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COMPTROLLER

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

Dear Ms. Payne:

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board on the Exposure Draft, *Budget and Accrual Reconciliation*. The DoD understands the importance of providing useful, understandable information to users of the financial statements. While we agree that the proposed new budget and accrual reconciliation is an improvement on the statement of financing, we believe that the need for such supplementary reconciliations should lead to a reassessment of the current presentation of the financial statements and related footnotes. Thank you for considering the DoD's responses and comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Alaleh A. Jenkins".

Alaleh A. Jenkins  
Assistant Deputy Chief Officer

Enclosures:  
As stated



**Q1. The Board proposes to replace the current Statement of Finance (SOF) requirement with the new budget and accrual reconciliation (NBAR). The NBAR reconciles the net outlays to net cost of operations. This presentation explains the difference between budgetary and financial accounting. The proposed Statement would apply to component reporting entities and describes the NBAR method and related disclosures. Refer to paragraphs six to nine.**

**Do you agree or disagree with the proposal to replace the SOF with the NBAR? If you agree, should the NBAR be presented as a part of basic financial statements or as a footnote? Please provide the rationale for your answer.**

DoD Response:

The DoD agrees with the Board's proposal to replace the current SOF requirement with the NBAR, and the DoD believes that the NBAR is an improvement over the former SOF.

The Department recommends presenting the NBAR as a footnote to the financial statements. Like the SOF that the NBAR would be replacing, the information presented is a detailed reconciliation of information already presented on the face of the existing basic financial statements, and provides a more detailed analysis of the information presented in other financial statements. This is consistent with the intent and purpose of the notes to the financial statements and thus should be presented as such.

**Q2. The Board proposes to require a narrative disclosure regarding the reconciliation and disclosure of the amount and nature of non-cash outlays. Refer to paragraphs six and 12. Do you agree or disagree that a narrative disclosure should accompany the NBAR? Please provide the rationale for your answer.**

DoD Response:

The DoD agrees that a narrative disclosure (as described above) should accompany the NBAR.

Paragraph 14 of Statement of Federal Financial Accounting Concepts (SFFAC) 1 states,

*Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.*

Additionally, Paragraph 64A of SFFAC 2 states,

*Sub-objective 1C of the budgetary integrity objective states that information is needed to help the reader to determine 'how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.'*

The DoD believes that a narrative accompanying the NBAR will improve the understandability of the costs incurred and the relationship of budgetary to accrual based accounting. The current SOF is complex and not easily understandable to financial statement users who do not have the knowledge and experience of federal budgetary accounting. Simplifying the reconciliation with the NBAR and providing a narrative explaining the reconciling differences provides more useful information to financial statement users, and provides more transparency to the use of federal resources.

The DoD recognizes the importance of the suggested disclosure that describes these differences in the aggregate, and believes that agencies should have flexibility to include additional disclosures that describe significant line items unique to each agency. For example, if a DoD agency has a significant amount of depreciation expense, then an additional disclosure describing why that is a reconciling item between budgetary and accrual-based accounting may be beneficial to a reader.

The DoD believes that the need for additional narrative and reconciliations outside of the information presented on the face of the financial statements indicates that the financial statements in their current form are not usable or understandable to a general audience. Given this, rather than requiring additional narratives and reconciliations, the entire federal financial reporting model (to include the financial statements and all related footnotes) should be reviewed and, if necessary, revised to present data in a format that can be understood and used without the need for supplementary explanatory information.

**Q3. The Board proposes that this Statement be effective for periods beginning after September 30, 2017 with early adoption permitted. In addition, restatement of comparative prior period information would be required. Refer to paragraph 13. Do you agree or disagree that the effective date, the early adoption, and restatement of comparative prior period information are reasonable? Please provide the rationale for your answer.**

DoD Response:

The DoD does not agree with the proposed effective date, with comparative period presentation of fiscal year 2017 information. We believe that the basic financial statements and footnote disclosures should be consistent in providing comparative period information. However, the DoD's ability to produce a comparative period presentation is dependent on the availability of a Treasury crosswalk by the end of fiscal year 2017 that defines the USSGL accounts to be included in the new presentation.

The DoD will have additional challenges given the scope and complexity of the mission, and the issues related to reconciling general ledger data, and thus, the DoD suggests that the Board consider a later effective date (periods beginning after September 30, 2018). This would provide sufficient time to create a comparative period presentation for the September 30, 2019 annual financial report.