



**Association of Government Accountants
Baltimore Chapter
P.O. Box 11841, Suite 55
Baltimore, MD 21207-0841**

April 12, 2007

Wendy M. Comes, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Comes:

On October 23, 2006 the Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards, Preliminary Views, Accounting for Social Insurance, Revised. Specifically, the Board asked responses to six questions.

Below you will find the comments from the AGA, Baltimore Chapter. Our comments concur with the comments provided by the PCIE. In brief, the Chapter supports the Alternative View.

Thank you for the opportunity to review this document. We look forward to the future progress of this project. If you have any questions please contact me on 410-965-9701.

Thank you

Sincerely,

Steven L. Schaeffer, CPA, CGFM, Atty
President, AGA Baltimore Chapter

Question One:

Which obligating event do you believe creates a liability and expense that should be recognized? Please provide the rationale for your answer.

Response: We believe that the Alternative View would be the best obligating event to report for social insurance. This decision was based on the fact that the Primary View only illustrates one liability number on the balance sheet, which distorts the future income amount because it has offsetting future income that is not being considered. In addition, changes in assumptions, estimates, and laws could potentially cause great fluctuations which would distort the liability proposed by the Primary View.

- While on the other hand, the Alternative View will maintain the recognition and measurement of expense and liability that is currently reported under SFFAS 17, and this view is consistent with the proposed definition for liability and expenses that is currently in the Elements exposure draft.

Question Two:

Do you believe that the Social Security and Medicare obligations are measurable for purposes of recording a liability after 40 quarters or equivalent of work in covered employment as proposed in the Primary View? Please provide the rationale for your answer.

Response: No, we do not believe that the Social Security and Medicare obligations are measurable as proposed in the Primary View. This was based on the fact that Section 214(a) of the Social Security Act states that a person is fully insured for retirement benefits if they have one quarter of coverage (whenever acquired) for each calendar year elapsing after 1950 or, if later, after the year in which they became age 21, and before the year they became age 62. Any years wholly or partially within a period of disability are not counted. For example, if a person became age 21 after 1950 and were never entitled to a period of disability before age 62, they need 40 quarters of coverage. However, based on the information stated in the Social Security Act a person obtaining 40 quarters of covered employment could still be years away from being eligible to receive benefits.

In addition, the Primary View only applies to retirement and does not take into consideration disability. For example, to be eligible for Disability benefits a claimant must have at least 20 quarters of coverage during the 40 quarter period ending the last day of the quarter in which the disability began. However, if the current disability onset begins under age 31, an alternative 20/40 requirement may be used. The worker must have earned quarter coverage in at least $\frac{1}{2}$ of the quarters beginning with the quarter after the quarter he/she attained age 21, through the quarter of onset.

Thus, the Primary View needs to ensure it includes information pertaining to the disability standards, since the 40 quarters does not apply.

Also, estimates of this nature are inherently uncertain. For example, some obligations would be recognized over an unreasonably lengthy elapsed time before such amounts stand the chance of becoming due and payable.

Question 3.1:

Do you believe that the Primary View proposal to add line items to the SOSI that tie to revised expense and liability amounts reported on the statement of net cost and the balance sheet, respectively, should be adopted?

Response: No we do not agree that additional line items should be added to the SOSI. Because the “due and payable” liability, which was established in SFFAS 17, clearly depicts the expense recognized for the reporting period and the benefits paid during the period. The liability for retirement benefits is incurred when the age and quarter coverage has been obtained.

In addition, given the unsustainable nature for the social insurance programs and the reasonable expectation for future reform, the impact of including the liability in the SOSI statement as proposed by the Primary View would lead to “misinterpretations” on the part of the users.

Question 3.2:

Do you believe that the reasons for changes in SOSI amounts during the reporting period should be reported and, if so, do you favor such reporting (1) as proposed by the Primary View, (2) as proposed by the Alternative View, or (3) some other approach?

Response: We agree with the reporting as proposed in the Alternative View because this view will present more descriptive and informative information that will allow the opportunity for more well informed decisions to be rendered. However, we believe that the “Statement of Changes in Social Insurance” should only be disclosed as Required Supplementary Information, and should not be subjected to being audited.

Question Four:

Do you believe the Statement of Fiscal Sustainability should be adopted? Please provide the rationale for your answer

Response: No. As reflected in the Appendix A: Paragraph A156, the Alternative View proposes additional information on sustainability in two parts. 1) a

Statement of Changes in Social Insurance, and 2) Required Supplementary Information related to the overall fiscal sustainability of all federal programs. A156 further states that a period of 75 years would be used for the statement of fiscal sustainability. The development of costs to run all federal programs over the next 75 years would be cost prohibitive, extremely labor intensive and very judgmental. The factors used to develop 75 years costs of all federal programs would be too uncertain to measure with confidence. There are many things that are very difficult to project/measure, such as natural disaster, disease, military necessity, etc.

However, if the Statement of Fiscal sustainability is adopted it should only be exclusive for government-wide and not to the individual agencies. In addition, this statement should be disclosed as Required Supplementary Information. (RSI)

Question Five:

Do you believe that the Board should consider recognizing deferred revenue for earmarked revenues in excess of related program costs? Please provide the rationale for your answer.

Response: No we do not believe that the Board should consider recognizing deferred revenue for earmarked revenues. Because from a legal standpoint every working person is required to pay Social Security taxes and thus deferring revenue should not even be considered. In addition, this area needs to be researched further as this would require revising portions of SFFAS 27 *Identifying and Reporting Earmarked Funds*. For example, currently the standard depicts that a component entity should disclose all earmarked funds for which it has program management responsibility. In addition, the standard states all amounts reported and disclosed in the reporting entity's basic financial statements or the notes thereto, should be recognized and measured using the standards provided in generally accepted accounting principles (GAAP) applicable to the Federal Government. For example, under GAAP the accounting principle states that revenue is recognized only when a specific critical event has occurred and the amount of revenue is measurable, which is inconsistent with the deferring revenue requirements in the Preliminary View Document.

Question 6.1:

Please offer any comments that you wish to make on the Primary View provisions.

Response: We disagree with the Primary View provision because in this proposal estimates would be placed on the face of the financial statements for the liability and expense amounts. Accounting estimates are made when the

measurement of some amounts or the valuation of some accounts is uncertain, pending the outcome of future events, and when relevant data concerning events that have already occurred cannot be accumulated on a timely, cost-effective basis. Since, estimates are based on subjective as well as objective factors; it may be difficult for management to establish controls over them, thus creating more skepticism from the auditors. In addition, the Primary View will not fully explain the change in the net present value of the program related cash flows. However, in the Alternative View provision it will present a statement of fiscal sustainability that will highlight the trends, and will discuss the reasons for changes in the sustainability measures.

Question 6.2:

Please offer any comments that you wish to make on the Alternative View provisions.

Response: In general, we are in agreement with the Alternative View. However, we believe that the Statement of Changes in Social Insurance should be RSI and the Statement of Fiscal Sustainability should be applicable to only the government-wide financial statement and be presented as RSI. In addition, we do not agree with the consideration of recognizing deferred revenue for earmarked revenue.

Attached is an excerpt from Testimony provided to Subcommittee on Government Management, Organization, and Procurement, House Committee on Oversight and Government Reform by Linda Combs, Controller, Office of Management and Budget, in March 2007. "To this end, the CFO Council (CFOC) and the President's Council on Integrity and Efficiency (PCIE) are currently joining forces to improve the cost-effectiveness of how we go about producing audited financial statements. The presentation of our financial data should be understandable and useful without becoming an excessive cost and drain on agency resources. The CFOC and PCIE will work together with the larger financial community and the Congress to determine if we are sharing the right information with the Government's stakeholders, if the data are timely and in the right format for decision making, and if there is an appropriate amount of audit scrutiny and precision of the data in the Government's reporting. By improving the cost-effectiveness of our current activities, we will empower our financial leaders to expand their focus beyond clean audits and material weakness resolution into other critical areas of fiscal responsibility, such as the reporting of the full costs of Federal programs and activities so that Federal managers have better information to make key business decisions."

The Board should ensure that any changes to the current Statement of Social Insurance are cost beneficial to all users.

