Date: November 22, 1995

To: Philip Calder

From: Judy Yuran

Subject: Issues Resolution Committee Comments on Stewardship ED

The following are comments from IRC members related to the FASAB Supplementary Stewardship Reporting Exposure Draft (ED).

GENERAL COMMENT

- **Resources versus Relevance**

  Some IRC Members expressed reservations as to agency resources required to comply with the proposed Stewardship Standard. Agencies are being asked to provide additional information from their systems at a time when government-wide resources are being reduced. In many cases agencies' systems are antiquated and lack standardization for adequately processing and transmitting reliable data.

  While IRC members see value in reporting on resources entrusted to the Federal Government beyond the traditional financial statements, the nature and extent of the effort is in question. Agency representatives believe that considerable time, effort and cost will be required to first implement the standard and then to collect and report the data. They also feel that information required by the standard needs to be relevant to users' needs, material in nature, and cost effective to implement and maintain. FASAB may want to confer with agencies' systems representatives to determine overall impact and specific timeframes and costs necessary for implementation.

COMMENTS TO APPENDIX A - QUESTIONS FOR RESPONDENTS AND TO RELATED ISSUES

The following are responses to specific questions in the Stewardship ED with which IRC members take issue or feel need further clarification.

1. "Sufficient guidance to identify and categorize assets..."

- **Expansion**

1b. Definition for Stewardship PP&E - Federal Mission PP&E - is not broad enough. Page 23, Para 54, 1st bullet should read: "Items that are intended to operate for space and aeronautical exploration purposes..."

- **Exclusion**

Some members feel that the definition for Federal Mission PP&E related to Weapons Systems should exclude "otherwise general PP&E" acquired specifically to repair, maintain, or overhaul Federal Mission PP&E. Reimbursable maintenance operations often use this PP&E and are reimbursed on basis of cost. Since Federal Mission PP&E is not depreciated, the exclusion of the "otherwise general PP&E " equipment will allow depreciation cost to be included in the total reimbursable operations cost and will result in a "full cost" reimbursement.

- **Reclassification**

Mission PP&E is to be expensed. If a Mission PP&E asset is brought into general use and reclassified, should the original expense be reversed and the asset capitalized? If so, at what value should the asset be recorded, original cost, fair market or original cost retroactively depreciated?

2. "Sufficient guidance to identify and categorize expenses..."

2b. The Human Capital Standard is not sufficient for determining which expenses should be reported as stewardship investments. The Standard defines Human Capital investment as expenses incurred for "programs" for (1) education and training of the public, excluding federal military and civilian personnel, that (2) are intended to maintain or increase national productive capacity. The definition needs to be clarified. Foremost, a good case can be made that all education and training can be expected to maintain or increase the national productive capacity. Additionally, the definition states that it applies to "programs" for education and training and not to the education and training itself. The definition leads one to believe that the entire budget for programs within the Department of Education may be classified as Human Capital investment even though some of the Departments activities may not directly provide education or training.

In addition, some IRC members felt that the reporting requirements for "human capital" cannot be justified on a cost/benefit basis. Output and outcome information, such as the example given in the first bullet of Paragraph 91, high school and college graduates as a percentage of population over 25," requires population statistics which cannot be extracted from agencies' management information systems. Such information would be costly to obtain, and would not enhance the relevance or usefulness of the financial statements. In addition,since many of these programs are unique to the Federal government, there is nothing with which they might be compared.

3. "Reporting data is meaningful and relevant information..."

3C. Valuation of stewardship land is too subjective, costly, and difficult to obtain while providing little if any financial value.

4. "Presenting either historical or latest acquisition cost..."

4b. Latest acquisition cost (LAC) and historical cost should both be permitted. While historical cost has been the preferred method, latest acquisition cost is more representative of current replacement cost or economic value. This is especially the case for assets purchased in prior periods that are still currently being acquired. In some situations, LAC is more readily available due to systems limitations.

5. "Physical property transferred to state or local government.."

Determination of difference between the fair market value of the property and any payment or other consideration received in the exchange is not cost beneficial. It is unclear as to who is to assign the value. The transfer transaction is too subjective. How will it work in the financial systems and where will the expense be recognized?

6. "Reporting of significant state or local total contributions to shared or joint programs..."

State and local governments should not be required to report on their contributions to joint or shared programs. This

requirement would represent an "unfunded mandate" for both state and local governments creating a significant reporting burden. State universities more than private universities would be unduly burdened by these requests. Additionally, less than full compliance would result in the collection of insufficient data for accurate costing and reporting.

7. "Projected data for all programs for 6 future years..."

These projections preclude and infringe on the authority of the President and Congress to determine their own specific comparative data requirements. We question the amount of effort needed to achieve these results. Out years comparisons may strain existing limited agency resources by creating duplication of work effort with questionable results.

8. "Projections for 75 years..."

Social Insurance Programs projections for 75 years seems excessive. Unless specifically required by law, a lesser period would seem more appropriate. Such lengthy projections may be meaningful for some social programs but not for all. It is recommended that the Board carefully consider the responses from the affected agencies. Then, based on the responses either adopt a minimum supplementary social insurance data requirement that is applicable to all social insurance programs or, adopt specific standards for specific programs, as was done in the "Revenue" exposure draft.

9. "Current services assessment 6-year time horizon..."

The Office of Management and Budget should determine this reporting requirement.

10. "Sufficient guidance to transition from reporting program outlays to reporting program expenses..."

Although the guidance is sufficient, implementation of the guidance for some agencies may be difficult and costly.

11. "Reporting expense and/or outlay data..."

11c. The Reporting of expenses and outlay data is supported by the cost accounting standard. However, as stated in the response to question ten, implementation for some agencies will be both difficult and costly.

12. "Problems with September 30, 1996..."

This date does not provide adequate time from the issuance of the final FASAB standard to implementation in and publication of the revised United States Standard General Ledger.

13. "Ranking the forms of presentation..."

A. A line without a dollar amount on the Balance Sheet, referencing a note to the Financial Statements 3

B. A line without a dollar amount on the Balance Sheet, referencing supplemental information 4

C. A note without a separate Balance Sheet line 1

D. Supplemental Information without a separate Balance Sheet line 2

E. No Preference 5

Comment: We do not feel that a line item without a dollar amount on the Balance Sheet is appropriate. Instead, a footnote disclosing social insurance program financial status and projected cash flow should be included in the Balance Sheet footnote section as (1) a footnote referenced to the liability for amounts due and payable at the of the accounting period or (2) as a "other footnote" not specifically referenced.

We are currently considering the impact of the Stewardship and related Property Plant and Equipment proposed standards on the United States Standard General Ledger (SGL). We will share the proposed plan for implementation of these standards in the SGL as well as any further issues following discussions within the SGL Issue Resolutions Committee.

If you have any questions, you may contact me or Karl Boettcher of my staff on (202)874-9980.