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CHAIRMAN STAATS REPORTS TO NPR ON STATUS OF FASAB WORK

Chairman Staats reported to Vice President Gore on FASAB's progress in meeting the National Performance Review's (NPR) goal for FASAB to develop a coherent set of accounting standards for the federal government. The full text of both his letter and the response from Vice President Gore follows:

January 22, 1996

The Honorable Albert Gore, Jr.

President of the United States

Dear Mr. Vice President:

The National Performance Review set an ambitious goal for the Federal Accounting Standards Advisory Board (FASAB) to develop a comprehensive set of accounting and cost accounting standards that would set a framework for establishing excellence in financial reporting and accountability to the American public for the financial condition and results of current operations of their national government. FASAB has fully met this challenge as outlined below. Completion of these basic standards is a landmark achievement. However, agencies will confront many challenges to implement them successfully. Our perspectives on actions needed to help ensure effective implementation of FASAB standards are also included in this letter.

COMPLETION OF ACCOUNTING AND COST ACCOUNTING STANDARDS

First, the basic accounting and cost accounting standards called for by the NPR are essentially complete. The FASAB principals (the Director of the Office of Management and Budget, the Secretary of the Treasury,

and the Comptroller General) have approved the eight standards and statements presented to them. Only one basic standard--the standard on revenue accounting--remains, and its approval is targeted for March 1996. This will complete the body of basic accounting and cost accounting standards for all federal departments and agencies to use in preparing financial reports and developing meaningful cost information that would provide not only fundamental accountability but also useful information for oversight and decisionmaking.

Second, the objectives of financial reporting have been approved by the FASAB principals. These objectives are very innovative and have as their goal relevant, useful financial reports that address (1) execution of the budget, (2) operating performance, including the cost of operations, (3) stewardship for assets and liabilities, and (4) the adequacy of internal controls essential to eliminating fraud, waste, and abuse. In this regard, an additional standard on stewardship reporting is scheduled for completion in March 1996. While not part of the package of basic standards, this additional standard will help inform the citizenry about the magnitude of federal resources (assets and other investments) and financial responsibilities (commitments to programs such as Social Security and Medicare) and the federal stewardship role over them.

The completion of the accounting and cost accounting standards and the financial reporting objectives is a major step forward. As envisioned by the NPR, when fully implemented into department and agency accounting systems, the quality and reliability of financial and cost information available to managers, administrators, oversight committees, and the public will be vastly improved and will, over time, significantly contribute to a more efficient and better

run government, with accountability second to none.

THE NEED FOR MAJOR OVERHAUL OF FINANCIAL MANAGEMENT SYSTEMS REMAINS

The FASAB's work is part of a very large undertaking by many groups under the Chief Financial Officers (CFO) Act of 1990 to transform the federal government's financial management systems from ones that are antiquated and archaic to ones that are state of the art. The FASAB is currently working with organizations, such as the Treasury's Financial Management Service, the Department of Agriculture's Training Institute, and the Association of Government Accountants, to educate and train federal accountants, budget analysts, and financial managers in implementing the new accounting and cost accounting standards. Without full, effective implementation, the benefits of the new standards will not be realized.

Even in the best of circumstances, taking the standards from the conceptual stage to where they become routine, everyday practice will be a difficult challenge. But it is made ever more difficult by the extremely poor shape of the current financial management systems across government. A lot remains to be done to implement the accounting and cost accounting standards, now that the work of developing the basic standards has been successfully completed.

In testimony on December 14, 1995, before the Senate Committee on Governmental Affairs (AIMD-96-10), the Comptroller General discussed the need for dramatic improvement in the underlying financial systems and detailed the very poor state of the current systems. The recent report of the "Five Year Plan," issued jointly by the Office of Management and Budget and the CFO Council, highlights the tremendous magnitude of the problems with the current financial management systems, documents the progress made thus far in reducing, consolidating, and overhauling financial management systems, and presents strategies for monitoring systems improvements.

While the Five Year Plan details important progress, it goes on to state (and the FASAB principals are likewise very concerned about this problem) that while agency managers are aware of the need to improve, upgrade, and in many cases, redesign financial management systems

"... agencies lack the funds to replace or upgrade many systems that need it, and consequently, have no plans to improve them. Funding, personnel, and technology constraints make it difficult to implement all of the systems improvements that are needed."

This must be overcome to take full advantage of the new accounting and cost accounting standards developed by the FASAB and to meet the NPR's requirement for the executive branch to create a coherent financial management system and to prepare annual auditable financial statements. The federal government presently has an unprecedented window of opportunity to make great achievements in modernizing its financial management systems and processes. This is a time when professional financial managers and budget experts, the FASAB principals who represent the central financial management agencies, the Congress, and the President through the NPR, have come together to share the common goal of making the federal government's financial management systems and practices like those of a successful private sector business. It will, therefore, be very important that the necessary resources be available to successfully complete the reform effort.

The FASAB has had to allow lead time for implementing the accounting and cost accounting standards so that the departments and agencies can incorporate the new standards into their systems. Nevertheless, we are concerned that even with this lead time, departments and agencies may struggle in fully implementing the standards and delays may well result. We, therefore, respectfully, request that you charge the NPR to work with the JFMIP principles agencies and the departments and agencies to ensure that adequate funding and staffing are available an

are effectively deployed to develop greatly improved financial management systems and fully integrate the new accounting and cost accounting standards into those systems.

It is critical that the Administration work with the Congress on this. The Office of Management and Budget, Department of the Treasury and the General Accounting Office are all prepared to support the funding in effort that is necessary to make implementation successful.

In the meantime, the FASAB continues to work with departments and agencies in implementing these standards and solving a range of accounting issues. We will keep you apprised of our continuing progress and are hopeful that needed actions will be taken to implement the new accounting and cost accounting standards. We greatly appreciate your interest in improving financial management and the support given to our efforts by the NPR.

Sincerely yours,

Elmer B. Staats
Chairman, Federal Accounting
Standards Advisory Board

**VICE PRESIDENT REPLIES -
EXPRESSES SUPPORT OF FASAB PROGRESS**

March 7, 1996
The Honorable Elmer Staats
Chairman, Federal Accounting Standards
Advisory Board
Dear Mr. Staats:

Thank you for your status report on the progress made toward completing federal accounting and cost accounting standards. I very much look forward to their completion next month. You and your colleagues are to be congratulated for moving expeditiously to develop these standards.

These standards are essential to the reinventing government effort. Agencies cannot develop useful information on the cost of their services without a clearly defined set of rules. Your assessment that creating the standards is only a first step is correct. The real challenge will be making them part of the routine, everyday practice in financial management offices throughout government.

I agree that it is essential to invest sufficient resources in the training, personnel, and new technology needed to transform the agencies' financial management systems. The Office of Management and Budget's Office of Federal Financial Management is also aware of this need. OMB is working with agencies' Chief Financial Officers and others to ensure that we have the financial systems necessary to manage federal agencies effectively in the 21st century. Through the National Performance Review, I will continue to support these efforts.

I appreciate your leadership in this effort. I understand you have been involved with the creation of financial standards since your association with the Hoover Commission. I know you are as anxious as I am to see cost accounting standards become a reality.
Sincerely,

Al Gore
Vice President of the United States

**ACCOUNTING FOR REVENUE AND
OTHER FINANCING SOURCES**

At the February Board meeting, members heard a presentation on the Internal Revenue Service's (IRS) accounting processes, terminology, and information systems. The presenters were IRS's CFO Tony Musick and Greg Holloway of GAO. They addressed whether additional accrual might be possible. The Board discussed the concept of net cost, the Statement of Financing, categories of information which could be included in a section entitled "Other Accompanying

Information," some implementation concerns of DoD, and dedicated collections. The Board plans to review the entire document at its March meeting. After this final review, it is anticipated that the standard will be approved in principle.

FASAB'S FUTURE AGENDA

The Board and staff are very much aware of the need for training and consultative assistance in implementing the new standards and we are committed to help as much as possible. The FASAB staff has been working with the Department of Treasury's Center for Applied Financial Management and the Department of Agriculture's Training Institute to develop intensive training courses for accountants and financial managers. Our staff has already conducted several one day seminars under the sponsorship of the DC Chapter of AGA on the standards and reporting framework and we will begin two separate two day workshops which build on each other beginning in late April. The two day workshops will be more at the detailed standards level will include cost accounting. Additionally, some agencies have requested on-site training for their agency personnel.

Also, the Board has identified other areas where additional accounting standards need to be developed and these are listed in the attachment on work status. As soon as the Board signs off on the revenue accounting project and the Stewardship Reporting project (March or April), it will begin moving forward on these projects.

The current status of the new projects the board identified on its agenda is summarized below.

1. Preliminary Views on Capital Costs-

-Issue: This project addresses the appropriateness of incorporating a capital charge into financial statements of entities that have large amounts of capital (e.g., stockpiles, materials and supplies,

inventories, real estate) that are financed by appropriated funds. The purpose is to be able to assess the full cost of operations by including a capital charge in the statements and also, to work with the budget analysts to incorporate such a charge in the budget accounts.

-Status: A "Preliminary Views" document has been prepared and reviewed by Task Force Chair and is ready for Board discussion and issuance. The document is not an exposure draft at this point but is a request for views.

2. Codification Project-

-Issue: The objective of this project is to develop, in a single book, a codification of all FASAB concepts and standards with cross references. This will be an easy to use reference document for accountants, auditors, and financial managers. Also, we plan to store the document on a disk and CD Rom with hyper text so that it will be easy to search all areas in the standards where issues are addressed.

-Status: A survey was sent to the board about structure. Based on comments staff has begun preparing a sample of what the codification might look like. We will be prepared to discuss this at our April meeting.

3. Management Discussion and Analysis

-Issue: The purpose is to develop a concept statement that presents criteria and exhibits that establish a "benchmark" for minimum expectations of what should be addressed in a Management Discussion and Analysis (the Overview).

-Status: A task force chaired by Woody Jackson has been formed. The group includes members from the CFO community and the private sector. The task force has held one meeting and identified issues to help the Board define the scope of the project. The Board may begin discussions as early as April.

4. Natural Resources

-Issue: The Board has established standards for how to account for federal lands, however, there are no standards that provide guidance on accounting and reporting for natural resources. This project is designed to address the issue. However, it may take more time than originally thought to work through this project in view of the enormous resources under the stewardship of the federal government and the difficulty in developing meaningful measurements both quantitatively and monetarily.

-Status: Two papers have been circulated to the Board. The first summarized how FASB treats accounts for certain natural resources (e.g., oil and natural gas) in the private sector. The second identified specific issues for the FASAB to help define the project scope, and requested board member comments. The Board needs to discuss major issues and scope before proceeding. A task force will be established to address these issues. We may begin discussing this at the April or May board meeting.

5. Interpretation Guide

-Issue: The Board has received several suggestions that it issue a Question and Answer Guide that addresses common question about the standards. Agency staff can consult this Q & A to implement the standards.

-Status: This will be addressed, but only after sufficient time has elapsed to gather enough questions and answers to incorporate into the Guide.

6. Expense-Expenditure Guide

-Issue: This project is intended to help accountants and budget analysts to understand the flow of costs through the budgetary accounts and the proprietary accounts, and to demonstrate the timing differences between accounting recognition of expenses under the new standards as contrasted with obligation and expenditure recognition in the budgetary accounts.

-Status: We have just begun mapping out scope and structure of this project. It should be ready for discussion by June or July.

FINDING FASAB ON FINANCENET

As you've undoubtedly read in past newsletters, FASAB has a homepage on Financenet. We post all of our Exposure Drafts and Final Statements there as well as our minutes and newsletters.

We have received many calls asking how to locate FASAB documents on Financenet. Step by step instructions are provided below:

- 1 - FinanceNet's address is HTTP://
www.financenet.gov
- 2 - On the FinanceNet homepage -- click on "resources" (either the small box at the top or the hypertext that says "Major Related Resources")
- 3 - Under accounting resources -- click on Federal Accounting Standards Advisory Board hypertext

The FASAB homepage lists a variety of library items. The statements, in final form, can be found under the item titled "documents."

FASAB

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