

**FASAB Exposure Draft: *Classified Activities*****Questions for Respondents due March 16, 2018**

**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"/>	
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*Your responses should be sent to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by email, please fax your responses to 202-512-7366.*

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- 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<sup>1</sup> 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.

**DHS Response:** DHS agrees with the Board's overall proposed approach for protecting classified information. Classified information should be protected from unauthorized

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<sup>1</sup> With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

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disclosure and the proposed Statement provides general guidance for protecting classified information.

- 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.

**DHS Response:** 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.

- 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.

**DHS Response:** DHS agrees with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information. The proposed approach balances the public's interest in financial information with the need to protect classified information.

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

**DHS Response:** 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.

- 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,

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- 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. [Error! Reference source not found.A9](#) and [Error! Reference source not found.A10](#) for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

**DHS Response:** DHS 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.

- 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.

**DHS Response:** 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.

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.

- 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.

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**DHS Response:** DHS agrees with the disclosure requirements.

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.

**DHS Response:** DHS agrees that component reporting entities may choose to consistently disclose that certain presentations may have been modified

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.

**DHS Response:** DHS agrees that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified.

**Additional comments:**

1. The Board could consider creating a new accounting category that covers spending and liabilities for all secret projects, without revealing the details of how much applies to any specific project.
2. Page 8 – definition #3: Suggest capitalizing “Original Classification Authority”.
3. Pg. 9-Application of Standards and Disclosures #6: Suggest including a form of punctuation after section “a” and “b”.
4. Pg. 13- Footnote #5: suggest adding the word “specific” before authority on the second sentence.