U.S. GOVERNMENT ACCOUNTABILITY OFFICE

**441 G St. N.W.**
**Washington, DC 20548**

November 13, 2023

Ms. Monica R. Valentine
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, D.C. 20548

**GAO's Response to FASAB's Invitation to Comment on the Reexamination of Existing Standards**

Dear Ms. Valentine:

Thank you for the opportunity to provide our comments on the Federal Accounting Standards Advisory Board's (FASAB) Invitation to Comment on the Reexamination of Existing Standards. In the enclosure to this letter, we respond to FASAB's questions on its generally accepted accounting principles hierarchy and provide observations concerning certain general issues we have noted in our audits. We are aware that other respondents have raised additional issues.

Please contact Robert Dacey, Chief Accountant, at (202) 512-7439 or daceyr@gao.gov or me at (202) 512-2623 or davisbh@gao.gov if you have questions on our perspectives.

Sincerely yours,

Beryl H. Davis
Managing Director
Financial Management and Assurance

Enclosure

Enclosure

## GAO Responses to FASAB's Questions

### Responses to Questions on the Federal GAAP Hierarchy

**Question 1.1:** The federal GAAP hierarchy in SFFAS 34 provides the sources of accounting principles and the framework for selecting the principles used in the preparation of general-purpose financial reports of federal entities that conform with GAAP. Do you agree that SFFAS 34 clearly and sufficiently explains the federal GAAP hierarchy and its application to federal accounting and reporting?

**GAO response:** We believe that Statement of Federal Financial Accounting Standards (SFFAS) 34 clearly and sufficiently explains the federal generally accepted accounting principles (GAAP) hierarchy and its application to federal accounting and reporting.

**Question 1.2:** Have you experienced challenges in applying and using the federal GAAP hierarchy in SFFAS 34 to resolve accounting or reporting issues?

**GAO response:** We have not experienced challenges in applying and using the federal GAAP hierarchy in SFFAS 34, including applying administrative directives from the Office of Management and Budget (OMB) and the Department of the Treasury, to resolve accounting and reporting issues.

### Responses to Questions on Reexamination Topics

**Question 2** provided 23 reexamination topics and asked respondents to indicate the priority level for reexamination (high, medium, or low) and the corresponding rationale. Below we provide a suggested level of priority and observations on certain topics.

Topic 1: Accounting for Selected Assets and Liabilities

Priority: Low

The Federal Accounting Standards Advisory Board (FASAB) should consider whether updates are needed to reflect the current environment. For example, FASAB may revisit the discussion of "other current liabilities" and the definition of "intragovernmental." We also note that SFFAS 1 lacks guidance for nonfederal investments. However, we believe that current OMB guidance referring to relevant standards issued by the Financial Accounting Standards Board adequately addresses this area. Accordingly, we do not believe FASAB needs to address this relatively complex area.

Topic 2: Accounting for Direct Loans and Loan Guarantees

Priority: Medium

The disclosure requirements in SFFAS 2, as amended, may benefit from FASAB reexamination, considering changes that have occurred since the standard was last updated. For example, "pre-1992" activity has become less relevant and income-driven repayment plans have become an important component of education-related loans.

Topic 3: Accounting for Inventory and Related Property

Priority: Low

We acknowledge and support FASAB's current work on a proposal concerning digital assets to clarify certain issues relating cryptocurrency. Otherwise, we have no specific issues to raise.

Topic 5: Accounting for Liabilities of the Federal Government

Priority: Medium

We suggest engaging the federal government's actuarial community to discuss whether changes in FASAB standards would improve the financial reporting of pension, other retirement benefits, and veteran benefits. For example, FASAB might consider whether the Aggregate Entry Age Normal (AEAN) actuarial cost method is the most appropriate method for valuing related liabilities and costs. AEAN includes certain complexities and may limit comparability with the more commonly used Projected Unit Credit method.

In addition, it may be helpful to review the guidance for recognition and disclosure of certain pension benefits; other retirement benefits; and veteran benefits, including education and training that have become more significant over time. (Also see related discussion in topic 14 below.)

Also, FASAB may consider whether additional disclosure related to pension and other retirement benefits in employer entities is appropriate. While most federal employer entities disclose the key attributes of pension and other retirement benefits provided to their employees, the accounting standards currently do not have a requirement for these entities to make such disclosures.

Topic 6: Accounting for Property, Plant, and Equipment

Priority: Low

We believe that SFFAS 6, as amended, and related guidance could benefit from a review for consistency and clarity. Currently, the standards include the term "general property plant and equipment" (PP&E). FASAB should consider updating the term to reflect the current environment. Also, FASAB may consider whether the terms "depreciation" and "amortization" are used consistently in SFFAS 6, and whether the definition of PP&E should be broadened.

Topic 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting

Priority: Medium

FASAB may consider clarifying the accounting and reporting requirements relating to when a collecting entity retains a portion of the collections. There have been some conflicting views about the application of the current standard in this area. The Board may also consider clarifying the accounting and reporting requirements relating to custodial activity, including custodial distributions.

Topic 8: Accounting for Internal Use Software

Priority: Low

We acknowledge and support FASAB's current project on revisiting intangible assets that includes this software topic.

Topic 10: Consolidated Financial Report of the United States Government

Priority: Low

We support the guidance in SFFAS 32 that requires the government-wide financial statements to describe the reporting entity and to disclose the significant accounting policies. FASAB may consider requiring component entities to also include such disclosures. Component entities generally include such disclosures consistent with OMB guidance.

Topic 13: Accounting for Fiduciary Activities

Priority: Low

We suggest that FASAB research whether the standard is achieving its intended objectives.

Topic 14: Pensions, Other Retirement Benefits, and Other Postemployment Benefits

Priority: Low

We suggest that FASAB consider clarifying the wording in SFFAS 33 relating to the selection of discount rates. This guidance has been interpreted inconsistently, raising issues about comparability across government entities. Also, reviewing the valuation date guidance in SFFAS 33 for pension benefits, other retirement benefits, and other postemployment benefits may be helpful to achieve further consistency government-wide and align with the time needed to prepare and audit the actuarial calculations.

Topic 21: Public-Private Partnerships

Priority: Medium

SFFAS 49, as discussed by FASAB staff at multiple board meetings, has presented challenges to preparers and auditors. We encourage FASAB to continue its current project in evaluating whether this standard is achieving its original objective. As part of the project, we suggest that FASAB consider whether the current disclosure requirements provide appropriate information to help users understand material federal government financial risks resulting from public-private partnerships.