it cannot be specifically identified with classified information or entity.</p> <p>c. We believe every component reporting entity should disclose the presentation has been modified and the general effect of such modification because such disclosure is</p> |

Table 5.0 – Summary of Responses by Question ⁵

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| | <p>necessary for a full understanding of the reporting entity. Although, it is difficult to analyze the circumstances we believe a general statement that the information has been modified or omitted is necessary to for full disclosure and to fully inform the reader. The Basis for Conclusions in the proposed standard does not explain the rationale for not requiring a general statement.</p> |
| <p>11. GWSCPA</p> | <p>a. The FISC does not agree with the elective nature of paragraphs 10 and 11, which permit the preparers to determine whether to inform or not inform the readers of the GPFFRs whether modifications have been made to protect classified information.</p> |
| <p>12. OGA</p> | <p>a. Agree. Protection of classified information and national security takes precedence over financial statements. The draft Exposure Draft provides each component flexibility in reporting/disclosure that is best for its organization.</p> <p>b. Agree. Protection of classified information and national security takes precedence over financial statements. The draft Exposure Draft provides each component flexibility in reporting/disclosure that is best for its organization.</p> <p>c. Agree. Reporting entities should have flexibility to disclose, not disclose, or modify disclosures relating to the disclosure of classified information.</p> <p>Recommend the use of a blanket statement for all components that states certain presentations may have been modified to help avoid accidental disclosure of classified activities. If only components that modify their presentations disclose the fact of modification, it will highlight them and increase risk of being identified/targeted.</p> |
| <p>13. SEC</p> | <p>c. SEC disagrees with the potential requirement that “every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified to protect classified information.” We believe that this would be misleading and likely to cause confusion for financial statement readers, by implying that SEC is involved in classified activities. It’s likely that SEC, as well as other agencies, would receive numerous inquiries from the public and from the media by including such an unexpected disclaimer in its financial statements.</p> |

Table 5.0 – Summary of Responses by Question ⁵

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| <p>14. KEARNEY</p> | <p>a. Disagree</p> <p>b. Disagree</p> <p>c. No, this does not seem to be necessary within the current GAAP and independent audit framework.</p> |
| <p>16. ENERGY</p> | <p>a. We agree that reporting entities should be permitted to modify disclosures so that classified information is not revealed. However, we do not agree that reporting entities should disclose that certain presentations may have been modified, as such disclosures could inadvertently cause classified information to be revealed</p> <p>b. We do not agree that reporting entities should disclose that certain presentations may have been modified, as such disclosures could inadvertently cause classified information to be revealed</p> <p>c.. We do not agree. Reporting entities should not disclose that certain presentations may have been modified. Requiring disclosures by every component reporting entity of the federal government could increase the risk that classified information could be revealed.</p> |
| <p>17. INTERIOR</p> | <p>a. Agree. This gives agencies the options to disclose or not disclose to protect the information related to classified activities.</p> <p>b. Agree. This will give agencies the option to consistency disclose that certain presentations may have been modified without disclosing the classified information.</p> <p>c. Requiring every component entity to disclose that certain presentations may have modified may ensure consistency and transparency. However, if agencies believe that such disclosure may risk disclosing the classified activities, they should be provided with the option not to disclose.</p> |

Table 6.0 – Respondents

Table 6.0 - Respondents

| Letter Number | Organization | Category |
|----------------------|---|---------------------------|
| 1 | Department of Housing and Urban Development | Federal - Preparer |
| 2 | KPMG | Accounting Firm |
| 3 | Department of Veterans Affairs - OFP | Federal - Preparer |
| 4 | Department of Homeland Security, Office of the Chief Financial Officer | Federal - Preparer |
| 5 | Department of Defense, Office of the Chief Financial Officer | Federal - Preparer |
| 6 | Department of Treasury - Office of the Chief Financial Officer | Federal - Preparer |
| 7 | Office of Personnel Management | Federal - Preparer |
| 8 | Department of Defense, Office of the Inspector General | Federal - Auditor |

Table 6.0 – Respondents

| Letter Number | Organization | Category |
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| 9 | American Institute of CPAs | Association |
| 10 | Association of Government Accountants, Financial Management Standards Board | Association |
| 11 | Greater Washington Society of CPAs - FISC | Association |
| 12 | Other Government Agency | Federal - Other |
| 13 | U.S. Securities and Exchange Commission | Federal - Preparer |
| 14 | Kearney & Company | Accounting Firm |
| 15 | Department of Labor, Office of Chief Financial Officer | Federal - Preparer |
| 16 | Department of Energy, Office of Chief Financial Officer | Federal - Preparer |
| 17 | Department of the Interior | Federal - Preparer |