FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Minutes
August 7-8, 2002
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, August 7, 2002 .... *1*

Administrative Matters *1*

- **Attendance** 1
- **Rules of Procedure** 1

Agenda Topics *2*

- **Fiduciary Funds** 2
- **Dedicated Collections** 5
- **Target Audience and Qualitative Characteristics of the Consolidated Financial Report of the United States Government** 5
- **Stewardship Responsibilities** 6

Thursday, August 8, 2002 .... *10*

Agenda Topics *10*

- **Selected Standards for the CFR of the United States Government** 10
- **Technical Bulletin: Disclosures Required by Paragraph 79(g) of SFFAS 7** 12
- **Intra-departmental Inter-Entity Cost Interpretation** 13

Adjournment *16*

Steering Committee Meeting *16*

Wednesday, August 7, 2002

Administrative Matters

- **Attendance**

The following members were present: Chairman Mosso, Messrs. Anania, Calder, Farrell, Kull, Patton, Reid, Schumacher, and Ms. Cohen

- **Rules of Procedure**

The Board discussed revised rules of procedure. The revisions were intended to conform to the new MOU. Members noted that:

- The term “proposed” had been used in connection with both statements and exposure drafts of statements. The proposed revisions would have eliminated the use of “proposed” with respect to statements submitted for a 90-day review. However, the MOU continues to use the term “proposed” for statements submitted for the 90-day review. Staff agreed to work with counsel on this issue.

- Some inconsistent use of terms was noted (e.g., Chairman versus Chair) and will be corrected.

- References to “ex-officio” members were incomplete. Staff noted that the Principals wished to add two ex-officio members but some details remained unresolved. Some members noted that they would like to address the rules related to ex-officio members.

Revised rules will be provided to the Board for approval at a later time.

Agenda Topics

- **Fiduciary Funds**

The staff presented a working draft issue paper regarding fiduciary collections. The paper continued the development the definition/criteria for “fiduciary collections,” provided background considerations, raised the six issues listed immediately below, and proposed certain recommendations. The staff explained that the ultimate objective of the project is to develop an accounting standard for fiduciary collections.

Issue #1 – Does the working definition/criteria draw a satisfactory line between fiduciary collections and other dedicated collections?

The Chairperson asked board members for their reaction to the proposed definition. The Board discussed the meaning of the term “collection.” A member said the glossary defines “collections” as “amounts received” and he was unclear about the definition. Also, he said the paper uses ”collections” and “funds” interchangeably and he was unclear about the concept of “fund.” The Chairperson said the “collections” were essentially cash collections. The staff explained that the term “collection” is used in the budget in both a generic and technical sense, and that the term is being used generically in the staff paper.

Several members stated that the budget terminology was not conducive to the goal of understandability. Several members favored dispensing with budget terminology.

The Board discussed alternatives to “collection.” A member said that in the private and municipal world “collection” means things like dinosaur bones or bugs. It was mentioned that “collections” would be most suitable for monetary assets and would not be accurate for non-cash assets. “Inflows of non-Government assets” was suggested.

A member said that the basic definition of fiduciary collections – resources coming in to the Government that belong to some else – is clear and the words can be worked out.

A member suggested the phrase “fiduciary arrangement” and backing into the accounting treatment. Staff noted that the definition contemplates a fiduciary arrangement. Another member suggested defining “fiduciary arrangement” or “fiduciary relationship” and then specifying how to account for that relationship, including cash flows and stocks associated with them.

A member said that the issue involves the notion of control, the extent to which the Government has the ability to control the funds, e.g., to invest them or use them temporarily. A member asked whether Congress wouldn’t establish the parameters for such funds. Another member said that Congressional action introduced the notion of intent, which he said could be problematic for Social Security if the goal was to account for Social Security as non-fiduciary. Staff noted that there is a distinction in case law between Social Security and fiduciary funds. A member said that past wisdom has been that the Government owns the Social Security funds, as opposed to non-Government money represented by withholding tax, TSF, escrow deposits, etc.

A member said that the goal for the definition should be to capture economic and political substance and to transcend the various technical perspectives that are employed in the budget and elsewhere.

The chairman asked staff to try to accommodate the elimination of the word “fund,” bring in the notion of fiduciary arrangement, and look for neutral terms such as “inflows” to replace “collections”. He also suggested that the definition is oriented too much in the direction of beneficiaries since a lot of what the government does that is fiduciary in nature has no beneficiaries (e.g., withholding of taxes).

Issue #2 – Should the financial report of the administrative Federal entity and the CFR include fiduciary collections and the resulting assets and liabilities associated therewith?

The staff had assumed and the Board concurred that information about fiduciary collections should be incorporated in the financial report.

Issue #3 – How should fiduciary collections and the resulting assets and liabilities be recognized and displayed?

A member asked about the current accounting for fiduciary collections and was told that there appears to be a mixture of treatments. Several members indicated preference for recognizing the assets [and liabilities] associated with fiduciary collections that are held by the administrative entity “inside the Government” on the entity’s balance sheet.

GASB Statement 34 was discussed. GASB 34 uses a specific fund for fiduciary collections and the amounts are shown in the notes to the balance sheet. A member provided a Combined Balance Sheet handout from the City of New York (June 30, 1993) that included fiduciary funds, which he explained was misleading in regard to the City's assets, and that this is the reason GASB 34 allowed only for note disclosure in the balance sheet.

A member said he preferred the notion of control: if the government can control the money and dispose of the assets, it wouldn't matter where the fiduciary collections resided. Another member agreed.

The Board tentatively decided to require asset and liability recognition as the general rule and to allow for exceptions where a true separation or "lock box" existed.

Regarding disclosure, the chairman indicated that the items on the top of page 16 of the staff issue paper [from SFFAS 7, paragraph 85] are suggested note disclosures. Members suggested deleting the word "revenues" [since fiduciary collections by definition aren't "revenue"]; being more specific regarding "condensed" financial information; and allowing for more detail in some instances that in others, e.g., less in escrow instances. A member said that the information required should be either for the financial statements or notes rather than any other place in the financial report.

The Board decided that investments of fiduciary collections in Treasury securities would be treated as debt held by the public, i.e., outside of the Government.

Issue #4 – How should fiduciary collections and the resulting assets and liabilities be measured and what should the accounting basis be?

Regarding the issues of measurement and accounting basis, the Board indicated that the disclosures should be based on applicable SFFASs, but should reflect the fiduciary arrangement. In addition, a member suggested that the entity would have to consider where any federal liability was present in addition to or instead of a fiduciary liability. A member suggested that instances where assets and liabilities were reported on the balance sheet might require less footnote disclosure than otherwise.

Issue #5 – If the Board decides to require the assets and liabilities and changes in fund balance to be recognized in the component entity's financial statements rather than disclosed in the notes, should the intra-governmental assets of these funds, if any, be eliminated during consolidation for the CFR?

The CFR would reflect the decisions made in regard to issue 1-4 above.

Issue #6 – Should the paper address accounting for the fund entity in addition to the administrative entity?

The Board decided not to pursue this issue.

- **Dedicated Collections**

Ms. Palmer provided a report to the Board and indicated that the presentation was not intended for discussion but only to inform the Board members of the status of the project. Mr. Mosso noted that there is a variety of funding methods for collections that could be considered dedicated collections and the field was much broader than for fiduciary collections. One Board member indicated it would be necessary to put a fence around what the Board considers dedicated collections because otherwise it would include everything. He questioned whether user fees could be appropriately considered dedicated collections. Mr. Mosso suggested that revolving funds could be eliminated.

Another Board member responded that the project addresses whether collections made for a particular purpose are used for that purpose. Another Board member agreed that discussion of the processes concerning collection were not as important as the fundamentals of the issue. Mr. Mosso asked Ms. Palmer what she was going to bring to the Board at the next meeting. She asked for clarification on whether the focus should be on funds or collections. Another Board member responded that either was appropriate. Ms. Palmer informed Mr. Mosso that the project plan asked for discussion of different accounting issues regarding dedicated collections and that would be the focus of the presentation at the next Board meeting.

- **Target Audience and Qualitative Characteristics of the Consolidated Financial Report of the United States Government**

Staff opened the discussion by presenting highlights of respondent comments to the exposure draft, *Target Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government.* Staff described the 12 respondents as generally supportive of the Board's positions in the exposure draft. After discussing the more substantive comments, the Board decided on the following actions:

  - **Target audience** – Some respondents requested that specific individuals be added to the examples of persons included in the Citizen Intermediary group. Since the Board intended that the individuals listed in the group description were typical examples rather than an exhaustive list, it decided not to expand the list of examples. Rather it decided to slightly modify the wording of the description of the Citizen Intermediary group to clarify that the individuals and groups listed are typical examples and not an exhaustive list. Suggested wording is:

    - "*Among others* included in this group of individuals outside the Government are:…

  - **Qualitative Characteristics** – Some respondents did not believe that the qualitative characteristics of understandability and timeliness should be emphasized at the expense of the other 4 characteristics (relevance, reliability, consistence and comparability). The Board affirmed that its intent as stated in paragraph 9 of the exposure draft was to acknowledge that all 6 characteristics were important for all reports and users. Its focus on the characteristics of understandability and timeliness related to the aggregated nature of the report and the target audiences. It decided to delete the last two sentences of paragraph 22 of the exposure draft, because they could have caused some respondents to conclude that the other 4 characteristics were not important.

- **Modifying Language** – The Board agreed with two respondents who believed that the Board's use of modifying language in two instances might dilute the Board's intentions in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. It decided to remove the modifiers, "financial" from "accountability", and "broadly" from "addresses":

    - ~~financial~~ accountability (paragraph 6 of the exposure draft)
    - ~~broadly~~ addresses (paragraphs III and 8 of the exposure draft)

The Board asked Staff to make the requested changes and forward a draft concepts statement by email for Board pre-balloting by the first week of September 2002.

- **Stewardship Responsibilities**

Staff opened the discussion by noting that, after discussing responses to the exposure draft (ED) in June, the Board decided to defer decisions on this project until the new members could participate. Although the ED did not propose to eliminate the RSSI category, nor ask whether it should be eliminated--that having been the subject of Preliminary Views (PV)--several responses urged that the Board retain the category. This suggested that the "threshold" question might be whether, in light of the comments, the Board wished to retain the RSSI category for any of the three items discussed in the current exposure draft.

One member, who had published an alternative view in the PV and ED, said that most of the responses to the PV supported the alternative view to retain the RSSI category, as did many responses to the ED. He has yet to find a reason for the Board to continue to pursue this change in the face of these comments. The audit community has consistently indicated that it is not prepared to deal with some of the information now classified as RSSI as an integral part of the basic financial statements. The Chairman noted that the background material reviewed the reasons for the decision.

A member noted that the Board had agreed not to do away with the RSSI category until all the pieces of RSSI had been re-categorized, so that if no other category were appropriate RSSI would remain available. The Chairman said that the decision to eliminate RSSI had never been formalized but most of the previous board members wanted to do away with the RSSI category. A member suggested that the question is whether each of the three types of stewardship responsibility information needs to be subjected to some type of audit assurance or not. If they need to be subject to audit assurance, they should be part of the basic financial statements; if they don't need audit assurance, they should be RSI. In no case does RSSI give anything other than uncertainty about the extent of assurance we would like to see.

<u>Risk Assumed</u>

The Board confirmed that, as proposed in the exposure draft, “risk assumed” would be reclassified from RSSI to RSI. [Like all decisions regarding stewardship responsibilities at this meeting, this was a tentative conclusion, to be confirmed at a subsequent meeting.]

Current Services Assessment (CSA)

The exposure draft standard proposed to reclassify the CSA from RSSI to RSI status for one year, and then eliminate the requirement to present the CSA. Staff indicated that there appeared to be two questions regarding the CSA: how it should be classified before it is eliminated, and when it should be eliminated. Some comments suggested that, if the CSA requirement were to be eliminated after only one year, there was no reason to reclassify it from RSSI to RSI.

A member suggested another alternative, noting that OMB’s “mid-session review” of the CSA is prepared in July, and could be used in the financial report instead of the CSA that is published in February with the President’s Budget (as is currently called for by SFFAS 8). The “mid-session review” would be available on a timely basis for the CFR after accelerated reporting is accomplished.

A member suggested that the CSA be eliminated. Another member agreed, saying that he liked the information that would be provided by the mid-session review of the CSA, but believes it is difficult for a standard setter to base a requirement on something that the standard setter can’t control. The member who had proposed using the mid-session review CSA responded that the mid-session review is required by law.

Another member said that the mid-session review could be a good substitute. Some members asked whether the methodology, level of review, data sources, data reliability, level of detail, and report format for the mid-session review CSA differed from the CSA included in the President’s Budget. Among other things, they would like to know whether the auditor would be able to apply the procedures at section AU 558 of AICPA’s professional auditing standards (the audit standards regarding RSI). The Board asked staff to provide more information about the mid-session review CSA and how it compares with the CSA included in the President’s Budget. The Board will consider the alternative of using the mid-session review CSA at its October meeting.

Social Insurance

Staff indicated that questions for the Board include:

- whether all social insurance information should be considered an integral part of the basic financial statements,
- whether the proposed effective date should be changed,

whether categorizing social insurance information as basic information would raise issues of display and disclosure that should be addressed in this project. For example: (1) at the last meeting, a Board member said that the information presented in the SOSI should be presented in a footnote to the basic financial statements, and (2) a comment letter suggested that report readers need a better explanation as to why no social insurance liability is recognized.

Staff noted that the AICPA expressed reservations about making all social insurance information an integral part of the basic financial statements (as the exposure draft proposed to do for FY 2003), particularly before audit guidance has been developed. AICPA also questioned the cost/benefit of such a step.

Wendy Frederick, a member of AICPA's staff, and Eleanor Long, a member of AICPA's FASAB Liaison Taskforce, were invited to discuss AICPA's concerns. Ms. Long indicated that, in addition to concerns about the proposed reclassification of Social Insurance information, AICPA continues to believe that a social insurance liability should be accrued. (AICPA attached a copy of its letter commenting on the exposure draft that led to SFFAS 17 to its letter commenting on the current exposure draft on reclassifying stewardship responsibility information.) Ms. Long reiterated the AICPA position that:

- a social insurance liability should be recognized,
- not all the social insurance information required by SFFAS 17 should be considered basic information, and
- new guidance will be needed if social insurance information is to be regarded as an integral part of the basic financial statements.

A member asked, "if auditors could provide audit assurance regarding the accrued liability for social insurance, why could they not do so for the information required by SFFAS 17?" Ms. Long indicated that the cost of an audit of all information required by SFFAS 17 would be prohibitive and additional criteria would need to be established. For Medicare, for example, there are approximately 20 pages of material in addition to the SOSI itself. Some of this information could and should be placed in footnotes if RSSI is eliminated, but other items should have RSI status.

Another member asked if the concerns would be the same if the audit were limited to the Statement of Social Insurance (SOSI), together with whatever information, such as assumptions, that would need to be disclosed to make the Statement understandable? Ms. Long responded that it would depend on what information was required on the Statement, but the audit concerns would not change just because the information was condensed. We would need criteria, and the cost would be substantial. [AICPA's comment letter did appear to make some distinctions among the items of information required by SFFAS 17, based on cost/benefit and technical factors.] The Chairman noted that if a social insurance liability were accrued, the amount recognized would be based on the same information reported pursuant to SFFAS 17.

A member asked if the annual report of the Social Security trustees could be audited. Another member said that he would ask, "can it be examined under the attestation standards?" He said that he would answer, "yes." Those standards deal with forecasts and projections, and that is what we are dealing with here. So the auditor could be expected to provide a high level of assurance. Ms. Long indicated that providing assurance on 75 years of numbers is different from providing assurance on a single number. The Board discussed whether an auditor would want to express 95% confidence in the SOSI, or an opinion that a set of financial statements including the SOSI were presented fairly?

A member opined that it sounds as if new audit literature will be required. Ms. Long agreed. The member asked if social insurance information could be reviewed as RSI, given current accounting and auditing guidance. Ms. Long said yes. The Chairman noted that Chuck Landes, AICPA's Director for Audit and Assurance Standards, had told the Board that audit procedures could be developed for anything, provided adequate and appropriate criteria were available. A member observed that these numbers are important.

The Chairman asked, if the standard became effective for FY 2003, would that give enough time to develop audit guidance? Ms. Frederick indicated that it takes at least 12-18 months to promulgate auditing standards.

A member observed that social insurance is the biggest number the Government deals with. It will be costly to audit, but it is important. It may require time, but that is not a reason not to do it. Another member observed that it is a number of concern to the public. One member suggested that an audit of the social insurance numbers might cost in excess of $5 million. That would be an extraordinary cost from the public's perspective, and hard to sell.

A member asked whether the auditor would rely on work done by actuaries? Another member said that the financial statement audit would be a jumping-off place, and he thought some reliance would be placed on reviews currently performed on the Trustee's report.

A member said that FY 2005 would be a more appropriate effective date for such a change. That would give AICPA time to do something. He noted that other new financial reporting demands would be imposed on agencies in FY 2004.

The Chairman suggested moving the effective date to 2005 and making all social insurance information "basic." He asked for tentative indications of Board "leanings." A member indicated that the focus should be on the SOSI, which should be basic and the descriptive information necessary to understand it; the sensitivity analysis information should not be categorized as basic information. The CFR has 37 pages on social insurance, much of which should be in the back of the report (as RSI). He preferred an effective date before FY 2005 but not all social insurance information would be basic.

One of the three new members expressed some concern about the assumptions involved, and indicated a need for more time to reflect on the issues. Another member said that the SOSI should be basic, while much of the other information could remain RSI; he would like the effective date to be before FY 2005, but needs to consider AICPA's comments. He would like AICPA to consider whether basic status for the SOSI before FY 2005 would be feasible, if the other social insurance information is RSI.

A third member would, as an interim step, reclassify all the information RSI. He is not yet sure whether the Board should write in the standard that the information would become basic in FY 2005, or say that it is the sense of the Board that it would require the information as basic once it develops and describes the model in which it would be reported as basic information. He likes the idea of a future statement of standards that would amend SFFAS 17, but in the context of the standard to reclassify stewardship responsibilities, he is not sure that he is ready to do more than reclassify social insurance information as RSI. The Board might conclude that it wants something other than what is now in the SOSI to become basic information, or something in addition to it.

Another member would make all social insurance basic in FY 2004. If things don't proceed, the Board might consider a delay. He believes the factors listed in figure 2 in the exposure draft suggest that it should be basic information.

A member indicated that, based on what he knows now, the basic schedule [i.e., the SOSI] should be basic and the effective date should be FY 2005.

Another said that the schedule [the SOSI] should be basic, and a modest additional amount of information; the effective date should be either FY 2003 or FY 2004.

A member said that if the classification is changed it should be RSI. If some of the information becomes basic, the effective date should be FY 2005. Eventually some of the information needs to get into the basic financial statements at some level, but we're not ready yet. Neither the Board nor the audit profession has come to agreement on how to do that.

After polling the members, the Chairman concluded that it appears a majority favors basic treatment for the SOSI and essential disclosures, but preferences differ regarding the effective date of any change and the status of related disclosures.

For the next meeting, staff will attempt to determine the Board's consensus about what information, in addition to the SOSI, should become basic information. Staff also will explore with AICPA these and other considerations regarding the effective date.

The Board expressed appreciation to Ms. Long and Ms. Frederick for their contribution.

Thursday, August 8, 2002

Agenda Topics

- **Selected Standards for the CFR of the United States Government**

The staff reviewed the 16 responses received on the exposure draft. The comments on the ED were generally supportive.

The AICPA asked that FASAB clarify its policy with regard to entities that have been following Financial Accounting Standards Board (FASB) standards. Shortly after the AICPA designated FASAB as the GAAP standard-setter for the Government the FASAB established a policy that "financial statements in accordance with accounting standards published by the FASB also may be regarded as in accordance with GAAP for those Federal entities that have in the past issued such financial statements." A member said that a blanket affirmation of this policy may be unwise because FASAB's idea of GAAP is broader than FASB's; and possibly, if something is missing from a FASB-base report, the preparer should provide it. The Chairman noted that when a reporting entity is using FASB standards and the reporting entity is consolidated into a reporting entity required to follow FASAB standards, there needs to be a conversion so that the resulting entity is using only FASAB standards.

The case of the Postal Service was discussed. The Postal Service issues FASB statements and converts to FASAB for consolidation, but the conversion may be incomplete. The Postal Service has been declared independent by statute but has significant links to the Federal Government. For example, its employees are Federal employees. With respect to accounting for retiree health care cost, the Postal Service has attempted to apply FASB standards but they do not really fit. The difference between the accounting treatment of multiple and single employer plans makes a gigantic difference on the balance sheet and operating results. The Postal Service could apply FASAB standards. A member said that the Board would have to consider the issue when setting its agenda. The Board decided to state in the basis for conclusions that it is not changing this policy at this time.

Also, one respondent asked whether the two new statements would be principal statements. The Board affirmed that the statements will be principal statements and this will be clarified in the final standards.

<u>The staff raised the following issues based on the comment letters:</u>

1. *Are the terms "budget" and/or "budget surplus" unclear to the target users of the CFR?* The Board agreed to use the term "unified budget" and define the term in the glossary.

2. *Should Version A or B be used for the cash flow statement illustration?* Version "B" of the cash flow statement was selected for purposes of illustration.

3. *Should the title of the cash flow statement illustration be changed to incorporate the word "reconciliation"?* A member indicated that the "cash flow statement" is not a FASB-type cash flow statement and it would be better not to call it that. He preferred calling it a reconciliation statement. The chairman opined that he didn't like using reconciliation for a major statement. A member indicated that the statement currently named a cash flow statement is somewhere in between a reconciliation and a cash flow statement. The Chairman observed that the cash flow statements used in the private sector could be called reconciliation statements. The Board voted by a slim majority to retain the word "reconciliation" for the illustration at Appendix B in the ED, and to call the illustration at Appendix C of the ED a statement, although not a "cash flow statement" . FASAB staff will work to implement the decision. The Chairman noted that the name changes can be accomplished by e-mail and the issue need not be brought back at the next board meeting.

4. *Should the standard provide detailed authoritative guidance regarding the format of the statements?* The Board also agreed not to make the illustrations of the statements prescriptive.

5. *Other:*

   <u>Should the standard require comparative statements?</u> The Board agreed to require that the two new statements and all other principal CFR statements be comparative. The basis for conclusions will explain that the Board believes generally that better information is provided the user when it is in a comparative environment. It was the Board's desire to place this notion in the basis for conclusion to give a sense of the Board without requiring comparative statements for component entities via this standard, which is direct at the CFR level.

Should the standard require direct reference to cash on the balance sheet and/or should the standard require a reference to stewardship information on the balance sheet? The Board did not direct any changes in the standard or illustration in this regard.

Should the standard require beginning and ending cash balances on the cash flow statement (Appendix C)? The Board agreed that beginning and ending cash balances be reported on the cash flow statement. Staff will incorporate this decision in the illustration.

Staff indicated that a final draft would be available within 30 days. A member asked if this project would be discussed at the next meeting. The executive director answered that that probably would not be necessary.

- **Technical Bulletin: Disclosures Required by Paragraph 79(g) of SFFAS 7**

The Chairman explained to the new members that a Technical Bulletin (TB) is a staff document that the Board need not formally vote to approve or affirm as a statement of the Board; it would be published if a majority of the Board did not object. Staff noted that paragraph 79(g) of SFFAS 7 specifically calls for "explanations of any material differences between the budgetary information reported in the financial statements pursuant to paragraph 77 of SFFAS 7 and the amounts described as 'actual' in the Budget of the United States Government."

Staff explained how the draft TB had been sent to federal Chief Financial Officers, Inspectors General, and other interested parties by means of the Internet. FASAB received 18 written responses regarding the draft TB. Most supported the proposed TB or expressed no comment. Four suggested clarifying language or expressed concerns that implied a need for clarification.

A Board member suggested that an example be added to clarify the TB's intent. Staff agreed to do so and to distribute the revised TB to the Board for clearance on a "no objection" basis.

A Board member noted that the budget "actual" numbers are continually revised long after a fiscal year. Thus there is no final budgetary "actual," although the aggregate receipts and outlays at the consolidated level are reasonably firm by November 15th. A member asked whether this implied that any time the word "actual" is used it should be explained. It was noted that adjustments after November 15th might in some cases be material with respect to a particular entity or line item in the Statement of Budgetary Resources.

A member said that there is a corresponding problem from an accounting standpoint: agencies have thousands of prior period adjustments and don't close the books. The opening balance this year is different from the closing number in the prior year. Another member said there seems to be no embarrassment factor in changing your prior year's financial statements. A member said that—unlike the private sector--there is no premium on timely and accurate financial information, because the annual budget process drives everything. Another member noted that some improvements are underway, and some adjustments are made because problems are detected and resolved.

A member said that OMB is considering a supplementary table in one of the budget documents that would compare the "actuals" as of November 15th with the revised "actuals" published in the budget. Showing this difference would be a force to encourage improvement in budget execution. Another member noted that the Board had originally thought that its reporting model, which includes the Statement of Budgetary Resources, would provide at least some degree of audit assurance regarding aggregate budget numbers. He wondered whether auditors would want to extend their opinions to budget numbers that are expected to change. Other members agreed this could be a significant question.

- **Intra-departmental Inter-Entity Cost Interpretation**

Staff explained the Intra-departmental inter-entity project relates to whether a component (of a department or larger reporting entity) is prohibited by paragraph 110 of SFFAS No. 4 from recognizing imputed intra-departmental inter-entity costs. Intra-departmental costs are considered the costs of goods and services provided by other components or responsibility segments within the department or larger reporting entity, with or without reimbursement. Staff further detailed that imputed costs represent costs that are non-reimbursed or under-reimbursed. Staff also provided an example of a potential imputed intra-departmental inter-entity cost—within the Department of Justice, DEA performs the processing of drugs (lab testing, results, etc.) for FBI without reimbursement. Staff explained that based on the discussions at the previous Board meetings, the Board wanted to address the question in a manner that would be consistent with full costing.

Staff then summarized actions since the June Board meeting:

- Staff distributed the Questionnaire on Intra-departmental Inter-entity Costs the Chief Financial Officers and Inspector Generals of the major 24 executive departments and agencies.

- A total of 38 responses were received, 19 from the CFO/preparer side and 19 from the IG/audit side. Staff prepared a two-page analysis of key points for the Board's consideration and a detailed consolidated summary of the responses, both of which were included in the Board's material.

- Staff also explained that the staff draft proposed interpretation was included in the binder material for comment. The staff draft proposed interpretation provides a distinction between intra-departmental inter-entity costs and inter-departmental inter-entity costs. Specifically, the proposed draft interpretation explains that the limitation on recognition of inter-entity costs in paragraph 110 is directed at inter-departmental costs, although SFFAS No. 4 does not use that term.

Staff discussed some of the pertinent results and analysis points with the Board. Specifically, staff explained:

- Most Departments currently trace, assign, allocate, or attribute intra-departmental costs among components. Staff further explained that these types of costs were for shared type costs (space, overhead, etc.) and were often accomplished through a working capital fund or revolving fund.

- Most Departments **don't** currently impute intra-departmental costs among components. Reasons for not imputing costs included: not applicable due to a single reporting entity; amounts deemed immaterial; policy is to only impute costs per OMB guidance; and accounting systems not capable of capturing cost information.

- Several respondents questioned if the benefit of capturing such costs at component levels exceeds the cost and effort, especially considering most audits are performed at the consolidated level.

- Approximately half of the respondents indicated that there is a need for additional explanation or guidance on imputing costs and recognition. Specifically, respondents state that guidance should:

  1. Include specific examples of costs that should be imputed

  2. Provide a clear definition of imputed costs

  3. Detail acceptable estimation methods

  4. Address materiality issues, including what level (Department, component, program) it should be determined

  5. Ensure consistency among Departments with implementation

- Staff also explained that the respondents did offer comments on other areas within SFFAS No. 4 that may need clarification or additional guidance and that these comments would be considered for potential future FASAB projects as appropriate.

Staff explained that although the majority of the issues or concerns were pertinent, most were broader than the scope of the interpretation and/or would need to be addressed by future projects, the AAPC Inter-entity Task Force or through some other means. Additionally, staff suggested that based on comments received, additional language would be added to the Basis for Conclusions to address the definition of imputed costs as well as reiterate that the recognition criteria in SFFAS No. 4 still applies.

Staff requested the Board's input on areas that may need to be researched further or expanded upon in the draft proposed interpretation. The Board's comments included the following:

- One Board member stated that the term *"Intra-departmental inter-entity costs"* was very confusing and suggested that other terminology be considered or perhaps not including *'inter-entity'* in the title. Staff explained that it would be difficult as that is the term used throughout SFFAS No. 4 and the term that we are attempting to clarify within the interpretation. The Chairman suggested that we define the term at the beginning and then use something simpler throughout the interpretation.

- One Board member asked the staff if any follow-up was performed when the CFO and OIG responses differed for a particular agency. Staff stated that follow-up in those areas had not been performed. The Board did not express a desire to perform any follow-up at this point.

- One Board member stated that the concerns regarding materiality are often justified because entities often must prove that items are immaterial by performing a detailed analysis to satisfy audit concerns.

- One Board member was concerned that the Board had not given ample consideration to the comments received on the questionnaire and questioned if perhaps an implementation guide may be appropriate. He further explained, that although the Board felt the interpretation was appropriate in terms of full costing, there does appear to be much concern raised by the financial management community. Another Board member stated that the issues raised by respondents are long-standing issues and often go beyond accounting and are due to budgeting restraints and consequences. Additionally, the Board member stated that there are resources out there to assist agencies with cost accounting implementation, such as the CFO Council Cost Accounting Implementation Guide. The Board agreed that the interpretation should reference some of the resources or guides that are available.

- One Board member noted concern regarding definitions within the Basis for Conclusions. Staff agreed to determine if a glossary would be appropriate for the interpretation, depending on the number of words that are defined, or perhaps including the definitions at the beginning.

- One Board member expressed concern about the phrase *"Reporting entities are encouraged to disclose the breakdown of intra-departmental and inter-departmental costs and financing sources in the footnotes to the financial statements."* The Board member stated that the term *'encouraged'* does not require and questioned the intent of the statement. The Executive Director stated that interpretations are not intended to impose any new requirements, so it would be difficult to add new reporting requirements within the context of an interpretation. Staff agreed to research the standard further to determine current requirements regarding disclosure on imputed costs and determine if this would be considered a new disclosure requirement.

In concluding the agenda item, it was agreed that the staff would incorporate changes or add language to the interpretation to address the following:

1. Define imputed costs, including an example
2. Determine how to refer to 'Intra-departmental inter-entity costs' throughout the interpretation so it is less confusing
3. Reiterate and elaborate that the recognition criteria in SFFAS No. 4 applies
4. Reference available guidance on cost accounting that currently exists
5. Determine if it would be appropriate to require certain reporting disclosures within the text of the interpretation

Adjournment

Steering Committee Meeting

The Steering Committee met briefly at the end of the meeting and confirmed that staff should maintain a complete record related to Senate Bill 2740, Treasury-Postal Appropriations for FY 2003, section 517 restricting use of funds for FASAB.