

#31

Mark Jenson

Federal-Auditor

>>> "Jenson, Mark (HQ-WBH10)" <mark.jenson@nasa.gov> 4/16/2007 9:13 AM
>>>
Ms. Comes,

Please find the NASA OIG comments attached.

<<NASA OIG Comments - FASAB PV on Social Ins (4-16-07) Final.doc>>

Thanks!

Mark C. Jenson, CPA
Director, Financial Statement Audits
NASA OIG
Washington, DC

**NASA OFFICE OF INSPECTOR GENERAL
COMMENTS ON PRELIMINARY VIEWS
PROPOSED STATEMENT OF FEDERAL FINANCIAL ACCOUNTING
STANDARDS
“Accounting for Social Insurance, Revised”**

On October 23, 2006, the Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards (SFFAS), Preliminary Views, *Accounting for Social Insurance, Revised*. Specifically, the Board posed six questions for respondents. We respectfully submit our responses to those questions below for the FASAB's consideration.

Question 1

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

NASA response:

We agree with the Primary View that the obligating event to recognize a liability and expense is when the participant becomes fully insured. Further, we agree that to do otherwise would result in an incomplete reporting of costs and liabilities. The two essential characteristics of a liability (i.e., constitutes a present obligation to provide assets or services to another entity, and the federal government and the other entity have an agreement or understanding as to when settlement of the obligation is to occur)¹, are satisfied when the participant becomes fully insured. The existing laws for Social Security and Medicare stipulate that a participant is fully insured after completing 40 quarters of work in covered employment. The laws also stipulate the criteria as to when the Social Security and Medicare benefits will begin being paid. Although laws surrounding any of the social insurance programs may be changed in the future impacting participant eligibility, benefits, etc., financial reports are to address conditions, as they exist at the end of the reporting period.

* * * *

¹ Paragraph 40 in the Statement of Federal Financial Accounting Concepts entitled, *Definition and Recognition of Elements of Accrual-Basis Financial Statements*, issued for comment on June 7, 2006, lists the two characteristics.

Question 2

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.

NASA response:

We believe that the Social Security and Medicare Obligations would be measurable for purposes of recording a liability after 40 quarters or equivalent of work in covered employment as proposed in the Primary View.

The prevailing stance taken by the Alternative View (as to why it is believed that benefit payments for Social Security and Medicare are not reliably estimable) is based on the annual Trustees Reports on the Social Security and Medicare programs. The Trustees Reports state that Social Security and Medicare are not sustainable under current financing arrangements and that Congress can change the law concerning these programs at any time. Another point made by the Alternative View is that it is not possible to predict the actions Congress will take to increase or reduce benefits in the future; thus, recording a liability for future payments when such an uncertainty exists would potentially provide the public with a false sense of certainty regarding the likely amount or existence of such payments. Following are excerpts from the Elements ED, which we believe refutes the Alternative View's points on this matter.

Paragraph 7 of the Elements ED states:

“The existence or amount (or both) of many assets, liabilities, and other elements may not be certain, but the definitions and recognition criteria in this Statement do not require certainty...The measurement of an element being considered for recognition in the financial statements often will require estimates and approximations.”

Further paragraph 44 states:

“To meet the definition of a liability, the federal government’s contract or other agreement to provide assets or services to another entity must be based on existing conditions, including current law...even if conditions may change before settlement is due. For example, Congress may change a law under which the federal government has incurred a present obligation and erase the obligation or otherwise enable the government to avoid settlement...The government’s power to change existing conditions does not preclude what otherwise would be a present obligation and recognized as a liability.”

#31

Mark Jenson

Federal-Auditor

*

*

*

*

*

*

Question 3

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? Please provide the rationale for your answer.

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? Please provide the rationale for your answer.

NASA response:

We 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. We believe that the statement would promote better understanding of the data and its relationship to the other financial data if amounts in the SOSI tie to the statement of net cost and balance sheet.

We agree that the reasons for changes in SOSI amounts during the reporting period should be reported. Our preference would be the reporting requirements proposed by the Alternative View for its simplicity and conciseness.

* * * *

Question 4

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

NASA response:

We agree that the proposed statement of fiscal sustainability should be presented in the consolidated Financial Report of the United States Government as required supplementary information. Given the speculation that the existing social insurance programs may not be sustainable, the more information provided to individuals and Congress can only be beneficial to the respective parties in making decisions for the future.

* * * *

Question 5

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.

NASA response:

We do not believe that there is a need for the Board to consider recognizing deferred revenue for earmarked revenues. Other than the nature by which earmarked revenue can be expended, there is no significant difference between earmarked and nonearmarked revenue; and current standards on revenue recognition appropriately account for government revenue.

* * * *

Question 6

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

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

NASA response:

We have no other comments on either the Primary View or the Alternative View.