History of FASAB

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How FASAB Came to Be (1990)

In 1990, Congress passed the Chief Financial Officer's Act (CFO Act), requiring audited financial statements, in accordance with applicable standards, for selected federal reporting entities. It was a step toward the comprehensive requirement for audited financial statements established in 1994 by the Government Management Reform Act. Congress passed the CFO Act in part due to concerns about highly publicized financial management problems at various federal agencies.

Of course, accountants, auditors, and congressional staff who were knowledgeable about financial management understood that audited financial statements do not preclude the possibility of fraud and other financial management problems. Even so, it was reasonable to hope that the discipline imposed by the process of preparing and auditing such statements could help to reduce the frequency and size of such problems. Many individuals and organizations, including the Association of Government Accountants and the American Institute of Certified Public Accountants (AICPA), contributed to this "good government" initiative.

3 years after the October 1987 creation of Treasury's Financial Management Services (FMS) branch of 9 (8 accountants/1 IT) civil servant, after **accountant whistleblower (Larry Fisher)** had lobbied Congress/ Central Agencies over the need to replace the AICPA's non-GAAP based manually fudged processes with a GAAP based standard.

The CFO Act did not define the source or nature of the "applicable standards." As part of the work preceding passage of the CFO Act, it was necessary for the relevant parties to agree on a mechanism for defining those standards. This was a difficult challenge.

The Budget and Accounting Procedures Act of 1950 had provided for the Government Accountability Office (GAO) to set accounting standards for federal agencies. GAO subsequently published such standards as "title 2" of its Policies and Procedures Manual for the Guidance of Federal Agencies. Several agencies adopted those standards, but the Office of Management and Budget (OMB) did not require agencies to do so. Indeed, some questioned whether it was constitutional for a legislative agency to define accounting standards for an executive agency. Furthermore, as always among accountants, there were differing opinions about what accounting principles were appropriate for federal agencies. Although "title 2" defined and discussed fund accounting; did not require depreciation of all capital assets; and differed in other ways from the traditional "business accounting model," some accountants asserted that it was too much like commercial accounting to be relevant to the federal government.

On October 10, 1990, then Secretary of the Treasury Nicholas Brady, Director of OMB Richard Darman, and Comptroller General Charles Bowsher jointly agreed to create and sponsor the Federal Accounting Standards Advisory Board (FASAB) by signing a "Memorandum of Understanding (MOU) Among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board." FASAB would consider and recommend the appropriate accounting standards for the federal government. For the first time, the legislative and executive branches agreed to work together in an agreed framework, with an open, public process, to determine the accounting standards that federal agencies should follow.

On January 18, 1991, FASAB's sponsors named the first members of FASAB, including Elmer Staats as Chairman. See the listing of Board Members – Past and Present for a complete listing of the original members as well as subsequent and current. On January 23, 1991, the sponsors signed a second MOU on the administrative arrangements for FASAB.

The Early Years (1991 – 1996)

FASAB held its first meeting on January 25, 1991. Topics of discussion included the MOU; ethics

requirements; draft rules of procedure (ROP); agenda-setting process; and briefings on GAO's Title 2, the CFO Act, and OMB's plans to implement financial statement preparation and audits.

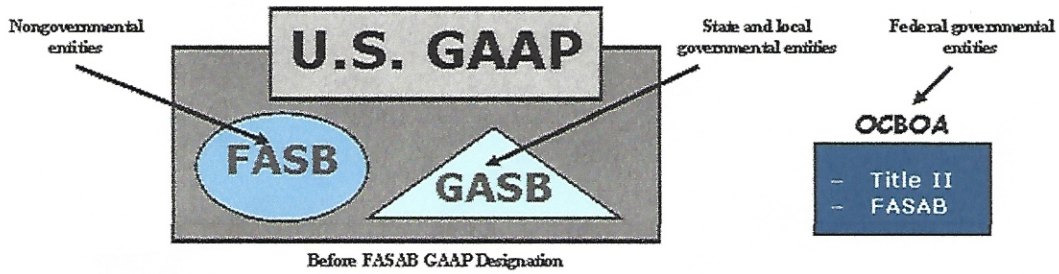
SFFAC 1	Objectives of Federal Financial Reporting
SFFAC 2	Entity and Display
SFFAS 1	Accounting for Selected Assets and Liabilities
SFFAS 2	Accounting for Direct Loans and Loan Guarantees
SFFAS 3	Accounting for Inventory and Related Property
SFFAS 4	Managerial Cost Accounting Standards & Concepts
SFFAS 5	Accounting for Liabilities of the Federal Government
SFFAS 6	Accounting for Property, Plant and Equipment (PP&E)
SFFAS 7	Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting
SFFAS 8	Supplementary Stewardship Reporting

From that point on, FASAB underwent a flurry of activity to develop and recommend a comprehensive set of accounting standards. In a remarkably short period of time—from January 1991 through June 1996—FASAB developed two Statements of Federal Financial Accounting Concepts (SFFAC) and eight core Statements of Federal Financial Accounting Standards (SFFAS)—see box.

GAAP Designation (1999)

Because FASAB was not designated as a standards-setting authority under Rule 203 of the AICPA Code of Professional Conduct, financial statements prepared by federal entities using FASAB standards were considered to be prepared using an "other comprehensive basis of accounting" (OCBOA). Rule 203 provides, in part, that an AICPA member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles (GAAP) or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with GAAP, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by the AICPA Council (Council) to establish such principles, that has a material effect on the statements or data taken as a whole.

Council designated the Financial Accounting Standards Board (FASB) as the standards-setter for nongovernmental entities in 1973 and the Governmental Accounting Standards Board (GASB) as the standards-setter for state and local governmental entities in 1986. These are authoritative standard-setting bodies under Rule 203. The federal government did not have a Rule 203 designated accounting standards-setter. With this designation, federal government reporting entities would be able to obtain audit opinions that indicate that the financial statements are presented in conformity with GAAP rather than OCBOA.



Before FASAB GAAP Designation

Two AICPA task forces were created to respond to FASAB's request for designation as a Rule 203 standards-setter. The first task force was charged with establishing criteria for Rule 203 recognition. At the May 1999 meeting, the Council approved the following five criteria to be used in designating accounting standards-setting bodies under Rule 203:

- Independence,
- Due process and standards,
- Domain and authority,
- Human and financial resources, and
- Comprehensiveness and consistency

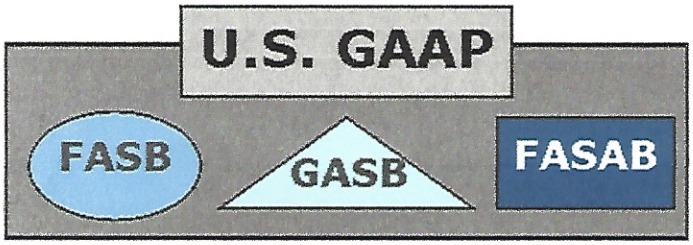
The AICPA Board Chair appointed a second task force to assess the FASAB against the Council-approved criteria, and to provide recommendations to assist the AICPA Board and Council regarding Rule 203

designation for FASAB. This second task force evaluated the mission and process of the FASAB based on the Council-approved criteria, recommended changes in FASAB procedures, and assisted in incorporating those changes in FASAB's MOU and Rules of Procedure (ROP).

The most significant changes were: (a) creation of an Appointments Panel to assist in selecting nonfederal members (ROP); (b) opening Steering Committee meetings to the public (ROP); and (c) establishing that FASAB would issue final standards following a review period (MOU).

Wording in original MOU	Wording in 1999 Revised MOU
Section 4. Concepts and Standards The Comptroller General, and Secretary of the Treasury, and the Director of OMB will decide upon principles and standards after considering the recommendations of the board. **If the Comptroller General, the Secretary of the Treasury, and the Director of OMB agree to specific principles and standards, these principles and standards will be published by the Comptroller General and the Director of OMB.** These principles and standards or a notice of their availability will be published in *The Federal Register* and will be distributed throughout the federal government as appropriate.	Section 4. Concepts and Standards When the Board has developed a proposed concept or standard, the Board shall submit it to the Comptroller General, the Secretary of the Treasury, and the Director of OMB for their review. If, within 90 days after its submission, any one of these officials objects to the proposed concept or standard, then it shall be returned to the Board for further consideration. **If, within 90 days after its submission, none of these officials objects to the proposed concept or standard, then it shall become a final concept or standard of the Board.** Concepts and standards will be announced in the Federal Register.

With the changes completed, the task force deemed FASAB to have satisfied the Council-approved criteria. Accordingly, the AICPA Board recommended that Council adopt a resolution to designate FASAB under Rule 203. On October 19, 1999, Council approved the resolution, designating FASAB as the accounting standards-setting body for federal governmental entities under Rule 203 of the AICPA's Code of Professional Conduct. Therefore, FASAB became the board that promulgates generally accepted accounting principles (GAAP) for federal governmental entities.



After FASAB GAAP Designation

Additional Changes Resulting from GAAP Designation and Subsequent Sunset Reviews (1999 – 2010)

- In 1999, in line with the revisions to the MOU, FASAB's concepts and standards were renamed to Statements of Federal Financial Accounting Concepts and Statements of Federal Financial Accounting Standards. The concepts and standards were originally referred to as Statements of Recommended Accounting Concepts and Statements of Recommended Accounting Standards. Prior to the October 1999 revision to the MOU, FASAB's sponsors were charged with reviewing FASAB's recommendations and then issuing them if they approved of them. After the October 1999 revision to the MOU, FASAB's concepts and standards were issued by FASAB as final after a 90-day review period by the sponsors with no objections.
- In 2002, as part of an effort to enhance the independence of the board and ensure its continued status as the GAAP standards-setter for federal entities, the FASAB sponsors (the Secretary of the Treasury, the Director of OMB, and the Comptroller General) altered the board's structure to provide a supermajority of non-federal members. In addition, the Secretary of the Treasury relinquished his authority to object to standards during the 90-day review period. Thus, only GAO and OMB may object to the issuance of a new standard or concept by FASAB.
- In 2010, the AICPA conducted a third review of board governance and operations. As a result, the Council approved the board's Rule 203 recognition on a continuing basis provided that the board acts to ensure greater visibility regarding its governance and operations. To ensure greater visibility,

the board issued its first Annual Report and made the following changes to its ROP:

- The AICPA criteria for a GAAP standards-setting body were included along with processes to support continued conformance with the criteria.
- Requirements for an annual report, including minimum content and an annual performance survey of FASAB members, were established.
- Annual confirmation of members' independence and adherence to the ethics policy was required.
- Processes for members to report undue influence and for the AICPA to be alerted to reportable events were established.
- The chairperson's duties were expanded to include a liaison role with the AICPA.
- The Steering Committee's (composed of the chairperson and the federal board members) mission and responsibilities were formalized and expanded to respond to the AICPA's recommendations.