>>> "Bers, Melinda" <melinda.bers@dhs.gov> 2/2/2009 4:48 PM >>>
Attached are the Department of Homeland Security comments on the following two exposure drafts:

The Hierarchy of Generally Accepted Accounting Principles

Per discussion with Terri Pinkney on 1/30/2009, the PP&E comments will be accepted today.

Thank you for the opportunity to comment on these issues.

Melinda Bers, CFE
Financial Policy
Office of Financial Management, OCFO

Department of Homeland Security Response to FASAB Questions Regarding
The Hierarchy of Generally Accepted Accounting Principles

Question 1: Hierarchy of Generally Accepted Accounting Principles. This Exposure Draft (ED) proposes to incorporate the hierarchy of Generally Accepted Accounting Principles (GAAP) that currently reside in the professional auditing literature into the FASAB's authoritative literature. Do you agree or disagree with the hierarchy presented in the Exposure Draft (see paragraphs 5 - 8)? Please explain the reasons for your position in as much detail as possible.

Agree with the hierarchy presented in the Exposure Draft (ED). It will give the agencies a research tool for transactions that may not be specified in the public sector and be more applicable to the Federal environment. This Hierarchy, as listed in the proposed standards, will allow agencies a guide of where to research difficult accounting issues that may not be listed in the FASAB. Since FASAB is the recognized financial accounting standard setting authority for the Federal Government, Federal Agencies should look first to FASAB pronouncements, technical bulletins, implementation guides, etc. in their application of GAAP. If a circumstance arises where FASAB standards cannot be applied to a given transaction, then the entity should follow the other authoritative accounting standard setters, FASB, AICPA, etc. as stated in the ED, which appears to be in a logical sequence.

Although the federal accounting focus and transactions are in many ways similar, there are also many accounting areas that are different. Such areas can include the statement of budgetary resources and the financing information. The States and local governments have had their own standards board referred to as GASB (Governmental Accounting Standards Board). Therefore, the FASAB will provide the agencies' a place to identify research and apply the accounting rules that are consistent with the nature of Federal accounting.

Question 2: Application of Standards Issued by the Financial Accounting Standards Board. This ED proposes to regard general purpose financial reports prepared in conformity with accounting standards issued by the Financial Accounting Standards Board (FASB) as being in conformity with GAAP for those federal entities that have in the past issued such reports (see paragraph 9). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible. To help you in preparing your response, a listing of some of the entities that apply FASB standards as well as some of the areas where differences occur is included in Appendix C: Examples of Federal Entities that Apply FASB Standards.

Agree with the Board's position that general purpose financial reports prepared in conformity with accounting standards issued by the FASB as being in conformity with GAAP for those federal entities that have issued such reports in the past and where the Federal entity's operations are basically similar to that of private sector businesses. Also, adopting different accounting standards could possibly result in comparability issues from year to year concerning the entity's financial statements. This clarification should address concerns that moving the GAAP hierarchy into the accounting standards

would cause a sudden and dramatic change in practice for federal entities that apply FASB GAAP. We also support the Board's efforts to determine whether additional reporting should be required of federal entities that are currently applying FASB accounting standards.

Our reviews of those entities listed in Appendix C of the Exposure Draft show that the entities' financial activities are similar to those of a private business. Their business processes and activities are very similar to business type activities and received little or no funding from federal appropriations. The information listed in Appendix C also shows that even they were formed by the federal government; their primary function was to be self-sustaining and act similar to private business.

However, we did note that some those entities, such as the Smithsonian Institute, the Appalachian Regional Commission and others are supported primarily by federal appropriations. Since these organizations are funded by federal appropriations, are not self sustaining we believe that they should be required to change to the FASAB standards.

Question 3: This ED proposes to clarify that a federal entity that is preparing GAAP-based financial statements for the first time is required to implement FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards (see paragraphs 10 and 11). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible.

Agree. Federal entities should follow FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards, or that its operations are similar to those of private sector businesses. This will aid in the consistent application of FASAB standards to federal entities.

This would also allow Federal entities to determine which set of standards better serves the users of their financial statements. However, We believe that the Board should work jointly with first time federal entities to help determine the most appropriate accounting and reporting standards for the new entity. We also believe that the descriptions and characteristics of those entities listed in bold in Appendix C of this exposure draft should be used by the first time entity and the Board in making the decision.

Question 4: Separate Project on Reporting By Federal Entities That Primarily Apply Standards Issued By The FASB. The Board would greatly appreciate your responses to the following questions to aid in the Board's future deliberations on its companion project on reporting by federal entities that primarily apply standards issued by the FASB. Further information on this project may be found in paragraphs A7 through A16 of Appendix A: Basis for Conclusions and on the FASAB website at http://www.fasab.gov/projectsgaap.html.

The Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether additional reporting may be required in order to meet the objectives of federal financial reporting (e.g., budgetary reporting, cost accounting, management's discussion and analysis). What FASAB reporting requirements are you aware of that would complement or enhance current reporting by federal entities following FASB standards (see paragraphs A8 through A12 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.

Agree with the Board's decision not to require the current Federal entries that use the FASB standards to convert to the FASAB standards at this time. Most of these organizations are self supporting and do not receive federal appropriations. In addition these organizations follow the reporting requirements of FASB and their stakeholders are familiar with the FASB reporting. If any additional reporting is needed, it should be more of a programmatic nature or listed in the Management Discussion and Analysis (MD&A).

However, we did note that one of the highlighted entities (Smithsonian Institution) receives its primary source of funds from federal appropriations. In this case, we believe that those entities that are primarily supported by federal appropriations should be required to convert to the FASAB standards. Or at least require them to include the statement of budgetary resources and the statement financing. They should also report the information on material weaknesses and the corrections taken on those weaknesses.

Finally, reporting requirements under FASAB standards for stewardship and or heritage assets should also be required reporting for agencies that follow FASB standards for financial reporting. This is a transparency issue that should be required for all federal entities regardless of the accounting standards they apply.

Question 5: As noted in the previous question, the Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether information provided by these entities to a parent agency or the U.S. Department of the Treasury for the consolidated financial report of the U.S. Government (CFR) should conform with accounting and reporting principles issued by the FASAB where there are material differences between the two sources (see paragraphs A13 through A15 of Appendix A: Basis for Conclusions). Do you agree or disagree that the information provided for consolidated financial reports should conform to FASAB accounting and reporting standards? Please explain the reasons for your position in as much detail as possible.

Agree. Entities reporting under FASB standards should be required to provide information that conforms to FASAB accounting and reporting requirements for consolidated financial reports, but only if the difference is material. If there is a material

difference between the FASB standard and the FASAB standard, it could possibly cause a significant distortion of the consolidated financial reports.

Conformance to FASAB would not be necessary if there were no material differences as it might cause confusion with the readers of the FASAB report and the FASB report as well as requiring additional resources needed to prepare and compile the report on time and to explained the differences to management and the readers.

Question 6: Do you have a current opinion on whether federal entities that report in conformance with FASB standards should be permitted to convert to International Financial Reporting Standards (IFRS), given the discussions regarding whether public companies should use I FRS (see paragraph A1 6 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.

In general, federal entities should comply with FASAB standards to the extent practicable. The reason is to enhance the meaning of the amounts shown in the Consolidated Financial Statements of the U.S. Government.

However, the AICPA and FASB is in support of converting to IFRS. It would appear that the private sector will convert to IFRS within the next couple of years and it may even be required by the Securities and Exchange Commission. It would make sense to allow federal entities that are now reporting under FASB standards to convert to IFRS, for the same reasons they were allowed to report under FASB, operations similar to private sector businesses, meets the needs of their financial report users, etc.

It might be appropriate to convert only when those entities that report under FASB have material or major financial dealings with foreign governments or companies. However depending on the FASB's position, this might require those entities to report under both the FASB and the IFRS.