

U.S. Department of Labor

Office of Inspector General  
Washington, D.C. 20210

FEB 23 2009

Wendy M. Comes  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814 (Mailstop 6k17V)  
Washington, DC 20548

Dear Ms. Comes:

On behalf of the Office of Audit (OA), Office of Inspector General (OIG), Department of Labor, please find responses to questions about the exposure draft titled "Accounting for Social Insurance, Revised" attached. Thank you for the opportunity to provide input on the *Accounting for Social Insurance, Revised* exposure draft. The content and presentation of financial estimates related to the future financial status of social insurance programs is critical to both the public understanding and the understanding of policymakers who will be deciding on what changes are needed in these programs.

If you have any questions or need additional information, please contact Joseph L. Donovan, Jr., Audit Director, Financial Statement Audits, at 202-693-5248.

Sincerely,

A handwritten signature in black ink that reads "Elliot P. Lewis". The signature is written in a cursive, flowing style.

Elliot P. Lewis  
Assistant Inspector General for Audit

*Working for America's Workforce*

**Office of Audit  
Office of Inspector General  
Department of Labor**

**EXPOSURE DRAFT: ACCOUNTING FOR SOCIAL INSURANCE, REVISED  
Dated: November 17, 2008**

Questions for Respondents:

Q1. The Board proposes to require social insurance component entities and the government-wide entity to discuss and analyze key measures from the basic financial statements in their management's discussion and analysis ("MD&A"). See paragraphs 26-30 in the proposed standard and paragraphs A75-A79 in the basis for conclusions.

**Do you believe that key measures should be presented in the MD&A as described in this exposure draft?**

**Please provide the rationale for your answers.**

We believe that key measures should be presented in the MD&A as described in the exposure draft. Presenting key measures related to the SOSI in the MD&A complies with the guidance in SFFAS 15 that requires the entity's MD&A to address, among other things, performance goals and results and financial statements. Since key measures affect the entities' financial statements and performance goals, this information should be addressed in the MD&A.

Q2. The Board is proposing to add a line for the **closed group measure** to the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications.<sup>1</sup> See paragraphs 31-32 in the proposed standard and paragraphs A81-A100 in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs A139-A142 in the basis for 3 conclusions for Mr. Patton's view. Mr. Patton and other members believe that a liability greater than the due and payable amount should be recognized on the balance sheet. See paragraph A144 in the basis for conclusions for Mr. Werfel's view. Mr. Werfel and other members believe that the closed group measure should not be presented on the balance sheet.

**Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft?**

**Please provide the rationale for your answers.**

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<sup>1</sup> Definitions of certain terms are provided in the Definitions section and Appendix F: Glossary of this proposed standard.

Consistent with Mr. Patton's alternative view, we believe a line item for the liability should be recognized on the balance sheet. However, we believe that the obligating event for recognizing a liability and expense occurs when participants commence work in covered employment, which is consistent with the current law, which takes the matter a step further from Mr. Patton's view. This provides the reader with a more meaningful presentation of the component and governmentwide obligations in their respective financial statements and is consistent with the definition of a liability in SFFAS 5.

We also believe that including an amount on the face of the balance sheet that is not "recognized" as a liability but is simply a disclosure would be confusing to a reader of the financial statements.

Q3. The Board proposes to add a new summary section of the statement of social insurance ("SOSI") to present the closed and open group measures. See paragraphs 34-35 in the proposed standard and paragraphs A114-A116 in the basis for conclusions.

**Do you believe that the SOSI should have a summary section as described in this exposure draft?**

**Please provide the rationale for your answers.**

Consistent with our position and response to Q2, we believe that including the NPV of future expenditures in excess of future revenue for current and future participants on the balance sheet would confuse the reader of the financial statements. Therefore, if the NPV of future expenditures in excess of future revenue for current and future participants is not reflected on the face of the balance sheet, having this level of detail in the SOSI would not be necessary. However, we do not oppose including this level of detail in the notes.

Q4. The Board proposes a new basic financial statement entitled "statement of changes in social insurance amounts." The new statement would explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. See paragraphs 36-37 in the proposed standard and paragraph A116 in the basis for conclusions. Mr. Werfel and other members have an alternative view. They believe the new statement should focus on changes in the open group measure and not the closed group measure. The question of the use of the appropriate measure is addressed in question 7 below. See paragraph A145 in the basis for conclusions.

**Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI?**

**Please provide the rationale for your answers.**

We believe that the changes in present value amount could be presented as a footnote disclosure instead of a new basic financial statement. This is consistent with

the disclosure requirements in SFAS 87, 106, and 132(R) for pensions and defined benefit postretirement benefit plans.

Q5. The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five-year trend when the standard is fully implemented. See paragraph 38 in the proposed standard and paragraphs A117-A123 in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph A146 in the basis for conclusions.

**Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft?**

**Please provide the rationale for your answers.**

As discussed in our response to Q2, we believe that this accrued benefit obligation should be recognized as a liability and expense in the financial statements. If the primary view discussed in this Exposure Draft is adopted as drafted, we believe that disclosing the accrued benefit obligation in the notes to the financial statements is important to the reader. This is consistent with the disclosure requirements in SFAS 132(R). However, as discussed above, our preference is for the accrued benefit obligation to be recognized on the balance sheet.

Q6. The Board considered but decided not to propose adding a line item to the statement of net cost ("SNC") for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113 in the basis for conclusions.

**Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications?**

**Please provide the rationale for your answers.**

We concur that the SNC should not include a line item for the change during the period in the closed group measure, to be presented below exchange revenue and expenses and not included in the totals for these classifications. As presented in our response to Question 2, we do not believe that the balance sheet should present a line item for the closed group measure as described in the exposure draft. Therefore, if this is not presented on the balance sheet, we do not believe the change in this amount during the period should be reported in the SNC.

Q7. The Board decided to present the **closed group measure (CGM)** (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the CGM and other key measures from the financial statements be discussed in management's discussion and analysis; that the CGM be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for those categories); and that the changes in the CGM during the reporting period be presented and explained in the new summary section of the statement of social insurance and the new statement of changes in social insurance. The Board considered the **open group measure** (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discusses both the closed group measure and the open group measure throughout. Paragraphs A69-A74 provide the basic rationale for the Board's selection of the closed group measure. Mr. Werfel and other members have an alternative view regarding the presentation of the closed group measure. They oppose the addition of the closed group measure to the balance sheet. Furthermore, they believe the open group measure is the appropriate measure to use in the new statement of changes in social insurance and not the closed group measure. See paragraph A145 in the basis for conclusions.

**Do you agree with the Board's decision to feature the closed group measure?**

**Please provide the rationale for your answers.**

We believe that the balance sheet should recognize an accrued benefit obligation for current participants in the program as of fiscal year end. However, we also believe that the SOSI should be based on the open group measure as its purpose is to assist users in assessing the long-term sustainability of specific programs in government-wide and component entity financial reports.

Q8. The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program but will not specify a particular approach for the analysis. See paragraphs 42-43 of the standard and paragraphs A125-A137 of the basis for conclusions.

**Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs?**

**Please offer any comments that you wish to make on these provisions.**

We believe that a general requirement would be appropriate. SFFAS 17 covers different programs that involve different factors to estimate the related liability and, accordingly, the sensitivity analysis would differ.