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**Comment letters on proposed Statement on Auditing Standards,
Amendment to Statement on Auditing Standards No. 69, The
Meaning of Present Fairly in Conformity With Generally Accepted
Accounting Principles in the Independent Auditor's Report**

American Institute of Certified Public Accountants. Auditing Standards Board

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STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

January 4, 2000

Ms. Jackie Walker
Audit and Attest Standards
File 2615
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Walker:

We have reviewed the Exposure Draft (ED) of the Auditing Standards Board's (Board's) proposed Statement on Auditing Standards, entitled *Amendment to Statement on Auditing Standards No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* in the Independent Auditor's Report, and agree in principle with the proposed amendment. We believe it will appropriately implement the AICPA Council's action to recognize the Federal Accounting Standards Advisory Board as the body designated to establish generally accepted accounting principles for federal government entities. We do, however, have the following two comments for consideration by the Board in finalizing the document.

1. We found the effect of the proposed Statement on existing auditing standards to be ambiguous. Paragraph 1 of the ED indicates that the amendment adds two new paragraphs (Paragraphs 14 and 15) to SAS No. 69, and Paragraph 2 indicates that it adds a third column to the table in existing Paragraph 16. However, unlike prior EDs, the proposed Statement does not mention the intended status of existing Paragraphs 14 and 15 (AU sections 411.14 and 411.15), which address effective date and transition. Will these paragraphs be deleted, or will they merely be renumbered as Paragraphs 17 and 18? Also, if some pronouncements applicable to federal government entities had equal authoritative standing prior to the issuance of the ED, is a transition paragraph (similar to existing Paragraph 15) appropriate for federal government entities? Because of the ambiguity in the ED, we recommend that the Board carefully review the effect of the proposed Statement on existing auditing standards before issuing the final document.

Ms. Jackie Walker

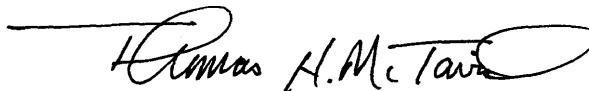
Page 2

January 4, 2000

2. Paragraph 3 of the ED simply states that "This Statement is effective upon issuance." We have two concerns with the guidance in this paragraph. First, by prescribing that an auditing standard is effective upon issuance, typically through publication in *The Journal of Accountancy*, the Board places an unnecessary burden on the auditor conducting an engagement who may not become immediately aware of the issuance of a new standard. Second, because September 30 is the fiscal year-end for most federal government entities, this proposed Statement could inadvertently apply to some fiscal year 1998-99 engagements which have not yet been completed. For these reasons, we recommend that the Board revise Paragraph 3 in the final document to read "This Statement is effective for audits of financial statements for periods ending after September 15, 2000. Early adoption is encouraged."

We appreciate the opportunity to comment on this Exposure Draft. Should you have any questions, or desire further details on our comments, please contact me or Jon A. Wise, C.P.A., Director of Professional Practice.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the start of the name.

Thomas H. McTavish, C.P.A.
Auditor General



January 11, 2000

Ms. Jackie Walker
Audit and Attest Standards
File 2165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

DEPARTMENT OF
ACCOUNTANCY

Dear Ms. Walker:

I am responding to the ED amending SAS No. 69. I have three comments.

DEKALB, ILLINOIS
60115-2854


(815) 753-1637

FAX
(815) 753-8515

1. On page 9, under other accounting literature, I think you have an error. Beginning with the fourth line, should it not read something like "through (d) of the hierarchy for nongovernmental and state and local government entities?" By using categories (a) through (d) of the hierarchy for federal governmental entities, you are repeating in (e) what is covered above. I have attached a copy of page 9 marked through.
2. Do you plan to make changes in the hierarchies of the FASB and GASB to include the FASAB in this category?
3. I am not sure if you are aware that both the Government Finance Officers Association (GFOA) and the National Association of College and University Business Officers (NACUBO) are claiming category (d) GAAP in their industry publications, suggesting those practices are "widely recognized and prevalent." I feel these publications (Governmental Accounting, Auditing, and Financial Reporting of the GFOA and the Financial Accounting and Reporting Manual of NACUBO) should have this status, but does that conflict with the inclusion of "pronouncement of other professional associations or regulatory bodies" in "other accounting literature?"

I hope these comments are useful.

Sincerely,


John H. Engstrom
KPMG Professor of Accountancy

cc: Mary Foelster

JHE:mb

widely recognized and prevalent in the federal government

[under Other Accounting Literature]

.15 Other accounting literature, including FASAB Concepts Statements; pronouncements in categories (a) through (d) of the hierarchy for ~~federal governmental~~ entities when not specifically made applicable to federal governmental entities; FASB and GASB Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; AICPA *Technical Practice Aids*; and accounting textbooks, handbooks, and articles

non-governmental go
state and local
government
entities

3. This Statement is effective upon issuance.

Lela D. Pumphrey, CGFM, CPA
Idaho State University
Campus Box 8020
Pocatello, ID 83201
Voice 208/236-4292
FAX 208/236-4367
pumplela@isu.edu

January 25, 2000

Jackie Walker
Audit and Attest Standards, File2615
AICPA
1211 Avenue of the Americas
New York, NY 20036-8775

RE: Exposure Draft, Proposed Statement on Auditing Standards:
Amendment to *Statement on Auditing Standards No. 69, The Meaning of
Present Fairly in Conformity with Generally Accepted Accounting
Principles in the Independent Auditor's Report*

Dear Ms. Walker:

On behalf of the Association of Government Accountant (AGA), the Financial Standards Advisory Committee (Committee) appreciates the opportunity to comment on the above-referenced AICPA exposure draft. The Committee, whose members are active accountants and auditors in federal, state, and local government, reviews and responds to proposed standards and regulations of interested to the AGA membership. Local AGA chapters and individual members are also encouraged to comment separately.

The Committee offers the following editorial comments.

Editorial Comments

1. The effect of the proposed Statement on existing auditing standards is ambiguous. Paragraph 1 of the ED indicates that the amendment adds two new paragraphs (Paragraphs 14 and 15) to SAS No. 69, and Paragraph 2 indicates that it adds a third column to the table in existing Paragraph 16. However, unlike prior EDs, the proposed Statement does not mention the intended status of existing Paragraphs 14 and 15 (AU sections 411.14 and 411.15), which address effective date and transition. Will these paragraphs be deleted, or will they merely be renumbered as Paragraphs 17 and 18?

Also, if some pronouncements applicable to federal government entities had equal authoritative standing prior to the issuance of the ED, is a transition paragraph (similar to existing Paragraph 15) appropriate for federal government entities? Because of the ambiguity in the ED, we recommend that the Board deliberately address the effect of the proposed Statement on existing auditing standards before issuing the final document.

Paragraph 3 of the ED simply states that "This Statement is effective upon issuance." We have two concerns with the guidance in this paragraph. First, by prescribing that an auditing standard is effective upon issuance, typically through publication in The Journal of Accountancy, the Board places an unnecessary burden on the auditor conducting an engagement who may not become immediately aware of the issuance of a new standard. Second, because September 30th is the fiscal year-end for most federal government entities, this proposed Statement could inadvertently apply to some fiscal year 1998-99 engagements in which the opinions have not yet been issued. For these reasons, we recommend that the Board revise Paragraph 3 in the final document to read "this Statement is effective for audits of financial statements for period ending after September 15, 2000. Early adoption is encouraged."

Again, we appreciate this opportunity to comment on the Exposure Draft. If you have any questions, or desire further details on the Committee's position, please contact me at 208-236-4292 or at pumplela@isu.edu at your convenience.

Respectfully,

Lela D. "Kitty" Pumphrey, Chair
AGA Financial Standards Advisory Committee



G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

January 10, 2000

Ms. Jackie Walker
Audit and Attest Standards
File 2615
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Walker:

This letter presents the U.S. General Accounting Office's comments on the exposure draft Proposed Statement on Auditing Standards Amendment to Statement on Auditing Standard No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report dated November 29, 1999.

As you know, GAO has been working with the American Institute of Certified Public Accountants (AICPA) over the last several months to achieve recognition of the Federal Accounting Standards Advisory Board (FASAB) as the accounting standard setter for applicable federal governmental entities. We are pleased that at the AICPA's Council October 1999 meeting, the Council adopted a resolution recognizing FASAB as the body designated to establish generally accepted accounting principles for federal government entities under Rule 203 of its Code of Conduct, and that the Auditing Standards Board promptly issued an exposure draft amending SAS No. 69 to reflect the Council's recognition. We have long supported the concept of such recognition being incorporated into the statements of auditing standards to fill a long-standing gap that has existed in authoritative auditing literature. As such, this letter is intended to formally record our support to finalize the exposure draft as presented.

We appreciate the opportunity to offer our comments on this exposure draft. Please call me at (202) 512-9406 if you have any questions or comments.

Sincerely yours,

Robert W. Gramling
Director, Corporate Audits
and Standards

bc: Mr. Steinhoff
Mr. Calder
Ms. Buchanan
Ms. Clark
Mr. Hrapsky

Deloitte & Touche



Deloitte & Touche LLP
Ten Westport Road
P.O. Box 820
Wilton, Connecticut 06897-0820

Telephone: (203) 761-3000

January 27, 2000

Ms. Gretchen Fischbach
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: **File 2615**

Dear Ms. Fischbach:

We are pleased to comment on the Proposed Statement on Auditing Standards, "Amendment to Statement of Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report.*"

We fully support amending existing standards to reflect Federal Accounting Standards Advisory Board (FASAB) pronouncements in the generally accepted accounting principles (GAAP) hierarchy as sources of established accounting principles for federal government entities. We believe that the proposal is an important step forward toward defining a GAAP hierarchy for federal governmental entities under Rule 203, "Accounting Principles," of the AICPA's *Code of Professional Conduct*.

The attachment contains several editorial comments for your consideration. Our recommended revisions are shown in bold text.

Please contact Robert C. Steiner at (203) 761-3438 if you wish to discuss our comments.

Sincerely,

Attachment

EDITORIAL COMMENTS

Paragraph 14c.

We recommend that paragraph 14c be revised to clearly indicate that it is the AICPA that would make such AcSEC Practice Bulletins applicable to federal governmental entities. Accordingly, we recommend that paragraph 14c should be revised to read as follows:

Category (c) consists of AICPA AcSEC Practice Bulletins if specifically made applicable to federal government entities **by the AICPA** and cleared by the FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

Paragraph 15

We recommend that paragraph 15 be revised to indicate that the AICPA also could make other accounting literature specifically applicable to federal governmental entities. Accordingly, we recommend that the second sentence of paragraph 15 be revised to read as follows:

Other accounting literature includes, for example, FASAB Concepts Statements; the pronouncements referred to in categories (a) through (d) of paragraphs .10 and .12 when not specifically made applicable to federal governmental entities by the **AICPA or FASAB**; FASB and GASB Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles.

Paragraph 16

We believe that item 14c of paragraph 16 should also be amended as follows to be consistent with our recommendation regarding paragraph 14c:

AICPA AcSEC Practice Bulletins if specifically made applicable to federal government entities **by the AICPA** and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

Similarly, we believe that item 15 of paragraph 16 should also be amended as follows to be consistent with our recommendation regarding paragraph 15 and to also recognize that the FASAB could make other accounting literature specifically applicable to federal governmental entities:

Other accounting literature, including FASAB Concepts Statements; pronouncements in categories (a) through (d) of the hierarchy for federal governmental entities when not specifically made applicable to federal governmental entities **by the AICPA or the**

FASAB; FASB and GASB Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; AICPA *Technical Practice Aids*; and accounting textbooks, handbooks, and articles.



United States Department of State

Washington, D.C. 20520

BUREAU OF FINANCIAL MANAGEMENT AND POLICY

FAX COVER SHEET

FAX: (202) 647-8194

PHONE: (202) 647-7490

DATE: JAN 28, 2000

TO: JACQUE WALKER @ AICPA

AUDIT + ATTEST STANDARDS

FAX = (212) 596-6213

FROM: BERT T. EDWARDS

3 + 8 + 2 =

THERE ARE 13 PAGES FOLLOWING THIS COVER SHEET.

COMMENTS:

ORIGINAL IN MAIL TODAY.

Bert T. Edwards



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

January 28, 2000

Ms. Jackie Walker
Audit and Attest Standards – File 2615
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed SAS, *Amendment to SAS No. 69*, Dated
November 29, 1999 (the "Exposure Draft")

Dear Ms. Walker:

This letter provides the comments of the U.S. Department of State ("State") on the Exposure Draft. Although the author of this letter serves as Chair of the Chief Financial Officers Council ("CFO Council") Standards Committee, this letter has not yet been cleared by the CFO Council. In early February 2000, the letter will be submitted for approval by the CFO Council and, in a subsequent communication, you will be informed of the CFO Council's action. In the meantime, this letter represents the position of State.

While State is one of the smaller of the 24 CFO Act agencies, State is a complex entity with its own \$8.9 billion assets pension plan (the Foreign Service Retirement and Disability Plan), a \$750 million annual revenue multiple-Federal agency cost-sharing working capital fund (International Cooperative Administrative Support Services), and a number of quasi-autonomous boards, commissions and other organizations. It is from the perspective of determining State's reporting entity and the writer's nearly 35 years in public practice prior to being appointed as State's CFO (see Attachment I for a 1998 letter to GAO on this matter containing letters from 1991 and 1992) that occasions this letter.

We have a number of concerns on the Exposure Draft and, to a certain extent, the existing *SAS No. 69*.

- (1) Proposed new Paragraph .14 -- In the lead-in, Footnote (8) refers to FASAB Concept Statement No. 2, *Entity and Display*, as the authoritative source for defining a "Federal Government Entity". However, in the following proposed new Paragraph .15, FASAB Concept Statements are among the literature an auditor may rely on. It is unclear in the Exposure Draft whether

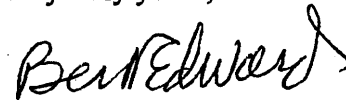
AICPA means, in this instance, to elevate FASAB Concepts Statement No. 2 (or, presumably, Paragraphs 11 through 28 therein and/or Paragraphs 29 through 38 therein) to a "super" level (i.e., above Paragraph .14 (a)). The final amendment should clarify this issue.

- (2) The foregoing Comment (1) may contribute to the existing ambiguity in applying *SAS No. 69* as to whether Paragraph .10 or .12 applies to a specific entity. As we understand it, the distinction between a non-governmental not-for-profit organization and a governmental not-for-profit organization, subject to GAAP in Paragraph .10 (FASB) and Paragraph .12 (GASB), respectively, is contained in the current *AICPA Audit and Accounting Guide, Not-for-Profit Organizations*, (Paragraph (1.03)), which is a "level b" document. An identical distinction is contained in Paragraph 1.02(c) of the *AICPA Audit and Accounting Guide, Healthcare Organizations*, also a "level b" document. Consistent with Comment (1) above, this ambiguity could be resolved by appropriate footnote cross-references to the two AICPA Audit and Accounting Guide publications since they are an unusual location for such definitions.
- (3) The Exposure Draft and FASAB Concepts Statement No. 2, *Entity and Display*, assume that a preparer or attestor of financial statements inherently knows if the entity is indeed a Federal Government Entity. Our experience is that this is not the case. The distinction between government and non-government remained unresolved until AICPA issued the two Audit and Accounting Guides cited in Comment (2) above in 1998. In addition to the distinction among the three types of entities subject to Paragraphs .10, .12, and .14 in the proposed revised *SAS No. 69*, there are a significant number of "mixed ownership" types of entities. Examples are (a) entities purportedly subject to two or three of the "Rule 203 Standard-Setting Organizations" (e.g., the Smithsonian Institution), which have clearly defined "Federal Government" and "Private Sector" portions, (b) joint ventures among a private sector (FASB) entity, a state or local government (GASB) and/or a Federal Government Entity (FASAB), and (c) entities where the Federal Government has overwhelming influence, such as corporate status under Federal statute, appointment of the governing board and perhaps its management, substantially all funding from direct or indirect appropriations, approval of the budget, historical close association with the Federal Government (name similarity, guarantees of debt, borrowing authority from the Federal Financing Bank, etc.). The relevant Paragraphs 11 through 38 of FASAB Concepts Statement No. 2 do not precisely define a Federal Government Entity as clearly as the two AICPA Audit and Accounting Guides even though Footnote (8) to proposed revised Paragraph .14 states that it does. The final amendment should clarify this issue.

- (4) Draft proposed Paragraph .14 does not include issuances of the Auditing and Accounting Policy Committee ("AAPC"), established by FASAB (see Attachment II hereto for AAPC's structure). AAPC functions much like an AICPA Committee-issued Industry Audit and Accounting Guide or an AICPA Practice Bulletin. The final amendment should clarify the issue of AAPC pronouncements, which appear to be "level b" or "level c" documents.

If the AICPA staff has any questions on the foregoing four comments, please contact the undersigned at (202) 647-7490 - Telephone, (202) 647-8194 - Fax, or EdwardsBT@SA15.WPOA.US-STATE.GOV - E-mail.

Very truly yours,



Bert T. Edwards

Attachments (2)

Information copy (with 2 attachments): Wendy M. Comes, Executive Director - FASAB

Attachment I

BERT T. EDWARDS
7805 STABLE WAY
POTOMAC, MD 20854-1790
(301) 983-0285 - FAX (301) 983-1872

September 8, 1998

Government Auditing Standards Committee
FASAB Recognition Standards
U.S. General Accounting Office
441 G Street, N.W. - Room 5089
Washington, D.C. 20548

ATTN: Robert W. Grambling
Director-Corporate Audits and Standards

Dear Mr. Grambling:

This is a belated response to the April 1998 ED, "Meaning of 'Present Fairly...' in Reports on Financial Statements of the Federal Government and Its Component Entities" (the "GAO ED"). I apologize for the late response.

General Comment in Support of the GAO ED's Objective - Alternative Proposal

For years, I have suggested that FASAB work with the AICPA to be a recognized GAAP standard-setting entity under Rule 203 of the AICPA's Code of Ethics (together with FASB and GASB). In this regard, please refer to my letter attached on that recommendation, of January 24, 1992, which contains earlier letters dated February 8, 1991.

FASAB has essentially the same rules of procedure as FASB and GASB, particularly with regard to due process for proposed standards and concepts. FASAB has recognized FASB or GASB standards where those bodies have an accepted standard in a number of areas, particularly with regard to proprietary-type activities. In fact, many would support the position that FASAB (and, prior to FASAB's establishment, the GAO) has been more willing to embrace established standards of other standard-setting bodies than the two currently recognized FASB and GASB have been.

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The GAO ED will, however, cause a major professional standards issue for CPAs, including CPAs who are government auditors, since FASAB is not recognized under Rule 203. Therefore, the guidance proposed in the GAO ED in Paragraph 5.10.2 cannot be followed by CPAs who are members of the AICPA if the auditee expects to receive an unqualified auditor's report (vs. an OCBOA report).

In summary, I fully support the GAO ED's objective in the proposed changes to Chapter 5 of the 1994 "Yellow Book". This will avoid the little-understood OCBOA report that independent auditors have been issuing in recent years in audits of Federal agencies. OCBOA generally has been interpreted as substantially less useful than GAAP. The GAO ED's proposed changes will permit GAAP-basis auditor's reports, provided GAO can work out a reasonable solution to the Rule 203 issue.

Definition of a Federal Agency

When the AICPA undertook to revise the four separate Audit Guides for nonprofit entities in the early 1990s (hospitals, colleges and universities, voluntary health and welfare organizations, and certain nonprofits), the decision was made to update and reissue these publications as two separate Audit Guides (healthcare providers and not-for-profit organizations). Since healthcare providers could be both for-profit and nonprofit, a separate Audit Guide was issued while the nearly 1.3 million other nonprofits would be subject to the **Not-for-Profit Organizations Audit Guide**. In the second paragraph of the **Healthcare Providers Audit Guide** and the third paragraph of the **Not-for-Profit Organizations Audit Guide**, the AICPA defined a state and local governmental entity (subject to GASB jurisdiction) and conversely a non-state/local governmental entity (subject to FASB jurisdiction). This was necessary because it was becoming increasingly difficult for preparers and attestors to determine which GAAP standard-setter had jurisdiction over a particular entity. It is my understanding that, in reviewing the respective draft Audit Guides, both FASB and GASB concluded that GAAP jurisdiction was an auditing issue, not a GAAP issue, and thus both FASB and GASB insisted that the AICPA resolve this problem.

- 3 -

The GAO ED is drafted on the presumption that preparers and attestors are easily able to determine what is a Federal government entity. This presumption is not correct. There are numerous situations which are "borderline" cases whether an entity may be subject to FASAB or one of FASB or GASB (the aforementioned revised Audit Guides now make a clear distinction between FASB and GASB entities).

- **Corporations Chartered by Act of Congress** -- These include a number of entity types including labor unions, patriotic and veterans organizations, higher education and scientific institutions, national and local civic groups, and even for-profit entities (e.g., Washington Gas).
- **A Majority (or Even All) Board Members Appointed by Federal Government Officials** -- Under the aforementioned Audit Guides, this would place such entities under GASB jurisdiction regardless of their legal status. Does this place under FASAB jurisdiction similar entities where Federal Government governing board "control" exists?
- **Management Vested in Federal Officials Under Legislation** -- There are numerous entities created by Congress to assist Federal agencies (e.g., National Park Foundation, Fish and Wildlife Foundation) for which designated Federal officials serve as management, e.g., Chairman of the Board.
- **Mixed Funded Organizations** -- The Smithsonian Institution is an excellent example where both substantial Federal funding and private sources provide resources to support activities.
- **Others** -- These include Howard and Gallaudet Universities (which are substantially funded by the Federal government and certain employees participate in Federal retirement systems), foundations associated with the military academies or assisting Federal entities, "Friends Organizations" of various National Parks, etc.

While the GAO ED will establish that a GAAP opinion (versus an OCBOA opinion) can be issued, the GAO ED does not resolve the auditing issue of whether FASAB or

- 4 -

FASB/GASB pronouncements have jurisdiction in a specific situation.

Finally, there are numerous examples where joint ventures of mixed ownership exist. For example, I am aware of an electric generating facility where one-third ownership interests are held by (1) a NYSE-listed private energy company, (2) a local government electric department, and (3) a unit of the U.S. Department of Energy. In this case, do FASB, GASB or FASAB pronouncements "control"? Certainly, there would be little usefulness in three sets of financial statements.

Other Comments

In Footnote 2 to Paragraph 5.10.3, the wording would be more clear if the second sentence were revised along the following lines (underscoring is new wording):

"...the accounting principles described in generally accepted government auditing standards (see Paragraph 5.10.6) should be followed."

A footnote or parenthetical reference to location where "...AICPA has established the sources of established accounting principles..." would be helpful. Presumably, this would be **SAS 69** and the two Audit Guides mentioned above.

The term, "component entities" is used throughout the GAO ED, but the term is not defined. Confusion could exist as to whether "component entities" has the same definition as "component units" in **GASB 14**, "subsidiaries" in various FASB pronouncements, or some other meaning unique to the Federal government. This term should be defined, perhaps as part of the "definition of a Federal entity" issue discussed in the preceding section of this letter.

I would be pleased to discuss this with you or GAO staff in more detail.

While the attached letter was written when I was an active partner with Arthur Anderson, I am now retired and

- 5 -

the comments herein on the GAO ED are my personal views and not necessarily those of my former firm. Similarly, while I am awaiting Senate confirmation of President Clinton's nomination as the CFO of the Department of State, the comments herein are my personal views and not necessarily those of the Department.

Very truly yours,



Bert T. Edwards

Enclosure:

January 24, 1992, Letter (with
February 8, 1991, Letters)

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO. SC

January 24, 1992

Mr. Ronald S. Young, Executive Director
Federal Accounting Standards Advisory Board
National Building Museum
401 F Street, N.W. -- Room 302
Washington, D.C. 20001

Arthur Andersen & Co.

1000 K Street NW
Washington DC 20006-2873
Writer's Direct Dial

Dear Mr. Young:

This letter constitutes our response to the Federal Accounting Standards Advisory Board ("FASAB") Exposure Draft ("ED") of the proposed Statement of Recommended Accounting Standards No. 1, **Financial Resources, Funded Liabilities, and Net Financial Resources of Federal Entities**, dated November 18, 1991.

Overall Comments

We have several comments which relate to the overall ED.

Applicability of FASAB Statements

In the FASAB Mission Statement (ED Appendix C), its Rules of Procedure, and the Memorandum of Understanding (ED Appendix B), which created FASAB, the "jurisdiction" of FASAB is not clear. Generally, in reading these three documents, one would conclude that FASAB's eventual Statements would be applicable to the entire United States Government and all of the entities thereof (this letter refers to "entities" as defined in ED, page 4, footnote 4).

This overall jurisdiction, while few would disagree with it, is likely to create potential confusion for a number of reasons.

- o The "reporting entity" of the U.S. Government has not been defined, and there is substantial ambiguity as to what constitutes an entity (or "component unit" as that term is defined by GASB), to which the FASAB Statements would apply.
- o A number of U.S. Government entities have long-established histories of external financial reporting, including independent audits by the U.S. General Accounting Office, the agency Inspector General, or an independent public accounting firm. For these entities which have traditionally prepared financial statements, particularly those on which an independent auditor has rendered an opinion as to fairness of presentation, because generally accepted accounting principles for the U.S. Government have not been established by a standard-setting body recognized by the AICPA under its Rule 203, "U.S. Government GAAP" has

ARTHUR ANDERSEN

ARTHUR ANDERSEN & CO. SC

Mr. Ronald S. Young, Executive Director

Page 2

January 24, 1992

generally evolved as essentially what GAAP would have been had either FASB or GASB (or some other body) had authority to promulgate "U.S. Government GAAP". For such entities which are well established in issuing financial statements that purport to be prepared in accordance with GAAP, ambiguity will develop as to whether these long-standing practices need to be re-established or whether, pending some action by FASAB to the contrary, long-established practices can be continued. For example, some entities have traditionally followed the GAO Title 2, some have strictly followed pronouncements of FASB (particularly, those which are enterprise-activities, e.g., Bonneville Power Authority, Tennessee Valley Authority, Panama Canal Company), while others may have followed GAAP for their particular industry (e.g., a hospital following the AICPA's Audits of Providers of Health Care Services or a higher education institution following the AICPA's Audits of Colleges and Universities).

- o Because of the numerous references to the CFO Act, the CFO Council, and OMB Bulletin 91-15, some might conclude that the ED and eventual Statement is applicable only to entities subject to the CFO Act. We do not think this is FASAB's intention.

The jurisdiction issue and related "U.S. Government GAAP" issue is perhaps inadvertently exacerbated by the statement in the ED Appendix A, "Background of the Federal Accounting Standards Advisory Board". A literal reading of page 45 could lead one to assume there is no "U.S. Government GAAP":

"...At present, neither Title 2 nor any other comprehensive body of accounting principles and standards is considered generally accepted by and for all federal agencies. It is the Board's mission to follow an open, fair, and deliberative process and develop a comprehensive set of accounting principles and standards which will be considered appropriate and generally accepted by all federal agencies..." (emphasis added).

FASAB should thoroughly review the possibility of ambiguity in its Statements in terms of the definition of the U.S. Government reporting entity (e.g., jurisdiction) and whether, with the establishment of FASAB through the Memorandum of Understanding, "U.S. Government GAAP", as it has previously been applied by those entities which prepared financial statements, no longer effectively exists. Appropriate clarification should be included in the eventual Statement.

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO. SC

Mr. Ronald S. Young, Executive Director
Page 3
January 24, 1992

FASAB's Authoritative Status

Under the CFO Act, a number of entities will prepare financial statements for the first time, and certain entities must undergo an independent audit.

Shortly after FASAB commenced operations, we recommended that FASAB seek to have itself established as an authoritative standard-setting organization under Rule 203 of the AICPA Code of Ethics. Our letters are included as an Attachment to this letter. We continue to make this recommendation.

If FASAB's authoritative status is not established, it is possible, at least for entities utilizing independent public accounting firms, that FASAB's pronouncements -- and whatever other "U.S. Government GAAP" may be followed -- could be considered a "other comprehensive basis of accounting" -- "OCBOA", as defined under the AICPA's SAS 62. This confusion could lead to a variety of auditor's reports on entities using the same definition of "U.S. Government GAAP".

We also urge FASAB to utilize standards already established by FASB and GASB wherever possible in order to not create a "third GAAP".

Other Comments

Our comments on specific areas of the ED are set forth below.

[3 pages of editorial comments omitted]

* * * * *

If FASAB or its staff have any questions concerning the matters discussed in this letter, please do not hesitate to contact Bert T. Edwards of our Washington, D.C., office at (202) 862-3162.

Very truly yours,

Arthur Andersen & Co.

Attachments (2) ← [Identical Letters to FASAB and GAO]

ARTHUR ANDERSEN & Co.

1666 K STREET, N.W.
WASHINGTON, D.C. 20006

WRITER'S DIRECT DIAL NUMBER

(202) 862-3162

February 8, 1991

Mr. Ronald S. Young, Staff Director
Federal Accounting Standards Advisory board
~~c/o Accounting and Financial Management Division~~
U. S. General Accounting Office
441 G Street, N. W. - Suite 6025
Washington, D. C. 20548

Dear Mr. Young:

This letter is written to follow up on the discussion which was hosted by GAO staff for the Government Finance Officers Association Committee on Accounting, Auditing and Financial Reporting on February 6, 1991. At that discussion, the FASAB Deputy Director, Jimmie Brown, and the AFMD Assistant Director-Auditing Standards, Pat McNamee, briefed the CAAFR on activities of the newly-established Federal Accounting Standards Advisory Board ("FASAB") and the Auditing Standards Advisory Council ("ASAC").

During the discussion, two issues emerged which could impact on both FASAB and ASAC.

- o Definition of a "Federal Entity" -- As you are aware, a major issue has developed as a result of the establishment in 1984 of the Governmental Accounting Standards Board. This is the so called "jurisdiction issue" in which financial statement preparers and attestors must determine whether an entity is subject to the Financial Accounting Standards Board, if it is a private sector entity, or the Governmental Accounting Standards Board, if it is a government entity. Unfortunately, this is not always an easy distinction, and, because FASB and GASB have, in a number of instances, issued pronouncements with differing guidance, it is important that the definition of the types of entities to which the pronouncement apply be made. This recommendation was contained in the Report of the Special Entity Study Group, which was prepared, in part, by GAO, and provided in September 1988 to the Committee to Review the Structure of Governmental Accounting Standards. In our February 6 discussion, it appears that this issue could well arise with the activities of FASAB. For example, the U. S. Congress has chartered a number of for-profit entities (e.g., the Washington Gas Light Company) and a larger number of not-for-profit entities (e.g., The American University, and The Carnegie Institution of Washington). In addition, a number of entities exist by virtue of action taken by the Congress (e.g., the John F. Kennedy Center for the Performing Arts and Howard University).

ARTHUR ANDERSEN & CO.

Mr. Ronald S. Young, Staff Director - 2 -

February 8, 1991

Because of the opportunity for confusion as to which standard-setting body -- FASB, GASB, or FASAB -- would have "jurisdiction" over a particular entity, we suggest that the definition of the scope of FASAB pronouncements be placed early on FASAB's agenda.

- o "Rule 203" Recognition of FASAB -- With the passage of the CFO legislation in November 1990, the number of Federal entities which will become audited should increase substantially from the number which have heretofore been audited. Under the existing "Title 2", there has been some misunderstanding as to whether "Title 2" constituted generally accepted accounting principles, a comprehensive basis of accounting other than GAAP (which would require a "SAS 62" report), or whether, in fact, "Title 2" constitutes an authoritative status at all. One way to eliminate this potential confusion would be for FASAB to seek "Rule 203" status through the American Institute of CPAs Council. Accordingly, we suggest that FASAB and ASAC give appropriate early consideration to this matter.

I would be pleased to respond to any questions which you or your staff may have to these issues.

Very truly yours,

ARTHUR ANDERSEN & CO.

By


Bert T. Edwards

Information Copies: E. Barrett Atwood, Sr., Chairman
- GFOA CAAFR
Stephen Gauthier, Technical Director
- GFOA
Patrick McNamee, AFMD Assistant Director
- Auditing Standards

rhr

AAPC Facts

1997

ATTACHMENT 2

Accounting and Auditing Policy Committee

• 441 G Street, NW, Suite 3B18, Washington, DC 20648 • Tel: 202-512-7350 • Fax: 202-512-7366 • Internet <http://www.finance.net.gov/aapc.htm> •

INTRODUCTION TO THE ACCOUNTING AND AUDITING POLICY COMMITTEE

Background

In May 1997 the Office of Management and Budget (OMB), working with the General Accounting Office (GAO), Treasury, the Chief Financial Officers' Council (CFO), and the President's Council on Integrity and Efficiency (PCIE), organized a new body, the Accounting and Auditing Policy Committee (AAPC) to research accounting and auditing issues requiring guidance. The AAPC will research and recommend guidance on emerging accounting and auditing implementation issues. The AAPC is intended to address issues which arise in implementation which are not specifically or fully discussed in FASAB standards, interpretations of FASAB standards, OMB's Form and

Content Bulletin or OMB's Audit Bulletin. The AAPC's guidance on accounting will be cleared by FASAB before a recommendation is forwarded to OMB. The AAPC's guidance on audit issues will be cleared by OMB and GAO before being published by OMB.

Mission

The mission of the AAPC is to assist the Federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues within the framework of existing authoritative literature.

OPERATIONS

The AAPC will recommend guidance on issues received from numerous sources and referencing three topical areas: Statements of Federal Financial Accounting Standards (SFFASs), OMB's Form and Content, and audit issues. The Committee will adhere to the following steps in the process of considering an issue:

- **Issue Submission:** Matters can be referred to the AAPC by its members, OMB, GAO, Treasury, FASAB Board members, Federal agency CFO's, IG's, or other interested parties. AAPC members are encouraged to identify issues as a means to facilitate timely resolution. A specific format for submission has been developed and is available by calling 202-512-7350 or on the AAPC Website.

- **Issue Acceptance by AAPC:** The Agenda Committee will consider issues submitted to the AAPC and make a

recommendation to the AAPC regarding adding the issue to the agenda. The full membership will vote on adding issues to the agenda.

- **Issue Resolution:** Once an issue is accepted by the AAPC and is active, it will be assigned by the chairperson to a member or a group of members who will research the issue and report back to the full Committee including a recommendation on resolving the issue.

- **Issue Recommended Guidance:** Once a product has been approved by the AAPC, recommendations will be handled in a prescribed manner depending upon whether the guidance pertains to SFFASs, Form and Content, or audit issues. All guidance, once cleared by the appropriate parties, will be published by OMB.

COMPOSITION OF THE AAPC

- **Membership.** The AAPC consists of eleven (11) members -- three from the CFO community, three from the Inspectors General community, one each from the FASAB principals (the Department of the Treasury, the GAO, and the OMB), an at-large member, and a non-voting member from the FASAB staff.

Nominations for membership on the AAPC will be limited to senior members of the organizations represented. Members should have demonstrated experience in developing and issuing Federal accounting policies, preparing agency financial statements, or directing and conducting Federal agency financial statement audits.

• **Selections and appointments.** The CFO community members are selected by the Executive Vice-chair of the CFO Council. The IG community members are selected by the Vice-chair of the President's Council on Integrity and Efficiency (PCIE). The OMB member is selected by the Controller, Office of Federal Financial Management. The GAO member is selected by the Assistant Comptroller General, Accounting and Information Management Division. The Treasury Department member is selected by the department's Chief Financial Officer. The at-large member is selected by the Controller, Office of Federal Financial Management (OMB) and the Assistant Comptroller General, Accounting and Information Management Division (GAO). The FASAB member is selected by the FASAB chairperson.

The chairperson will be selected from the members by the Controller, Office of Federal Financial Management, OMB.

• **Tenure.** The CFO, IG and at-large members will serve initial terms of two years with possible reappointments for up to two additional two year terms. To provide for continuity, some initial terms will be staggered in a manner to be agreed to by those selecting the members of the AAPC. The remaining members will serve at the discretion of the entities they represent.

The CFO, IG, and at-large members will forfeit their appointment to the AAPC if a change in employment occurs during their term.

COMMITTEE MEMBERS

The Honorable Thomas R. Bloom, Inspector General,
Department of Education

Joseph Kull, CFO, National Science Foundation

Wendy Comes, Executive Director, Federal Accounting
Standards Advisory Board (Chairperson)

Jay Lane, Director, Finance and Accounting, Office of the
Assistant Inspector General for Auditing, Department of
Defense

Robert F. Dacey, Director, General Accounting Office

Ron Longo, Deputy to the CFO, Department of the Treasury

Irwin T. David, Deputy CFO, US Department of Agriculture

William H. Pugh, Deputy Assistant Inspector General for
Audits, Department of the Treasury

The Honorable Luise Jordan, Inspector General, Corp. for
National & Community Service

Steven L. Schaeffer, Director, Social Security Administration

James Short, Senior Analyst, Office of Management and
Budget

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The AAPC serves as a permanent committee sponsored by the Federal Accounting Standards Advisory Board (FASAB). The mission of the FASAB is to recommend accounting standards to the FASAB principals after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of Federal financial information.

ADDITIONAL INFORMATION

Meetings

All meetings are open to the public. Generally, meetings are held on the second Thursday of each month in Room 4N30 at 441 G St., NW. To obtain access, please notify Marian Nicholson at 202-512-7350 if you plan to attend.

Web Page

Additional information is available on the AAPC's home page at:

<http://www.financenet.gov/aapc.htm>

Meeting agendas and minutes as well as the Charter and Operating Procedures are posted.



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

February 16, 2000

Ms. Jackie Walker
Audit and Attest Standards -- File 2615
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 1036-8775

Re: Proposed SAS, *Amendment to SAS No. 69*, Dated November 29, 1999 (the "Exposure Draft") -- Department of State Comment Letter of January 28, 2000

Dear Ms. Walker:

This letter will supplement the Comment Letter faxed and sent to you earlier on the Exposure Draft.

The Comment Letter has been reviewed by the Chief Finance Officers representing the 24 largest Federal Executive Branch agencies who constitute the Chief Finance Officers Council. The Comment Letter has been approved by members of the CFO Council with two clarifications.

- In Comment (4), I misread the Exposure Draft language in Proposed Paragraph .14 (c) which does refer to the technical releases of the AAPC -- The Faxed copy of the Exposure Draft I received unfortunately was not readable. Thus, Comment (4) may not be applicable.
- One CFO points out that technical releases of the AAPC may cover auditing -- GAAS issues as well as accounting -- GAAP issues. This CFO wants to be sure that the final SAS amendment does not extend the authoritative status of AAPC technical releases inadvertently. While this does not appear to be AICPA's intent, I wanted to mention this concern.

With the foregoing comments, AICPA should consider this letter, together with the January 28, 2000, Comment Letter as collectively the response not only of the Department of State, but also the CFO Council.

If the AICPA staff has any questions on the foregoing comments, please contact the undersigned at (202) 647-7490 -- Telephone, (202) 647-8194 -- Fax, or EdwardsBT@state.gov -- E-mail.

Very truly yours,

A handwritten signature in cursive script that reads "Bert Edwards".

Bert T. Edwards

Information copy: Wendy M. Comes, Executive Director -- FASAB