

Please find attached our comments on the Exposure Draft of the proposed Statement of Federal Financial Accounting Standards entitled, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. If you have any questions or comments for us, please do not hesitate to contact me.

Thanks!

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**NASA OFFICE OF INSPECTOR GENERAL****COMMENTS ON EXPOSURE DRAFT****“The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board”**

The exposure draft of the proposed Statement of Federal Financial Accounting Standards (SFFAS) entitled, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, proposes to incorporate the hierarchy of generally accepted accounting principles (GAAP) into the Federal Accounting Standards Advisory Board's (FASAB) authoritative literature. This statement also proposes to clarify GAAP for those Federal entities that are currently applying financial accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). The FASAB posed six questions for respondents. We respectfully submit our responses to those questions below for the FASAB's consideration.

Hierarchy of Generally Accepted Accounting Principles

**Q1. This Exposure Draft (ED) proposes to incorporate the hierarchy of generally accepted accounting principles (GAAP) that currently resides in the professional auditing literature in the FASAB's authoritative literature. Do you agree or disagree with the hierarchy presented in the Exposure Draft? Please explain the reason for your position in as much detail as possible.**

**NASA response:**

*We believe, for multiple reasons, that it would be logical for the Federal GAAP hierarchy to be incorporated into the FASAB's authoritative literature instead of the AICPA's auditing standards. First, the accounting principles are not auditing standards. Second, the AICPA designated FASAB as the body that establishes accounting principles for Federal entities. We also agree with the hierarchy presented in the exposure draft as it makes sense that any statements or interpretations that were published by FASAB would be at the top of the hierarchy. We also think this will facilitate Federal entities to apply accounting standards consistently between entities.*

Application of Standards Issued by the Financial Accounting Standards Board

**Q2. 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. Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible.**

**NASA response:**

**NASA OFFICE OF INSPECTOR GENERAL  
COMMENTS ON EXPOSURE DRAFT**

**“The Hierarchy of Generally Accepted Accounting Principles, Including the  
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*We agree that not all Federal entities should be required to prepare financial statements in accordance with FASAB in order for the statements to be in accordance with GAAP. To suggest otherwise would leave those Federal entities with two options. One option would be to begin preparing its financial statements in accordance with FASAB standards which may result in the financial statements not meeting the needs of that entity’s users. The second option would be to continue preparing its financial statements in accordance with FASB standards which would result in the entity receiving a less than unqualified opinion on its financial statements.*

*We do not, however, agree that there should be an automatic waiver for Federal entities based solely on the criteria that the entity prepared its financial statements in accordance with FASB standards previously. We think that it would be more appropriate for all entities to be held to the same criteria, such as the criteria being proposed in paragraph 11 of this exposure draft. For example, currently there are Federal entities with similar characteristics, e.g., grant making entities such as the Corporation for National and Community Service and the National Science Foundation, that prepare financial statements using different accounting standards.*

**Q3. 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. Do you agree or disagree with the Board’s position? Please explain the reasons for your position in as much detail as possible.**

**NASA response:**

*We agree that a Federal entity should be required to implement FASAB standards unless the entity clearly demonstrates that the application of FASB standards would best meet the needs of its primary users. This clarification should improve consistency in the application of accounting standards among Federal entities with similar characteristics. We also think this would be a benefit when consolidating the financial statements of the U.S. Government as it could possibly limit the number of entities applying FASB standards. However, several entities operate similar to private businesses, in that, the entities do not receive appropriations and their revenue is generated from outside sources in ways such as private donations or fees for services. Thus, we recognize the need for certain Federal entities to apply FASB standards instead of FASAB standards.*

**Separate Project on Reporting By Federal Entities That Primarily Apply  
Standards Issued By the FASB**

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COMMENTS ON EXPOSURE DRAFT**

**“The Hierarchy of Generally Accepted Accounting Principles, Including the  
Application of Standards Issued by the Financial Accounting Standards Board”**

**Q4. 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? Please explain the reasons for your position in as much detail as possible.**

**NASA response:**

*Other than the FASAB reporting requirements included in Appendix C, we are not aware of any others that we think would complement or enhance current reporting by Federal entities following FASB standards.*

**Q5. 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. 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.**

**NASA response:**

*We agree that the information provided to a parent agency or for the CFR should conform to FASAB accounting and reporting principles when the FASB principles would result in material differences. We consider this necessary in order for the parent agency’s and the U.S. Government’s consolidated financial statements to be useful to the reader because otherwise either the account balances in the consolidated financial statements would be incomplete or may contain transactions recognized in an inconsistent manner. In addition, we believe that since FASAB is the body designated by the AICPA as the source of GAAP for Federal reporting entities and that FASAB standards and interpretations are at the top of the Federal GAAP hierarchy, the Federal parent agencies’ and the U.S. Government’s consolidated financial statements should be prepared in accordance with Federal GAAP as promulgated by FASAB.*

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**Q6. 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 IFRS? Please explain the reasons for your position in as much detail as possible.**

**NASA response:**

*We have no opinion on this matter.*