



*Advancing
Government
Accountability*

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April 25, 2007

Wendy Comes, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Comes:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the October 23, 2006 exposure draft (ED) by the Federal Accounting Standards Advisory Board (FASAB or the Board) of a Preliminary Views document (PV) on Accounting for Social Insurance, Revised. The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members have also been encouraged to comment separately.

We congratulate the FASAB for taking a giant step towards more transparent reporting relating to the accounting and reporting for these programs, although we think that more needs to be done before actual guidance is issued.

The FASAB has created a Fiscal Sustainability Task Force that is expected to have developed recommendations on sustainability reporting by the end of 2007. The nature of those recommendations is unknown at this point, but the recommendations have the potential to directly impact the responses to this PV. Obviously, there is a missing piece in the federal government reporting picture. Governments in general often make promises to their constituents about services to be provided without determining or without communicating to the public how long those services can be sustained using existing tax structures.

Democratically elected governments have a tendency to commit to social programs without fully calculating, considering and therefore disclosing the costs of those programs. Governmental accrual accounting should provide the processes, procedures and reporting formats to calculate and disclose the estimated costs of policy obligations in an objective manner. This will allow elected officials, and the general public, to duly consider policy costs, and vote accordingly. It is important that neither current costs (deficit spending), policy obligations, nor capital costs are passed on to future generations without understanding their impact.

It appears the Fiscal Sustainability Task Force is a much needed step forward in addressing the federal government's unique obligations which may not currently qualify as traditional liabilities for financial reporting purposes. Although not currently included, these obligations need to be considered for policy decisions and to assess the overall financial position of the government.



One member elaborated on the point thus, “Facts regarding the nation’s current financial condition and long-term fiscal outlook are being disseminated to more and more individuals through the Fiscal Wake-Up Tour and other methods. This increased public awareness is causing citizens to be unsettled and fearful of the future, and they recognize that the financial statements must not be providing the information needed for decision-making at the federal level. As such, there may be a tendency for many of us to reply in a manner that supports whichever option puts the most liability down on the books in order to help our citizens and our lawmakers wake up to the problems in the future.” In this case, that would be the primary view. This emotional decision may be made regardless of the merits of the well developed arguments of the alternative view.

So we would suggest that the Board table this PV and the responses received until the Fiscal Sustainability Task Force can show us what the future of sustainability reporting will be, how much significance and relevance a sustainability report would have in relation to the other financial statements, and what other federal promises and obligations would be included in such a report. In the meantime, the Board will probably get very divergent views on how social insurance should be handled.

Once the Fiscal Sustainability Task Force recommendations are available, we think it will be much easier for responders to make an objective decision regarding the issues currently addressed in the PV. The FMSB wishes to wait until then to comment on any proposed guidance which is issued as a result of the task force’s recommendations.

Finally, we note that, of the five programs subject to the proposed standard, FASAB has “pension-type” programs (Social Security and Railroad Retirement) and “insurance-type” programs (Medicare, Unemployment Insurance and Black Lung). We believe the pension-type funds should follow accounting similar to pensions outside of the federal government and the insurance-type funds should follow accounting similar to insurance organizations outside of the federal government.

The FMSB appreciates the opportunity to comment on the exposure draft. The majority of members approved the issuance of this letter. We would be pleased to discuss the issues in this letter with you at your convenience. Please contact Anna D. Gowans Miller, CPA, AGA’s Director of Research and facilitator for this project, at amiller@agacgfm.org or (703) 684-6931, ext. 313.

Sincerely,



Robert L. Childree, Acting Chair,
AGA Financial Management Standards Board

cc: Jeffrey S. Hart, CGFM, CFE
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2006 – June 2007

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