FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Minutes
April 23, 2002
Room 7C13
441 G Street NW
Washington, DC 20548

Tuesday, April 23, 2002

Administrative Matters

- **Attendance**

The following members were present: Chairman Mosso, Messrs. Calder, Farrell, Kull, Patton, Reid, and Winter

Agenda Topics

- **Dedicated Collections**

Staff presented a staff paper that identified difficulties arising from the current standard on Dedicated Collections. Staff stated that the resulting questions and proposals were vehicles for analyzing the issues related to defining and categorizing the types of dedicated collections.

Mr. Mosso indicated that he would like to cut through some of the details of the paper and progress to discussing the structure of the project. He referred to Exhibit A, which he said provided the outline of what was involved. His suggestion was the Board and staff concentrate on defining dedicated revenues and non-government funds, and identify the accounting issues associated with both. He noted that there were at least four categories of dedicated revenues that were essentially budgeting classifications.

That if the Board agreed they could focus on accomplishing those two objectives and then return to the issues.

A Board member said that the approach suggested by Mr. Mosso was “exactly right.” Mr. Mosso noted that staff had discovered some interested things about fiduciary funds, that there are clearly some inconsistencies in the accounting. Another Board member agreed with the Chairman’s approach and noted that the Board had not yet clearly defined the problem or clearly defined the questions they want to answer in these areas. He noted that Social Security is called federal revenue at the same time it is considered by some to be a liability. . He suggested that it needs to be one or the other, not both, and that if the Board sharpened the issues by the method Mr. Mosso suggested, it would take a step forward in resolving the issues.

Another Board member commented that he appreciated the effort to clarify the issues, because he had been struggling with them. He mentioned that in his earlier response to staff on the presentation, he had noted that there are entity issues related to Dedicated Collections. He noted several issues: whether some of these funds should even be included in the federal reporting entity at all; whether there should be a separate statement or disclosure; whether it should be audited, and, whatever information needs to be disclosed, what should be the basis of accounting for the activity. Those are what he sees as the three big questions. He noted that while there may be other big issues, those are the accounting issues that occur to him.

Mr. Mosso agreed that those are certainly the questions that relate to fiduciary funds. There may also be deposit funds that do not belong. The Board member noted that they probably relate to dedicated collections also. He said that although one could eliminate the first question as to whether or not they are entity funds, the Board would still have to decide whether they want a financial statement or another basis of accounting. Mr. Mosso agreed and added that the Board would also need to explain the investment phenomenon that currently confuses everybody. He mentioned that some funds have revenues netting against expenses and some do not, and lots of other quirks that tend to confuse people.

A Board member responded that they would not have to be bound by those; they could wash them away, simplify them. Mr. Mosso noted that the Board can not do away with budgetary terms, although they did not need to use them in financial statements. A Board Member agreed that the budget terms are confusing. Another Board member observed that the question is how to make it clear when funds are reported one way in the financial statements and another way for the budget.

A Board member suggested that a category of Assets Held for Others is needed. The rest would belong to the Federal government. He stated that examples of these assets would be the Indian Trust funds, the Thrift Savings Plan, and the vested portion of employee pensions, that is the employee’s contribution. He believes there are others, some of them quite small that do not make much difference, but some fairly larges ones that do, and those are the ones for which the government has a fiduciary responsibility. Many are conventional trust assets, budgetary defined trust assets, but he suggested that if the Board could identify those it would be going a long way towards resolving the issues.

Another Board Member asked if he was using the terms “owned by others” and “held for others” as synonomous . The member agreed that he did. A Board Member also asked if the terms could be operationalized. Mr. Mosso replied that they were, but that he is not sure that the terms “owned by others” and “held for others” do mean the same. He said that was part of trying to get at a definition. He noted that Indian Trust funds may even be unique; they were set up in the 1800’s and might be close to being a government program. A Board Member said that the issue is not the funds that the government is holding but whether it holds all the money that was collected and whether the money was allocated properly.

Another member noted that it’s a hard question to determine who owns funds. He speculated that the federal government believes any money it can get, it owns. An example is the state unemployment insurance funds, which are reported as assets by both the federal government and the state governments. Mr. Mosso commented that staff had even found funds that are not in government accounts but are stuck off in a corner.

A Board member said he found it interesting that if the Board went down the route of defining fiduciary funds that it would resolve questions regarding the Social Security reserves.

Mr. Mosso asked the Board for thoughts on other accounting issues. A Board Member asked a staff person present whether every permanent/indefinite appropriation results in dedicated collections. Mr. Jacobsen, FASAB Counsel, responded that not all such appropriations were dedicated collections. The refund for taxes and the judgment funds were two examples of permanent/indefinite appropriations that are not funded by dedicated collections. Mr. Kilpatrick, staff representative for the Office of Management and Budget, noted that all collections from the public go into the general pot for the government. What separates the money is the accounting for it. The law specifies the purposes for which dedicated collections can be used. The laws can be changed to include other purposes besides the original one. An example is the Highway Transportation Act, which was amended to include mass transit. In some cases, when receipts are automatically credited to a fund by law, the receipts are all available for expenditure for the authorized purposes of the fund. In these cases, the fund has new budget authority in the amount of the receipts. In other cases, some or all of the receipts are precluded from obligation in the same fiscal year. For example, a benefit formula may determine the amount of benefits that can be paid, in which case some of the receipts may not be needed that year. These receipts do not count as budget authority in that year, although they are automatically made available when needed. There are also other variations.

Mr. Mosso commented that a common characteristic of dedicated collections is that they must be used in accordance with the law that established them. A Board member explained that the example in the presentation was the reason he asked the question regarding permanent/indefinite appropriations. The staff person said that he was unfamiliar with the fund (Fund for Strengthening Markets and Income) discussed in the paper.

Ms. Comes observed that the staff person had hit on a common denominator for dedicated collections. It is the promise that when money is received we will fulfill the statutory responsibility.

A Board member wondered about the liability side if the government is making a promise. He commented that he would not want the Board to be accused of coming up with standards that hide liabilities. Counsel responded that part of the issue with dedicated collections is reality versus perception about funds. For example, the Social Security contributions are used to pay retirement of another generation; it is a government program that can be changed.

Staff interjected concern that the Board members were describing things as dedicated collections when it still did not have a definition of dedicated collections. For example, although Board members had said earlier that the fund provided as an example in the presentation was not a dedicated collection and yet it met the current definition of being set aside for a specific purpose.

Ms. Comes noted that staff research raised the liability issues at a previous meeting but – at that time - the Board had not wanted to include liability recognition in the scope of the project. At the previous meeting, the Board wished to focus on disclosures.

Counsel stated that to decide what is a dedicated collection, it was not necessary to look at how it is used, but to look at the inflow, the issue of whether a liability is created is a separate issue. Mr. Mosso agreed and observed that although in many instances, the process was simultaneous, the inflow and use had to be addressed separately. Another Board Member agreed that the Board should address defining dedicated collections first, then move on to the asset/liability issue. Revenue for dedicated collections can be shown as some separate statement/disclosure. Mr. Mosso noted that what he had in mind was for the Board to get two categories identified and then go on to accounting and reporting issues.

Mr. Jacobsen observed that he had heard the terms dedicated revenues and dedicated collections used interchangeably but dedicated collections might not be available to the federal government. A Board member asked whether in situations such as the Indian Trust Funds whether the collections are available or unavailable for appropriations. A Board member responded that it is unavailable to the government, but it flows through government accounts. He observed that we may be doing good accounting but people may not know how the cash is used.

Mr. Mosso stated that collections become a liability when someone acquires the right to the collections. Ms. Comes noted that one of the Board members wanted to show distinction between the types of dedicated collections which create a liability and those that do not. A Board member responded that a liability occurs when a contract is made, next is high expectation, when does this become a liability? It becomes a very slippery slope. Ms. Comes observed that the Board had visited this issue before, noting that Statement 5 addresses liabilities. She suggested that SFFAS 5 could have been clearer about requirements or reasons for not recognizing a liability for non-exchange transactions such as Social Security.

A Board member commented that the trick would be to identify what characteristics of each type is different and use that as the criteria.

A Board member stated that Statement 7 dodges the issue on assets and liability. Ms. Comes responded that the staff and working group can do an analysis using the working definition of asset and FASAB definition of liability. After providing the project plan at the next Board meeting, might want to have a period where staff has time to do analysis. A Board member emphasized that the Board had to be concerned with substance versus form. Great accounting still might not tell the people what is actually going on. Another member responded that the key is to ensure that all money that should be collected and put in a fund is accounted for.

Mr. Mosso said that staff should define dedicated revenues and non-government funds and give a general description of how they operate. A Board member said that he would like to see each kind of fund measured against the liability standard to see if it meets the three criteria. For example, Unemployment fund may be a liability to the state and not to individuals. Mr. Mosso asked if staff had a task force working on this. Staff responded that a working group was assigned and had provided input.

A Board Member suggested that the Board needed a lot more information on the funds, because there might be a spectrum of types, and the Board needs to look at all the funds to get a better feel as to the issues.

Mr. Mosso noted that the issues are very different between dedicated collections and fiduciary funds and the Board would need to decide which one is a priority. One Board member expressed the opinion that fiduciary funds are more important because the government has a responsibility for them. Another Board member asked that the staff outline the issues and determine parameters that should be reviewed in looking at all funds.

- **Inter-Entity Cost Issue**

Staff explained that they have been asked whether a component of a department that wishes to present stand-alone financial statements for the component in conformity with GAAP is prohibited by paragraph 110 of SFFAS 4 from recognizing “imputed” intra-departmental inter-entity costs, other than those specified by FASAB and OMB. A similar question reached FASAB staff once before. FASAB staff currently does not know how all departments deal with this issue, but wished to discuss the matter with the Board before doing further work to investigate current practice.

The Chairman observed that the Board could take some kind of action to indicate that the prohibition in paragraph 110 is directed at inter-departmental costs, and that departments should account for intradepartmental costs in accordance the other provisions of SFFAS 4.

A member asked whether substantial costs incurred by other components of the department on behalf of the reporting component should be disclosed. Staff indicated they were not aware of such a requirement in FASAB's literature. Another member asked what the Board's original intent had been. Staff indicated that it appeared that the prohibition in paragraph 110 was intended to apply to interdepartmental costs, but the use of the term "inter-entity" in a generic sense created the potential for this question to arise. The member asked whether agencies have another option that would have the same result, e.g., non-budgetary reimbursable agreements. He suggested the standard would not preclude that.

A member noted that OMB did an analysis that revealed most components of agencies are now preparing financial statements. He asked what current practice is. Staff said that they do not know what current practice is, and wanted to get the Board's authorization to do more work on the subject before studying it further. The member said he would like to do something consistent with full costing. It is not something on which he would spend much time. Assigning costs is not difficult; it can be done in a number of ways. Corporations do it. Another member said that some agencies are doing it now.

Another member asked how the Department of Justice handles allocating costs among the FBI and other components. The Board might say something that seemed reasonable, and others might "go overboard" and take it to an extreme that would get out of hand. A member asked, "if the FBI had no building cost, would that be right?"

A member asked whether AAPC can solve the problem, if the standard is in the way. The Executive Director suggested that AAPC was charged with saying what costs should be imputed. [Point of clarification added to minutes: Ultimately, the standard looks to OMB to resolve the issue with assistance from FASAB staff. OMB has indicated a desire for AAPC to address the issue.] Further, she noted with respect to intra-department inter-entity costs that a complicated department like DOD could present problems similar in some ways to assigning inter-departmental costs.

A member said his recollection was that the prohibition in SFFAS 4 was intended to apply only to inter-departmental costs. He thinks SFFAS 4 sets the framework, and it is up to departmental management to determine how to implement that internally. Management determines the segments and aligns cost so it can make decisions. He is nervous about the idea of standards for intra-departmental cost assignment. The Chairman agreed, saying that SFFAS 4 is clear, except for the confusion that has arisen from paragraph 110. He would be content to clarify that the prohibition does not apply to intra-departmental costs.

A member asked whether an auditor could sign off on an audit of the Air Force if other portions of the DOD were not being audited and if the Air Force was not getting good information about the costs that should be imputed to it. A member noted that SFFAS 4 provides for estimates to be used in some cases. Another said judgment would be required. The first member asked what the Department of Energy is doing about allocating costs among its component entities.

A member said some agencies do a good job now; the standard should not be set for the lowest common denominator. Another member mentioned proposals to realign the budget appropriation structure to better reflect costs.

A member said he would like assurance that there is adequate, flexible guidance in SFFAS 4 for intra-departmental cost assignment without creating unintended consequences.

The Board agreed that staff would draft an interpretation, and in the process of doing so would solicit input from federal preparers and auditors. A member said the Board should consider referring to FAS 57, *Related Party Disclosures.*

The Board discussed whether it should also refer to FAS 131, *Disclosures about Segments of an Enterprise and Related Information.* It was noted that FAS 131 addressed some similar issues, but also was different in that it dealt with disclosures. Staff noted that while developing SFFAS 4 the FASAB had been aware of the work that lead to FAS 131 and had incorporated some similar ideas. Staff will review FAS 131 while drafting the interpretation.

- **Technical Agenda Setting**

The Executive Director explained that as we bring three new Board members on this summer and the Board approaches another window to add projects, it is a good opportunity to review the content, format, and presentation of project proposals. She explained that over time, the project proposals have become very lengthy, and often leading to difficulty in isolating a particular issue that should be addressed. The Executive Director also stated that she plans to have staff involved in the project proposal writing. Therefore, it would be advantageous to determine if there are key elements that should be included. Specifically, she requested the Board's opinion on what information they needed to know to determine which projects to select for the agenda. The Executive Director referred to the materials provided in the binders. Specifically, she stated that a FASB project proposal was included as an example. In addition, previous FASAB project proposals were provided to facilitate the Board's review.

Two Board members expressed concern over the discussion as they were of the opinion that any discussion regarding agenda items should be deferred until the new members were on board. The Executive Director clarified that the purpose is to determine what information should be included on project proposals in order for the Board to determine if a particular proposal should become an agenda item, not to select agenda items at this time. One Board member agreed that determining a consistent organization and structure to the project proposals is a good idea and would also be helpful to the new Board members.

The Chairman suggested that the Board provide feedback on the three items presented in the transmittal for this area—

1.) How important is it to have information about:

   a. current practices?

   b. agencies likely to be impacted?

   c. staff assessments of possible impacts on users?

   d. preparer and auditor assessments of the impacts?

   e. the relationship of the issue to reporting objectives?

   f. brief listings of options or possible associated with each issue?

   g. barriers to resolving the issues?

2.) Should potential projects be broken down into a series of discrete issues if possible? Would identification of each as a possible stand alone project be helpful?

3.) In addition to the Agenda Hearings planned, would comments from a wider group—through a published request for comments similar to the FASB example—be useful in assessing projects?

One board member stated that the criteria that the Board invokes in determining whether to add an agenda item normally relates to whether it is a pervasive issue and whether it deals with one of the objectives of financial reporting. Consistent with this approach, the member agreed that with the exception of 1f), the items in one relate to the criteria. However, the member expressed concern with listing options as it may limit options and hinder thinking. The Executive Director stated that the intent of item 1f is not to detail policy options, but options for direction of the project. The member agreed with 1f, based on that interpretation. The member also requested clarification regarding question number two. Specifically, the Board member stated that although it may be meaningful to have projects broken down for analytical purposes, but the Board must ensure that this does not lead to ‘micro’ or ‘tunnel’ vision when addressing the issues. The Board agreed that the intent is for analysis and not to limit the scope when evaluating issues individually. All Board members agreed that comments from a wider group, as discussed in number three, would be a good idea.

One Board member requested the Executive Director to describe the Public Agenda Hearing. The Executive Director explained that since the Board will be losing input from three federal seats, the public agenda hearing allows an open session to hear views from the federal community and the public. She also explained that it is planned for either the October or December time frame. The Executive Director explained that the invitation is open to the public as it is listed in the federal register. One member stated that the Board should consider publishing information about the hearing in additional literature. The Executive Director noted that the hearings are also published in the FASAB Newsletter, which is widely distributed.

While reviewing the current project listing, one Board member requested the status of the natural resources project. The Executive Director explained that currently, two staff are working on the project as time permits. It is considered a second tier project as the natural resources project did not rank high at the last agenda ranking. The Executive Director did state that there may be more discussion of the project at the August Board meeting.

- **New Board Member Program**

The Executive Director discussed that the selection process for the three new public members is underway. The new members are expected to be in place by July 1, 2002. The Board had agreed that the new members would benefit from a program to provide them with an awareness of federal financial management. The Executive Director explained that the focus would be of an educational nature. Additionally, she explained that the program is projected to be one or two days long and is tentatively planned for July. The intent is to have the program before the new members' first Board meeting in August. The Executive Director stated that if more than two days is required to cover all of the topics, briefings could also occur at future Board meetings.

The Chairman polled the present Board members to determine if they would be interested in also attending the program. All of the Board members expressed an interest in attending the program. The Executive Director stated that she would try to accommodate schedules and would send out information on potential dates. The Executive Director also explained that in accordance with the Federal Advisory Committee Act (FACA), the program would be open to the public, as FACA rules require any meeting with five or more Board members be open to the public.

The Executive Director solicited input from the Board members on topic discussions for the program. She referenced the list of topics that had been provided in their binders and opened the table for discussion. A few members stated that it would be helpful to know the background of the new members. The Chairman stated that it would be best to approach the program with the assumption that the new members do not have prior federal accounting background.

One Board member stated that the focus of the program should be to ensure that the new members understand the environment that they are entering—specifically, politics as well as the mechanics that drive the process. He also explained that it would be very important to provide the new members with an overview of the series of financial management legislation that has been passed over the past ten years. The Executive Director suggested that we also could connect the legislation to the reporting objectives. A member~~ also~~ suggested that a financial report could be explained and connected within the framework of the legislation. Another member also suggested that connecting the standards to an actual financial statement would be helpful for the new members. One Board member suggested that the example should be the CFR or a stand alone financial statement (versus an Accountability Report.)

A~~nother~~ Board member suggested that the program have four overall segments—(1) the federal operating and accounting environments, including relevant legislation, (2) FASAB's stated objectives of federal financial reporting, (3) existing FASAB concepts statements and standards, and (4) federal financial reporting practices. The Chairman noted that the topics on the list provided would cover the items the Board member suggested.

The Chairman requested that the Board also provide input on the four ideas included on the transmittal for this area--

1.) Using panels on some topics to offer diverse views.

2.) Closing with a roundtable discussion on the Board’s efforts to date and inviting key participants who have a long history of working with the Board to discuss key issues and factors they believe have or should influence the Board’s work.

3.) Focusing on the unique aspects of federal accounting.

4.) Reviewing actual accountability reports to highlight some of results of the standards.

In response to the first two questions, the consensus of most board members was that the focus of the program should be to educate and not to offer biased opinions or panel discussions on how things ought to be. Most Board members agreed that it would not be in the best interest to use panel discussions or roundtable discussions. Most agreed that it would be best to have individual speakers. The Chairman noted that based on discussions during the meeting, it was apparent the Board agreed with the ideas in three and four.

One member suggested that it would be important to provide the new members background materials that they could reference in the future. The Executive Director explained that much background material had been provided to the candidates to prepare for the interview and more would be provided prior to the program.

The Executive Director asked if anyone was aware of any classes similar in nature to what staff is contemplating that could be used for reference. She requested that members let her know if they do identify something. A staff member suggested that we could explore the materials that the CFGM program may have to offer, but the Executive Director stated that they often have a blend of state and local government literature with the federal government.

One Board member asked if it would be possible to also prepare the program in a CD-ROM format that could be distributed to universities and others. The Executive Director suggested that the Board would have to partner with another organization, such as Rutgers, to accomplish this type of outreach. Another member suggested that we focus on getting the program for the new members first as there is limited time and the Board could look into a more robust program with wider distribution at a later time.

The Executive Director concluded the agenda item by stating that she would be communicating with the Board members on finalizing topics and the date.

- **Technical Bulletin**

In the absence of FASAB staffer Monica Valentine, due to a family emergency, the Executive Director explained that the Draft Technical Bulletin 2002-1: *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government* exposure draft was exposed for a 30-day comment period that ended on April 12, 2002. The Executive Director explained that 11 comment letters had been received, which were included in the binders. The majority of the respondents either agreed with the bulletin or provided no comment.

One Board member stated that he had two comments on the draft technical bulletin. Specifically, he requested the following:

1.) Paragraph 3 of the Executive Summary to be removed. The paragraph requests that respondents comment on the staff's analysis and proposed technical guidance. The Board concurred and the Executive Director noted the change would be made.

2.) The first two sentences of paragraph 13 of the Appendix A: Basis for Conclusions to be removed. The sentences refer to SFFAS 5 and definitions for liability recognition. The Board member stated that it is not necessary to include this reference. The Board concurred and the Executive Director noted the change would be made.

The Board devoted much of the discussion to comment letter #11, which was submitted by M. Timothy Conner, Department of the Commerce, Chief, General Litigation Division. A Board member asked how staff responded to page 2 of the comment letter that dealt with legal counsel not being in the position of offering accounting advice to agencies with respect to appropriate accounting methodology. He also pointed out the respondent's comments on attorneys jeopardizing the attorney-client privileges by discussing the probabilities of an adverse outcome as it relates to the cases involved. The Executive Director noted that the TB only asks that component entities consult with legal counsel about pertinent legal matters or other factors that could be relevant to cost assignments not specifically asking the counsel to provide the allocations.

Another Board member noted his agreement with the conclusions stated in comment letter #11, specifically the respondent's recommendation that the Accounting and Auditing Policy Committee (AAPC) proposal be re-examined – which proposed that in some instances legal claim related costs of long-defunct Federal entities could directly allocate to the consolidated financial statements of the U.S. Government. The Chairman noted that in those cases where the entities no longer exist footnote disclosures are available for further explanations. Another Board member noted that comment letter #11 specifically acknowledges that the residual authorities of these long-defunct activities were transferred to existing Federal entities. In addition, the TB specifically proposes that component entities be responsible for their own claims as well as those of their successor component entities.

The Chairman asked that the TB be revised to specifically acknowledge the comment letters in the Basis for Conclusions (BFC). Mr. Jacobson, legal counsel to the Board, noted that some of the comment letters are reflective of the natural reluctance of attorneys to disclose to anyone other than the client anything about the case or litigation that they are involved in and reluctant to speak on anything that would indicate anything other than the fact that the client will win the case. Another Board member noted that in most cases by the time a liability and a cost are recorded, a judgment has already been made. In addition, legal letters are prepared responding to status of material pending litigations.

The Executive Director requested the Board's position on the comment from respondent # 7 which requested that the effective date be pushed back one year (September 30, 2002) with early implementation encouraged. One member noted the Board's policy is to accelerate effective dates and not push them back. The Board concurred to keep the current implementation date for periods beginning after September 30, 2001.

A member asked how the staff responded to comment letter #10 from Elliot P. Lewis, Department of Labor, Acting Deputy Inspector General. Specifically the respondent's question about including benefit and administrative costs along with the claim or judgment payment costs. The Executive Director told the member that she would talk with staff and note it in the paragraph in the BFC.

The Executive Director closed the agenda topic by stating staff would make the proposed changes to the bulletin, including adding responses to the Basis for Conclusions.

Adjournment

The meeting adjourned at 12:25