

October 19, 2023

Federal Accounting Standards Advisory Board
441 G Street, NW
Suite 1155
Washington, D.C. 20548
emailed to: fasab@fasab.gov

Dear FASAB members and staff:

Truth in Accounting has adopted a cautious stance towards responding to the Financial Accounting Standards Advisory Board (FASAB) Invitation to Comment: Reexamination of Existing Standards. The foundation for this reluctance is rooted in a practical understanding that advocating for desired accounting standards can be a difficult and expensive endeavor, often yielding little success. This conviction stems from our prior encounters with FASAB, particularly in relation to our comments and research concerning the accounting treatment of Social Insurance liabilities. Notably, these experiences have underscored concerns about the independence of FASAB "public" members during the deliberation process, especially when the interests of governmental members are at stake.

Understanding the dynamics of FASAB is crucial to grasping these comments. The principals responsible for appointing FASAB members are the Secretary of the Treasury, the Comptroller General of the Government Accountability Office, and the director of the Office of Management and Budget (OMB). Among their various duties, these principals appoint both government members and public members to the board. While each of their agencies nominates a government member, they also collectively appoint six public members. A key criterion for public membership is that an individual cannot be currently employed by the federal government. Public members are appointed to the FASAB to bring an independent, external perspective to the board's decision-making processes. They are typically individuals with expertise in accounting, finance, or related fields. These public members are expected to stand for the interests of the public and the broader financial reporting community and are intended to promote transparency, objectivity, and fairness in developing federal accounting standards. By having individuals who are not directly affiliated with the federal government take part in the board's activities, it helps ensure that

accounting standards are established in the best interest of the public and with a focus on accurate and reliable financial reporting for federal agencies. TIA finds this process to be flawed.

In an illustrative incident, dating back to 2008, all FASAB public members came together to vote in favor of an exposure draft that proposed the inclusion of accrued Social Security and Medicare benefits on the Federal balance sheet. This issue was of paramount importance to our organization and others, prompting us to allocate significant resources and make the effort to draft a compelling response in support of the majority position advocated in the exposure draft. We were so committed to this cause that we even went the extra mile, incurring expenses to testify in person in Washington D.C.

However, during the critical deliberation process, a surprising turn of events occurred. One of FASAB's public members ended their second and final five-year term, while another public member completed a first five-year term and was not reappointed. The latter was a prominent and vocal advocate for the majority position in the exposure draft. What made this situation unprecedented was that, in the entire history of FASAB, no public board member had ever failed to be reappointed for a second term. It is important to note that these public members were replaced by individuals who had previously represented the Office of Management and Budget on FASAB, arguably non-independent contributors. The selection of FASAB members and the procedures used to set standards must facilitate neutrality and objectivity.

In our 2009 testimony before FASAB we observed:

This seems like a form of jury tampering---the deliberate attempt to influence the composition and/or decisions of a jury during the course of a trial to get a desired outcome. Jury tampering undermines the public confidence in the deliberation process, the verdict and the whole judicial system.

In November 2006 FASAB had issued a document titled, "Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting." This document correctly noted, "Independence has been identified as the most significant criterion for a GAAP standards-setter." The 2008 FASAB Facts states that, "To accomplish its mission, the FASAB acts to: Be objective and neutral and ensure, as much as possible, that the information resulting from its proposed standards is a faithful representation of the effects of Federal Government activities." This document continues, "Objective and neutral mean free from bias, precluding the FASAB from placing any particular interest above the interests of the many who rely on the information contained in financial reports." To ensure public confidence the independence of the FASB needs to be above question.

Yet, despite these goals of independence, many question the FASAB's objectivity and neutrality. The Board's three principals are appointed to their positions by elected officials and four Board members are employed by elected officials. Because most of the principals and federal members of the Board hold their position based upon their relationship to elected officials, they have a vested interest in the content and format of information reported to the voting public. The clear

conflict of interest faced by the Federal government employees places them in an awkward and untenable position when considering decisions that can have a direct or even indirect impact on their agencies. And virtually all FASAB decisions have a direct impact on these members' employers. This is especially true with the Invitation to Comment Reexamination of Existing Standards.

In an article written by James Patton, PhD and David Mosso, CPA in the *Journal of Government Financial Management* titled "Can the Federal Accounting Standards Advisory Board Be More Independent?", they conclude with this appropriate thought:

Federal members have made it clear that they do not intend to yield sovereignty to FASAB and that they will act to prevent implementation of Standards and Concepts Statements that they fundamentally do not agree with. They have a number of methods available to reach this end, short of actually vetoing a standard passed by the board.

While the Patton/Mosso piece was written in the late 2000s, Truth in Accounting does not see evidence of greater independence. The result is our hesitancy to provide comment on FASAB's Invitation to Comment: Reexamination of Existing Standards. Despite this hesitancy we do appreciate the opportunity to provide our comments and have prepared the following based upon the form provided by FASAB. In your deliberations, please consider that citizens need a clear and prompt view of all relevant facts regarding our country's financial position in an easily understandable form.

Thank you for your consideration,

A handwritten signature in dark ink, reading "Sheila A. Weinberg". The signature is fluid and cursive, with the first name being the most prominent.

Sheila A. Weinberg

Truth in Accounting Founder & CEO

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input checked="" type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

FASAB GAAP Hierarchy Questions

NO COMMENTS FOR SPECIFIC QUESTION 1

A GENERAL COMMENT ABOUT FASAB GAAP

Truth in Accounting questions the validity of FASAB GAAP.

On October 19, 1999, AICPA Council designated FASAB as the body which sets GAAP for Federal government entities under Rule 203 of the AICPA’s Code of Professional Conduct. The council’s decision worried some observers. Among them were Manuel Johnson, chair of the Financial Accounting Foundation, and the heads of the other two GAAP standard setting bodies; Edmund L. Jenkins, chair of the Financial Accounting Standards Board (FASB); and Tom Allen, chair of the Government Accounting Standards Board (GASB). They objected to the fact that FASAB contains several members who clearly lack independence. Jenkins stated, “The Treasury is subject to the standards promulgated by FASAB, yet it has veto power over those same standards.” He added that the Treasury, the GAO or the OMB can unilaterally terminate FASAB’s authority with 120 days notice. “Where is the independence under this veto power and termination arrangement?” he asked. Some objections were made that if the standards generated by the non-independent FASAB were considered GAAP, then the stature and credibility of all GAAP would be in jeopardy.

Government officials use the GAAP recognition as evidence of the credibility of government accounting practices. OMB noted in its Analytical Perspectives of 2004 Budget that, “Under Generally Accepted Accounting Principles (GAAP), Social Security is not considered to be a liability, so not counting it as such in this chapter is consistent with proper accounting standards.” When answering the question “Why can’t the government keep a proper set of books?” OMB asserted, “The federal government does follow generally accepted principles (GAAP) just as businesses and state and local governments do for their activities.”

In a Journal of Government Financial Management piece titled “Can the Federal Accounting Standards Advisory Board Be More Independent?”, Former FASAB chair David Mosso and former FASAB member James Patton questioned the FASAB’s ability to set independent standards. Their article concluded:

Unless changes are made to make FASAB more independent, the federal government should not continue to assert that FASAB is independent in the AICPA sense. If FASAB is not going to be a more independent body, perhaps it would be better to save the government some money and revert to federal government employees setting federal reporting standards as they see fit. Or, if nonfederal board members are to be retained as advisers, it would be appropriate to explicitly acknowledge that their role is strictly advisory, and that the board is not an independent standards-setter. This would be equivalent to reverting to FASAB’s standing in its first 10 years of operation.

As mentioned in the cover letter to this document, Truth in Accounting questions the independence of FASAB and believes that FASAB should not be a designated GAAP standard setting body.

REEXAMINATION OF FASAB STANDARDS QUESTION QUESTION 2

Topic #1-8	No comment at this time.
-------------------	--------------------------

Topic #9	SFFAS 17 , <i>Accounting for Social Insurance</i> AS AMENDED BY: SFFAS 26 , SFFAS 37
-----------------	--

High Priority

FASAB Statement of Federal Financial Accounting Concepts 1 includes stewardship as one of the major objectives of the federal financial report. The statement indicates the following:

Federal financial reporting should provide information that helps the reader to determine:

Assessing whether the government’s financial position improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications. This is because analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by

current-year taxpayers to future-year taxpayers without related benefits. The latter notion is sometimes referred to as “interperiod equity.”

The current federal financial report does not provide adequate and transparent information needed to determine if the social insurance programs have passed a financial burden onto future taxpayers without related benefits.

Topic #10-22	No comment at this time
---------------------	-------------------------

Topic #23	SFFAS 52 , <i>Tax Expenditures</i>
------------------	--

High Priority

The Office of Management and Budget estimates that [tax expenditures for 2022](#) totaled \$1.47 trillion, which equals 30% of the 2022 tax revenues. Greater transparency of tax expenditures would exist if a schedule of these tax expenditures were available in the basic financial statements of the federal financial report.

Additional Topic	Management Discussion and Analysis
-------------------------	------------------------------------

* High Priority*

Table 1 included at the end of this document is from page 14 of the 2022 Financial Report of the United States Government. This table does a decent job of summarizing the government’s financial position and condition. The table would be more useful and understandable if all the dollar values were in billions. It is confusing to have most of the numbers in billions, then Sustainability Measures in trillions. The numbers on the schedule should be totaled. The Social Insurance Net Expenditures, which should be called obligations, should be added to the government’s Net Position totaling \$109,961 billion.

This would be a very easy and inexpensive change which would provide users, including ordinary citizens, with greater transparency about their government’s finances.