



March 16, 2018

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6H19 441 G Street, NW, Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft of *Classified Activities*. The FMSB is comprised of 23 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB 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. In light of full disclosure and transparency, current members of the FMSB do not work with or provide consulting services with classified organizations within the Federal Government.

We appreciate the FASAB's continued effort in setting and providing clarification of the standards relating to the Federal Government. We have reviewed the Exposure Draft and agree with the conclusion and FASAB's overall rationale as presented in the Basis for Conclusions. We have provided our responses below based on the questions in the Exposure Draft and have provided additional comments.

*Q1. 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 Interpretations of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.*

*Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.*

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.

*Q2. 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.*

*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.*

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.

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. A general statement is best since it protects the sensitive nature of the classified information, even though it may result in negative disclosure. Also, we recommend the FASAB provide clarification in the Basis for Conclusions in the proposed standard to explain the rationale for a general statement.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, Reporting Entity, when necessary to protect classified information? Please provide the rationale for your answer.*

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.

- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.*

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.

- Q3. 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 involving:*
- a. development of classified proposals,*
  - b. comment on the proposals from individuals and organizations holding appropriate clearances,*
  - c. consideration of comments, and*
  - d. issuance of Interpretations to individuals and organizations holding appropriate clearances.*
- (See par. A9 and A10 for a more detailed discussion of the process.)*

We agree with the proposed standard. The process follows a rational due process approach for a complex subject

- Q4. 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. Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.*

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." We recommend FASAB answer the following questions to provide better clarity:

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?

We believe by addressing the above questions in either paragraph 9 or in the basis of conclusion will provide clarity for the preparer of the financial statements.

Q5. *The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.*

a. *Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.*

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.

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.*

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.*

We believe every component reporting entity should disclose the presentation has been modified and the general effect of such modification because such disclosure is 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.

In general, we recommend for paragraph 6a that the preparer inform the reader of any modifications; however, we also believe that the information provided should be general in nature, so it cannot be specifically identified with classified information or entities.

In paragraph 6b regarding the omission of required disclosures we recommend the FASAB should clarify that omitted disclosures should not negatively affect other financial information.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, Chair at [lmiller@eidebailly.com](mailto:lmiller@eidebailly.com) or at 208-383-4756.

Sincerely,



Lealan Miller, CGFM, CPA  
Chair- AGA Financial Management Standards Board

cc: James “Jim” R. Arnette, Jr. CGFM, CISA, AGA National President

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