

## Chapter 4 STANDARD-SETTING INSTITUTIONS, DUE PROCESS, AND OUTPUTS

### INTRODUCTION

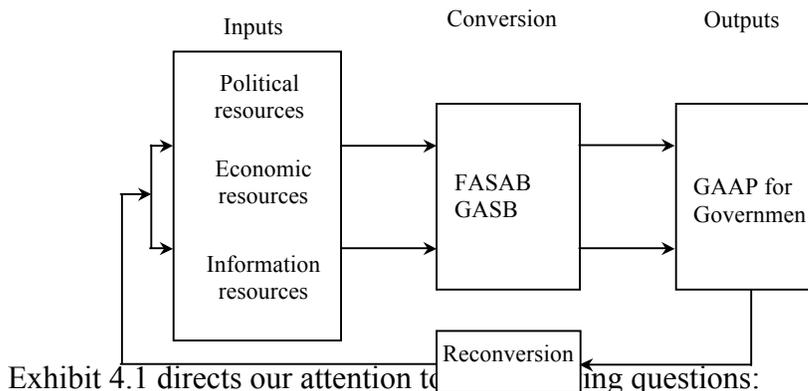
The Governmental Accounting Standards Board (GASB) and the Federal Accounting Standards Advisory Board (FASAB) set generally accepted accounting principles applicable to state and local governments and to the Federal Government, respectively. Their standards are used to design accounting systems, and regulate accounting measurements and the form and content of financial statements. Auditors also use them to judge the quality of financial statements in order to express audit opinions. Following the previous description of the circumstances surrounding their establishment, this chapter will discuss these boards' missions, scope and authority, organizational structure, standard setting process, and outputs.

Even though standard-setting bodies such as the GASB and FASAB are few in number and unique in many ways, they are also organizations that can be analyzed using the stakeholder theory described in Chapter 2. This chapter will therefore begin with a conceptual analysis of accounting standards board, followed by a description of the GASB and FASAB. The chapter concludes with a comparison of the boards in terms of their similarities and differences.

### INSTITUTIONAL ANALYSIS OF ACCOUNTING STANDARDS BOARDS

Exhibit 4.1 is an application of the basic systems framework to government accounting standard setting organizations and processes. The GASB and the FASAB in their deliberation processes “convert” ideas, made available by political and economic resources, into standards as outputs. If these standards are favorably received, their adopters may be inclined to provide support to the standard setters, thus completing the resource conversion and reconversion cycle..

Exhibit 4.1  
Standards Board as a System



- Who provides economic resources, political resources, and information resources to the GASB and FASAB?
- How do GASB and FASAB produce their standards?
- What are the characteristics of the standards that impress stakeholders so that they are motivated to provide additional resources to the GASB and FASAB?

The concepts in Exhibit 4.1 are operationalized in the context of accounting standards boards. The results of this institutional analysis are summarized in Exhibit 4.2.

Exhibit 4.2 Elements of Institutional Analysis

System's Elements	Institutional Analysis of Accounting Standards Boards
Political resources	<ul style="list-style-type: none"> <li>▪ legal authority</li> <li>▪ professional authoritativeness</li> <li>▪ endorsement of influential persons</li> </ul>
Economic resources	<ul style="list-style-type: none"> <li>▪ financial resources</li> <li>▪ human resources: members, staff, and contributors to research and technical activities</li> <li>▪ infrastructure and administrative support</li> </ul>
Information resources	<ul style="list-style-type: none"> <li>▪ contextual knowledge of responses to proposed standards</li> <li>▪ technical knowledge of the extent to which proposed standards meet objectives</li> </ul>
Production	<ul style="list-style-type: none"> <li>▪ research and technical activities to generate alternatives</li> <li>▪ deliberation of the merits of alternatives</li> <li>▪ due process of soliciting comments on alternatives</li> <li>▪ consensus formation and voting</li> </ul>
Outputs	<ul style="list-style-type: none"> <li>▪ Documents containing standards and related materials</li> <li>▪ Practice guidance and educational materials</li> </ul>
Reconversion	<ul style="list-style-type: none"> <li>▪ Marketing of standards through public discourse</li> <li>▪ Acceptance, endorsement of standards</li> <li>▪ Use of standards in designing and modifying systems</li> <li>▪ Use of standards in preparing financial reports</li> <li>▪ Use of standards in auditing financial statements</li> </ul>

Using Exhibit 4.2 as a guide, the next two sections describe the Federal Accounting Standards Advisory Board (FASAB) and the Governmental Accounting Standards Board (GASB), using mostly publicly available information about the boards.

### **THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**

This section describes the Federal Accounting Standards Advisory Board (FASAB) in terms of its goals, jurisdiction, resources, decision-making process and outputs, based on the board's documents..

#### **Mission, Domain and Authority**

The mission of the FASAB is “to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other uses of Federal financial information.

“Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus Federal accounting standards and financial reporting play a major role in fulfilling the government’s duty to be publicly accountable and can be used to (1) assess the government’s accountability, and its efficiency and effectiveness, and (2) contribute to the understanding of the economic, political, and social consequences of the allocation and various uses of Federal resources” (*FASAB Facts*, 2006).

The domain of FASAB’s standards lies almost entirely in financial accounting. The Memorandum of Understanding (MOU) that established the FASAB specifically prohibits the board from proposing or setting Federal budget concepts and standards.(MOU, May 7, 2003).

The FASAB does not have legal authority of its own. “The Sponsors agree that standards set and promulgated following the Board’s Rules of Procedures are recognized to have substantial authoritative support, ... The Sponsors retain their authorities, separately and jointly, to establish and adopt accounting standards for the federal government” (MOU, May 7, 2003). Therefore, the following review and clearance process is currently in place: “When the Board has developed a proposed concept or standard, the Board shall submit it to the Comptroller General, the Director of OMB [Office of Management and Budget], the Secretary of the Treasury, and the Director of the CBO [Office of Congressional Budget] for their review. If, within 90 days after its submission, the Comptroller General or the Director, or both, objects to the concept or standard, then it shall not be issued, and will be returned to the Board for further consideration. If, within 90 days after its submission, neither of these officials objects to the concepts or standard, then it shall be issued and become a final concept or standard of the Board. Concepts and standards will be announced in the *Federal Register*...” (MOU, May 7, 2003). In July 2006, the 90-day review period was extended for another 90 days when circumstances require. Furthermore, the Chief Financial Officers Act of 1990 requires capital accounting standards be submitted to Congress for a mandatory 45-day review (*FASAB News*, January-March 2000).

The membership of the FASAB and the professional status of the board’s standards underwent significant changes during the period between 2000 and 2003 in connection with the AICPA’s recognition of FASAB standards as generally accepted accounting principles. In order to appreciate these changes, it is necessary to understand the changing environment of Federal financial reporting and auditing. Due to the requirements of audited financial statements in the 1990 Chief Financial Officers Act, Federal agencies began contracting with CPA firms to perform financial audits and render audit opinions. Rule 203 of the AICPA’s Code of Conduct requires:

A member [of the AICPA] shall not express an opinion that financial statements are presented in conformity with generally accepted accounting principles if such statements contain any departures from an accounting principle promulgated by a body designated by the Council [of the AICPA] to establish such principles which has a material effect on the

statements taken as a whole, unless the member can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading. In such cases his [audit] report must describe the departure, the approximate effect thereof, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

By the time the FASAB was established, the AICPA had already in 1973 designated the FASB as the promulgator of GAAP for private-sector entities, and in 1986 the GASB as the promulgator of GAAP for state and local governments. In order to receive the designation of a GAAP promulgator, a standard-setting body has to meet the following criteria: (1) Independence – the body should be independent from the undue influence of its constituency. (2) Due Process – The body should follow a due process that is documented and open... The body's aim should be to produce standards that are timely and that provide for full, fair, and comparable disclosure. (3) Domain and Authority – The body should have a unique constituency not served by another existing Rule 203 standard-setting body. Its standards should be generally accepted by its constituencies. (4) Human and Financial Resources – The body should have sufficient funds to support its work. Its members and staff should be knowledgeable in all relevant areas. (5) Comprehensiveness and Consistency – The body should approach its processes comprehensively and follow concepts consistent with those of existing Rule 203 standard-setting bodies for analogous circumstances.

An AICPA task force assessed the FASAB against these criteria, and recommended changes in FASAB's Rules of Procedures and its charter, the Memorandum of Understanding among its sponsors. Following the completion of the changes, the AICPA recognized the FASAB as the promulgator of GAAP applicable to Federal Government entities.

Two major changes were made to increase the FASAB's independence. First, in terms of personnel, the initial October 1990 Memorandum of Understanding (MOU) provided for a majority of six Federal government officials (three representing the sponsors, one CBO member; two representing Federal departments; three public members). The MOU was revised in 2002 to require a majority of six public members, resulting in CBO and the two department representatives losing their seats. This new composition went into effect on July 1, 2002. The MOU was revised in May 2003 to restore the CBO's seat on the FASAB, bringing the total membership to ten. Second, before the GAAP designation, FASAB *recommended* standards to its three sponsors. If the three principals agree to the standards and concepts, the Comptroller General and the Director of OMB would publish them and announce them or their availability in the *Federal Register* (MOU October 1990). After the GAAP designation in October 1999, the current procedure of review and negative confirmation ("no objection") was instituted.

## **Resources and Support**

The FASAB has access to substantial financial resources and human resources. However, the dollar figures below do not reflect the full cost incurred by its sponsors or

the compliance costs of the Federal agencies, which are apparently not separately budgeted.

**Financial Resources.** The FASAB's current funding (Fiscal Year 2007 beginning on October 1, 2006) is \$1,969,000. It is shared as follows: OMB and GAO each 27.5%; CBO and Treasury each 22.5%. OMB and GAO have the right to object to FASAB issuances, while CBO and Treasury do not. In addition, the GAO provides the FASAB with office space, information technology support, and legal advice. (Source of information: the executive director of FASAB, email on October 30, 2006)

**Human Resources.** Supported by a full-time eight-person staff, headed by an executive director, currently (November 2006), the FASAB currently has ten board members, who serve on a part-time basis. Four board members represent the FASAB's sponsors and the CBO. They are selected by the head of each agency and do not have fixed terms. Their FASAB duties are part of their regular official responsibilities and they do not receive additional compensation. The board also includes six public or non-Federal members. The board's sponsors select them on the recommendation of a panel convened by the chairman of FASAB, who is himself a public member. FASAB board members are expected to have the following attributes: awareness of the Federal environment, technical knowledge, high intelligence, integrity and discipline, judicial temperament, ability to work in a collegial atmosphere, communication skills, and commitment to FASAB mission. The board members are compensated for their meeting and preparation time, and receive reimbursement for their travel costs.

The FASAB has a standing task force called the Accounting and Auditing Policy Committee (AAPC), which was created in 1997 to provide guidance regarding the application of existing standards. This committee includes: representatives from the FASAB's three sponsors; three representatives from the Federal agency Chief Finance Officers, who prepare agency financial statements; three representatives from the Federal agency Inspector Generals, who perform compliance audits and most agency financial audits; a FASAB member and, one member at large. In addition to the AAPC, the FASAB also appoints task forces on specific issues from time to time to receive expert views and recommended solutions. Task force members serve as part of their regular duties and receive no extra compensation.

### **The FASAB's Activities**

The FASAB conducts two types of activities: the technical activities of the due process of standard setting, and other activities that support the broader mission of improving Federal accounting and financial reporting.

**Due Process of Standard Setting.** The FASAB is subject to the provisions of the Federal Advisory Committee Act, including the requirement for open meetings. The board's rules of procedure are designed to meet the minimum requirements of the act, and include the following steps in considering Federal accounting standards:

1. Identification of accounting issues and agenda decisions.
2. Preliminary deliberations.

3. Preparation of initial documents (issue papers and/or discussion memorandums).
4. Release of documents (e.g. exposure drafts) to the public, public hearings when necessary, and consideration of comments.
5. Further deliberation and consideration of comments.
6. Approval by at least a majority vote.
7. Submission of proposed Statement to the Principals for ninety day review (forty five days for Interpretations).
8. Publication of final Statement or Interpretation (*FASAB Facts*, 2006).

As mentioned earlier, the board has assistance from the Accounting and Auditing Policy Committee on a permanent basis, and other task forces as necessary.

The FASAB regards the following as characteristics of its due process (*FASAB Facts*):

- a thoughtful, open, neutral, and fair deliberative process.
- being objective and neutral, i.e. free from bias – not placing any particular interest above the interests of users.
- timely, thorough, and open study of issues.
- broad public participation.

In following the above due process of setting standards, the FASAB takes into account:

- the primary users of Federal financial information and their accountability and decision-making needs.
- expected benefits and perceived costs of the proposed standards.
- the qualitative characteristics of information: understandability, relevance and reliability.
- ensuring the faithful representation of the effects of Federal activities.

***Other Activities.*** In addition to its primary activity of standard setting, the FASAB also conducts other activities to achieve mission. These activities include (*FASAB Facts*, 2006):

- Providing advice to central financial agencies, namely the Office of Federal Financial Management of the OMB, the Financial Management Service of the Treasury, and the GAO as auditor of the Federal Government, on implementing the standards.
- Improving the common understanding of information contained in financial reports.
- Reviewing the effects of current standards and develop amendments or new standards when appropriate.

## **FASAB's Products**

During the sixteen-year period (from October 1990 to October 2006), the FASAB produced three *Statements of Federal Financial Accounting Concepts*, thirty-two *Statements of Federal Financial Accounting Standards*, six *Interpretations*, five *Technical Bulletins*, six *Technical Releases*, and three *Staff Implementation Guides*. In

addition, the due process has generated numerous exposure drafts, invitations for views, invitations to comment, preliminary views, and research reports. The board also has compiled two volumes of codifications: one with original statements and another with current text. All the FASAB's products are available free of charge from its website: [www.fasab.gov](http://www.fasab.gov), where a full list of documents can be found. A chronological list of statements of concepts and standards is included in Appendix 1 to this chapter.

We now turn our attention to the Governmental Accounting Standards Board (GASB), which sets GAAP for state and local governments in the United States.

## **THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

This section describes the Governmental Accounting Standards Board (GASB) in terms of its mission, scope and authority, resources, standard-setting process, and products. Unless otherwise noted, the quotations are taken from the 2005-2006 edition of *Facts about GASB* and other publicly available sources available at the Board's website: [www.gasb.org](http://www.gasb.org), where the most current information is posted. Specific documentary resources are cited in the list of references at the end of this chapter.

### **Mission, Domain and Authority**

The mission of the Governmental Accounting Standards Board (GASB) is “to establish and improve standards of state and local governmental accounting and financial reporting that will:

- Result in useful information for users of financial reports, and
- Guide and educate the public, including issuers, auditors and users of those financial reports.”

This mission was reaffirmed in the Board's strategic plan for 2005-2009, which stresses the Board's core values of independence, integrity, objectivity and transparency. The Board also set specific goals and identified measurable outcomes for four areas: standard setting; constituent relations and communications; education; and organizational effectiveness.

Under the terms of agreement that established the GASB under the auspices of the Financial Accounting Foundation, the GASB would establish standards for activities and transactions of state and local governmental entities and the FASB would establish standards for activities and transactions of all other entities – other than Federal Government, of course. Although the issue of whose standards—the GASB's or the FASB's—should be followed by business enterprises and nonprofit organizations (so-called “special entities,” such as hospitals, colleges and universities) has been dealt with, it continues to pose challenges for the scope and content of GASB's standards.

The principal purpose of the GASB is to “issue Statements of Governmental Accounting Standards designed to improve financial reporting by state and local governments. It is also empowered by its Rules of Procedure to issue Statements of Governmental Accounting Concepts and Interpretations. The GASB staff is permitted to issue GASB Technical Bulletins and question-and-answer Special Reports.”

After the GASB in 1984 succeeded the National Council on Governmental Accounting, the American Institute of CPAs in 1986 recognized the GASB's standards

as generally accepted accounting principles (GAAP) for state and local governments. Under the AICPA's Rules of Conduct, CPAs have to justify departures from GASB standards when using those standards to assess the fairness of presentation of their audit clients.

The GASB does not have legal authority to require state and local government to adopt its standards. Rather, it relies on the endorsement of national groups that represent the political leaders, chief executives, government finance officers to persuade the legislatures of state and local governments to pass legislation to require compliance with GASB standards. The bond rating agencies' requirement that financial statements be audited and use GAAP also exerts considerable economic leverage on state and local governments. These organizations and other interested in improving state and local government accounting and financial reporting were recruited to join the Governmental Accounting Standards Advisory Council (GASAC). While the formal function of the GASAC is to advise the GASB, GASAC members are expected to use their influence to promote the acceptance of GASB standards.

### **Resources and Support**

In addition to political support in the form acceptance by the governmental institutions with the legal authority to require certain types of government accounting standards, the GASB also needs financial resources and human resources.

***Financial Resources.*** In agreeing to sponsor the GASB, the Financial Accounting Foundation (FAF) undertook the responsibility of funding the board. In 2005, the GASB generated \$2 million from subscription and publication sales, and \$2.1 million from contributions. The total revenue was sufficient to cover the approximately \$3.7 million direct expenses of the board and research staff and advisory council, and another \$0.3 million in direct administrative expenses. However, the GASB could not meet its share of \$1.5 million of its common costs shared with the Financial Accounting Standards Board (FASB).

Contributions to the GASB come from its "constituent groups," including state and local governments, CPA firms, and individual practitioners, the municipal securities industry, foundations and other organizations. In October 2006, the GASB launched a GASB support fee program directed at governments that benefit from the GASB in the sense that their auditors use GAAP set by the GASB to audit their financial statements. These governments are assessed a voluntary fee based on the dollar amount of Federal financial assistance.

***Human Resources.*** The GASB consists of a full-time chairman and six part-time members. It has a full-time professional staff of ten people, and shares administrative support services with the FASB. The GASB receives advice from the Governmental Accounting Standards Advisory Council (GASAC) with regard to technical issues, project priorities, emerging issues, the selection and organization of task forces. The council has almost thirty members who are broadly representative of preparers of financial reports, external auditors, and users of state and local government information

(see Exhibit 4.3). On major projects, the GASB is assisted by a number of task forces, usually around 15 people each, of knowledgeable individuals on specific subject matter.

Exhibit 4.3 Organizations Represented on the GASAC

<p>State and Local Governments, and Political/Management Leadership (“Public Interest Groups”)</p> <ul style="list-style-type: none"> <li>• National Conference of State Legislatures</li> <li>• National Governors’ Association</li> <li>• National Association of Counties</li> <li>• U.S. Conference of Mayors</li> <li>• Council of State Governments</li> <li>• National League of Cities</li> <li>• International City/County Management Association</li> </ul>
<p>Preparers, Public Finance Professionals</p> <ul style="list-style-type: none"> <li>• National Association of State Auditors, Comptrollers, and Treasurers</li> <li>• Government Finance Officers Association</li> <li>• Native American Finance Officers Association</li> <li>• National Association of Budget Officers</li> <li>• Association of School Business Officials International</li> <li>• National Association of College and University Business Officers</li> <li>• National Association of State Retirement Administrators</li> <li>• Healthcare Financial Management</li> <li>• American Power Association</li> </ul>
<p>Auditors</p> <ul style="list-style-type: none"> <li>• American Institute of Certified Public Accountants</li> </ul>
<p>Users of Financial Information</p> <ul style="list-style-type: none"> <li>• Association of Finance Guarantee Insurers</li> <li>• The Bond Market Association</li> <li>• A bond rating agency</li> <li>• Insurance Industry Investors</li> <li>• National Federation of Municipal Analysts</li> <li>• National Association of Bond Lawyers</li> </ul>
<p>Federal Government</p> <ul style="list-style-type: none"> <li>• Government Accountability Office</li> <li>• Governments Division, Bureau of the Census (at-large member)</li> </ul>
<p>Allied Professional Associations</p> <ul style="list-style-type: none"> <li>• American Accounting Association</li> <li>• Association for Budgeting and Financial Management</li> <li>• Association of Government Accountants</li> <li>• Government Research Association</li> </ul>

**GASB Activities**

*Mission-oriented Activities.* Using the guiding principles quoted in Exhibit 4.4 to accomplish its mission, the GASB undertake activities to:

- “Issue standards that improve the usefulness of financial reports based on the needs of financial report users; the primary characteristics of understandability, relevance and reliability; and the qualities of comparability and consistency.
- Keep standards current to reflect changes in the government environment.
- Provide guidance on implementation of standards.
- Consider significant areas of accounting and financial reporting that can be improved through the standard-setting process.
- Improve the common understandability of the nature and purposes of information contained in financial reports.”

#### Exhibit 4.4 The GASB’s Guiding Principles

In establishing concepts and standards, the GASB exercises its judgment after research, due process and careful deliberation. It is guided by these principles:

- *To be objective and neutral in its decision making* and to ensure, as much as possible, that the information resulting from its standards is a faithful representation of the effects of state and local government activities. Objective and neutral mean freedom from bias, precluding the GASB from placing any particular interest above the interests of the many who rely on the information contained in financial reports.
- *To weigh carefully the views of its constituents* in developing concepts and standards so that they will:
  - Meet the accountability and decision-making needs of the users of government financial reports, and
  - Gain general acceptance among state and local government preparers and auditors of financial reports.
- *To establish standards only when the expected benefits exceed the perceived costs.* The GASB strives to determine that proposed standards (including disclosure requirements) fill a significant need and that the costs they impose, compared with possible alternatives, are justifiable when compared to the overall public benefits.
- *To consider the applicability of its standards to the separately issued general purpose financial statements of governmentally owned special entities.* The GASB specifically evaluates similarities of special entities and of their activities and transactions in both the public and private sectors, and the needs, in certain instances, for comparability with the private sector.
- *To bring about needed changes in ways that minimize disruption of the accounting and financial reporting processes.* Reasonable effective dates and transition provisions are established when new standards are introduced. The GASB considers it desirable that changes should be evolutionary to the extent that can be accommodated by the need for understandability, relevance, reliability, comparability and consistency.
- *To review the effects of past decisions* and interpret, amend or replace standards when appropriate.

Source: *Facts about GASB*, 2005-2006, p. 2.

***GASB Research Activities.*** “The GASB develops and uses concepts to guide its work of establishing standards. Those concepts provide a frame of reference, or conceptual framework, for resolving accounting and financial reporting issues. This framework helps to establish reasonable bounds of judgment in preparing and using financial reports; it also helps the public understand the nature and limitations of financial reporting.

“The GASB’s work on both concepts and standards is based on research conducted by the GASB staff and others. The GASB actively solicits and considers the views of its various constituencies on all accounting and financial reporting issues. The GASB’s activities are open to public participation and observation under the ‘due process’ mandated by its Rules of Procedure.”

***Due Process.*** “The GASB is committed to follow an open, orderly process for standard setting. The GASB will endeavor at all times to keep the public informed of important developments in its operations and activities.

“The due process procedures followed by the GASB are designed to permit timely, thorough and open study of accounting and financial reporting issues. The procedures encourage broad public participation in the accounting standard-setting process and communication of all points of view and expressions of opinion at all stages of the process. The GASB recognizes that general acceptance of its conclusion is enhanced by demonstrating that all the comments received in due process are considered carefully.”

“For many projects on its technical agenda, the Board appoints an advisory task force of outside experts, studies existing literature on the subject and conducts or commissions such additional research as may be necessary, publishes a discussion document setting forth the issues and possible solutions as the basis for public comments, conducts a public hearing and gives broad distribution to an Exposure Draft of the proposed Statement [of Governmental Accounting Standard or Concept]. In some circumstances, an Exposure Draft may provide the basis for a public hearing, either initially or at a later stage of the project.

“Significant steps in the process are announced publicly, The Board’s meetings are open to public observation and a public record is maintained.”

## **GASB Products**

The GASB produced forty eight Statements of Governmental Accounting Standards and three Statements of Governmental Concepts from its formation to October 2006. A chronological list of the Statements is provided in Appendix 2 of this chapter and their content will be analyzed in the next chapter. In addition, the Board issues Interpretations to clarify, explain, or elaborate on existing GASB standards or NCGA standards. The GASB staff issues Technical Bulletins and Special Reports to provide implementation guidance for the Board’s standards. The Board’s due process also generates various Discussion Memorandums, Invitations to Comment, Preliminary Views, and Exposure Drafts, which are too numerous to list. The GASB’s documents are for sale.

Having seen how the FASAB and GASB present themselves, we can resume the institutional analysis from a comparative perspective to identify their similarities and differences.

## **A STAKEHOLDER THEORY OF GOVERNMENT ACCOUNTING STANDARD-SETTING INSTITUTIONS**

### **From a System Analysis to a Stakeholder Theory**

The systems analysis has identified the crucial inputs that the FASAB and the GASB need to survive and thrive as government accounting standard-setting organizations. It also points out the critical importance of “reconversion” whereby the standards produced by the FASAB and GASB motivate their “constituents” to contribute their political, financial and human resources to sustain the boards’ operations. Since FASAB standards are available free of charge and copies of GASB standards are sold at a nominal price, a question arises as to why anyone would provide financial support to the boards. A goal of academic research is to figure out why people participate in the activities of the FASAB and GASB. According to the stakeholder theory of organization, these participants expect the benefits to exceed the costs. To use the terminology of Simon’s terminology, the *inducements* that they receive or expect to receive are greater than the *contributions* that they make.

The following two sections analyze the political, economic and social relationships in the context of the FASAB and GASB and identify their contributions and inducements.

### **The Federal Accounting Standards Advisory Board**

There are four main stakeholder groups that make up the FASAB’s organizational coalition (Exhibit 4.5). The first group consists of FASAB’s sponsors, who endow the FASAB with delegated authority and financial resources. The benefits of their cooperative efforts result in Federal accounting and financial reporting standards for use in their respective functions as the Federal Government’s financial policy maker (the OMB), financial manager and accountant (the Treasury), and auditor and evaluator (the GAO). By giving the restructured FASAB Rule 203 designation, the AICPA enabled CPA firms to express audit opinions on the basis of GAAP.

The second set of stakeholders are the “producers,” namely FASAB board members, staff, as well as task force participants. They contribute technical and contextual knowledge about the Federal Government; in return they receive a mix of intangible and financial rewards.

The third group of FASAB stakeholders consists of the general managers and financial managers of Federal Government units who are responsible for complying with the numerous finance-related laws and regulations relating to accounting and financial reporting. These stakeholders’ acceptance and implementation of FASAB’s standards is their greatest contribution.

Finally, the intended users of Federal Government financial reports—Congressional committees, civic groups and even the general public—contribute their interest in and attention to the Federal Government’s financial reports. Their needs are the ultimate reason why these reports are produced and why the FASAB exists.

Exhibit 4.5 Stakeholders of the FASAB

Stakeholders	Contribution	Inducement
Comptroller General, Government Accountability Office (GAO), whose Financial Management and Assurance unit conducts financial audits	delegation of authority, acceptance of FASAB standards, general oversight, partial funding, in-kind support, making staff resources available to cooperate with FASAB	Availability of standards for auditing Federal entity financial statements; the right to object and request reconsideration of standards
Director, Office of Management and Budget (OMB), which includes the Office of Federal Financial Management		standards for legal compliance, monitoring resource use, improving financial management; right to object and request reconsideration of standards.
Secretary, Department of the Treasury, which includes the Financial Management Service (FMS)		standards for government-wide and agency accounting systems, and for preparing financial statements
Congressional Budget Office (CBO)	partial funding, participation and support	information for Congressional decision making and oversight
American Institute of Certified Public Accountants (AICPA)	enhancing professional authoritativeness of FASAB standards by recognizing them as GAAP	ability of AICPA members to invoke GAAP in expressing audit opinions on financial statements
FASAB Members	technical expertise and contextual knowledge about the environment of Federal financial reporting; professional credibility	professional recognition, modest monetary compensation
FASAB staff	technical expertise and ability to draft standards and help build consensus	compensation, career advancement, professional recognition
Members of Accounting and Auditing Policy Committee (AAPC) and other task forces	technical expertise on subject matters; information about actual practice, and perspectives on feasibility of proposed standards; donation of time	opportunity to voice opinions; feasible and better solutions to practice problems
Federal agency	comments on exposure	technical guidance for

management, Chief Financial Officers, Inspector Generals	drafts and other documents; compliance with standards; making staff resources available for participation in due process	fulfilling accounting and financial reporting requirements; cost savings that result from pooling talents and resources
Congressional committee, especially oversight committees, and authorizing and appropriations committees	attention to accounting, financial management and reporting issues; requests for action and information; general oversight	more and better information about agency financial status and performance
Other users, including public policy analysts in groups that monitor Federal finances	interest in and use of financial reports to improve policy analysis and recommendations	more and better information for analyzing Federal Government finances

### **The Governmental Accounting Standards Board**

The Governmental Accounting Standards Board (GASB) is a public- and private-sector partnership that brings together about thirty organizations. The degree of each organization’s involvement with the GASB reflects the extent to which its professional, economic, and political interests could be promoted or have to be protected. Four organizations were particularly instrumental in the creation of the GASB and continue to bear primary responsibility for its viability. These will be discussed first, followed by a general discussion of the others.

The Financial Accounting Foundation (FAF) is a nonprofit organization created in 1973 to oversee and provide funding for the Financial Accounting Standards Board (FASB), the only GAAP promulgated at the time. After the FASB failed in its bid to assume responsibility for setting GAAP for state and local governments, the FAF’s duty to preserve and protect the interest of the FASB led to its entry into the negotiation process for forming a Governmental Accounting Standards Board. The FAF faced two options:

1. Option 1 was to accept the emergence of an institutional structure consisting of a Government Accounting Foundation and a Governmental Accounting Standards Board that would operate parallel to the FAF/FASB structure. Such an institutional structure would be dominated by the National Association of State Auditors, Comptrollers, and Treasurers (NASACT) and the Government Finance Officers Association (GFOA). The members of these organizations manage the finances of state and local governments and have considerable credibility with and influence over elected officials and chief executives of those governments, who are organized into seven national public interest groups (see Exhibit 4.3).
2. Option 2 was to sponsor a Governmental Accounting Standards Board, and in effect internalize potential future conflicts between the two boards. The jurisdictional conflicts were the result of the FASB’s broad interpretation of “financial accounting”

to include that of the public sector, and the ambiguous private- or public-sector designation of so-called special entities, such as hospitals and universities.

After weighing the costs and benefits of these alternatives, the FAF chose Option 2. In the course of extended negotiations that led to the FAF's sponsorship of a GASB, the public sector representatives obtained the following favorable terms: (1) three public-sector representatives, including one nominated by the NASACT and another by the GFOA, would become member of the expanded FAF board of trustees; (2) a broad-based Governmental Accounting Standards Advisory Council (GASAC) would be formed (see Exhibit 4.3 for its membership) and would have the authority to review and make nominations to the FAF trustees for GASB membership. The Council took on the responsibility of assisting in raising funds for supporting the GASB.

The FAF had the organizational infrastructure and oversight authority over the FASB, the sole promulgator of GAAP at the time of GASB's establishment. The NASACT, GFOA, and the seven public interest groups possessed the political clout and legal authority over government accounting standards. Many organizations joined the GASAC; their contributions and incentives are also identified in Exhibit 4.6. With the AICPA's willingness to consider giving GAAP designation to GASB's standards, the pieces came together for the creation of the GASB as we know it now.

The GASB has been in operations since 1984. With its seven board members being appointed or reappointed to five-year terms, the GASB's current members now belong to the third generation of membership. Due to funding constraints, the board has remained part-time, with the exception of a full-time chairman. It appears that personal satisfaction and professional recognition make up a substantial part of the members' inducements. The GASB usually holds public meetings at its headquarters in Norwalk, Connecticut on a monthly basis, supplemented by teleconferences and other means of communication. It is in the nature of a part-time board with members scattered around the country to depend on the research and support services of its full-time professional staff.

Exhibit 4.6 Stakeholders of the GASB

Stakeholders	Contribution	Inducement
Financial Accounting Foundation (FAF)	oversight, funding, appointment of GASB members, resolution of jurisdictional conflicts with FASB	the ability to influence direction of non-Federal government accounting and reduce potential detriments to FASB.
American Institute of Public Accountants (AICPA)	enhancing professional authoritativeness of GASB standards by recognizing them as GAAP	the ability of AICPA members to invoke GAAP in expressing audit opinions
National Association of State Auditors, Comptrollers and	members' endorsement of the GASB and its standards to state legislatures;	availability to state governments of uniform accounting standards with a

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Treasurers (NASACT)	willingness to accept nation-wide standards, partial funding support; participation in due process	high level of professional authoritative; a seat on the board of trustees of the FAF
Government Finance Officers Association (GFOA)	members' endorsement of the GASB and its standards to state and local governments; acceptance of standards; partial funding support; participation in due process	availability to local and state governments of uniform accounting standards with a high level of professional authoritative; a seat on the board of trustees of the FAF
GASB members	technical expertise, contextual knowledge about the environment of state and local government financial reporting, professional credibility	professional recognition and compensation
GASB staff	technical expertise and ability to draft standards and help build consensus	compensation and professional recognition, career advancement
Federal Government	the Federal Government perspective, interest in and endorsement of standard setting process	more reliable information about Federal grant programs; better information for financial impact on the Federal Government
State and Local Government Legislators and Chief Executives	endorsement of GASB and its standards to state and local government for implementation, and approval of funding support for the GASB	enhanced credibility of government financial reports, better information for monitoring government financial status and performance
Finance officials in individual state and local governments	acceptance of standards, and seeking funding and political support for implementation	availability of standards for guiding development of accounting systems; knowledge of standards used by external auditors
CPA firms as auditors of state and local government	acceptance and use of GAAP as basis for expressing audit opinions	availability of nation-wide standards recognized by the AICPA for expressing audit opinions
Capital market participants, investors and creditors	demand for accountability and use of financial information, endorsement of GAAP-based financial	comparable financial information for credit assessment, lower cost for information analysis

	statements as a factor in bond rating	processing
Citizens and taxpayers advocacy groups	demand for accountability and use of financial information	information for assessing tax and debt burden, lower cost for information analysis
Public finance professionals	expertise and insight about the government environment	information for assessing impact on professional fields or practice

### A Comparative Summary

The previous sections have provided both narrative descriptions and conceptual analyses of the FASAB and the GASB. Before we deal with the substantial and substantive standards they have produced in the next chapters, Exhibit 4.7 points out their similarities and differences in terms of various organizational attributes.

Exhibit 4.7 A Comparative Summary of the FASAB and GASB

	GASB	FASAB
Common Features		
<ul style="list-style-type: none"> <li>▪ AICPA recognizes the standards of both GASB and FASAB as GAAP.</li> <li>▪ Both boards focus on financial accounting and external general purpose reporting.</li> <li>▪ Both boards use extensive due process procedures in setting standards.</li> <li>▪ Both boards are essentially part-time, with full-time staff support and extensive use of task forces.</li> </ul>		
Dissimilarities		
Number of Governments to which standards are applicable	50 state governments and 87,000 local governments	One government — the United States or Federal Government
Domain of Standards	state and local government accounting and financial reporting	Accounting and financial reporting of the Federal Government as a whole and component units
Sponsorship and Oversight	A private-sector nonprofit foundation, in association with an advisory council with private- and public-sector membership	OMB Director, Treasury Secretary and Comptroller General
Legal Authority	No direct legal authority, relying on groups representing government officials to endorse GASB and its standards to	OMB Director, Treasury Secretary and Comptroller General reserve legal authority, but agree to adopt FASAB standard developed

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	legislative and oversight bodies	through agreed-upon procedure
Enforcement	Through independent audit process; binding on governments that value unqualified audit opinions	Through the audit process and by administrative requirements; no authority to legislative and judicial branches to comply
Funding	Contributions and sale of publications	Jointly by the three sponsors and the CBO
Dissemination of standards	Pronouncements for sale and subscription, other documents available from the GASB's web site.	All documents available for download from FASAB's website free of charge

**Appendix 1**Statement of Federal Financial Accounting Standards  
Issued by the FASAB (1994 to 2006)

Important Notice: The level of significance reflects the author's own assessment.

Significance	No.	Statement	Issued	Effective
***	1	Accounting for Selected Assets and Liabilities	Mar 30, 1993	1994
***	2	Accounting for Direct Loans and Loan Guarantees	Aug 23, 1993	1994
***	3	Accounting for Inventory and Related Property	Oct 27, 1993	1994
**	4	Managerial Cost Accounting Concepts & Standards	July 31, 1995	1998
***	5	Accounting for Liabilities of the Federal Government	Dec 20, 1995	1997
***	6	Accounting for Property, Plant & Equipment (PP&E)	Nov 30, 1995	1998
***	7	Accounting for Revenue and Other Financing Sources	May 10, 1996	1998
***	8	Supplementary Stewardship Reporting	June 11, 1996	1998
*	9	Deferral of Implementation Date for SFFAS 4	Oct 3, 1997	1998
*	10	Accounting for Internal Use Software	Oct 9, 1998	2001
*	11	Amendments to Accounting for PP&E - Definitions	Dec 15, 1998	1999
**	12	Recognition of Contingent Liabilities from Litigation	Feb 5, 1999	1998
*	13	Deferral of Para.65.2-Material Rev.-Related Transactions	Feb 5, 1999	1999
*	14	Amendments to Deferred Maintenance Reporting	April 1999	1999
***	15	Management's Discussion & Analysis	April 1999	2000
*	16	Amendments to Accounting for PP&E - Multi-Use Heritage Assets	July 1999	2000
***	17	Accounting for Social Insurance	Aug 1999	2000
*	18	Amendments to Accounting Standards for Direct & Guaranteed Loans	May 19, 2000	2001
*	19	Technical Amendments to Accounting Standards for Direct & Guaranteed Loans	March 2001	2003
*	20	Elimination of Disclosures Related to Tax Revenue Transactions by the Internal Revenue Service, Customs, and Others	Sep 2001	2001

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*	21	Reporting Corrections of Errors and Changes in Accounting by the Internal Revenue Service, Customs, and Others	Oct 2001	2002
**	22	Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations (amends SFFAS 7)	Oct. 2001	2001
**	23	Eliminating the Category National Defense Property, Plant, and Equipment	May 2003	2003
***	24	Selected Standards For the Consolidated Report of the United States Government	March 2001	2002
**	25	Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment	July 2003	2005
*	26	Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25	Nov. 2004	2004
*	27	Identifying and Reporting Earmarked Funds	Dec. 2004	2005
*	28	Deferral of the Effective Date of Reclassification of the Statement of Social Insurance: Amending SFFAS 25 and 26	Jan. 2005	upon issuance
**	29	Heritage Assets and Stewardship Land	July 2005	Phased
*	30	Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts	Aug. 2005	2009
**	31	Accounting for Fiduciary Activities	Oct. 2006	2009
**	32	Consolidated Financial Report of the U.S. Government Requirements	Sept. 2006	2006

**Appendix 2**  
**Statement of Governmental Accounting**  
**and Financial Reporting Issued by the GASB**  
**(1984 to 2006)**

Important Notice: The level of significance reflects the author's own assessment.  
The effective dates are generally the fiscal year after the date indicated.

<b>Significance</b>	<b>No.</b>	<b>GASB Statement</b>	<b>Issued</b>	<b>Effective</b>
***	1	Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide	July 1984	July 1984
*	2	Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457	Jan. 1986	Dec. 15, 1986
*	3	Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements	April 1986	Dec. 15, 1986
**	4	Applicability of FASB Statement No. 87, "Employers' Accounting for Pensions," to State and Local Governmental Employers	Sept. 1986	Sept. 1986
**	5	Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers	Nov. 1986	Dec. 15, 1986
**	6	Accounting and Financial Reporting for Special Assessments	Jan. 1987	June 15, 1987
*	7	Advance Refundings Resulting in Defeasance of Debt	March 1987	Dec. 15, 1986
**	8	Applicability of FASB Statement No. 93, "Recognition of Depreciation by Not-for-Profit Organizations," to Certain State and Local Governmental Entities	Jan. 1988	Jan. 1988
**	9	Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting	Sept. 1989	Dec. 15, 1989
*	10	Accounting and Financial Reporting for Risk Financing and Related Insurance Issues	Nov. 1989	1990 or 1994
***	11	Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements	May 1990	Deferred
**	12	Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers	May 1990	June 15, 1990
*	13	Accounting for Operating Leases with Scheduled Rent Increases	May 1990	1990
***	14	The Financial Reporting Entity	June	Dec. 15,

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			1991	1992
**	15	Governmental College and University Accounting and Financial Reporting Models	Oct. 1991	June 15, 1992
**	16	Accounting for Compensated Absences	Nov. 1992	June 15, 1993
***	17	Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements—an amendment of GASB Statements No. 10, 11, and 13	June 1993	June 1993
*	18	Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs	Aug. 1993	June 15, 1993
*	19	Governmental College and University Omnibus Statement—an amendment of GASB Statements No. 10 and 15	Sept. 1993	June 15, 1994 and June 15, 1994
**	20	Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting	Sept. 1993	Dec. 15, 1993
*	21	Accounting for Escheat Property	Oct. 1993	June 15, 1994
**	22	Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds	Dec. 1993	June 15, 1994
*	23	Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities	Dec. 1993	June 15, 1994
*	24	Accounting and Financial Reporting for Certain Grants and Other Financial Assistance	June 1994	June 15, 1995
**	25	Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans	June 1994	June 15, 1996
**	26	Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans	Nov. 1994	June 15, 1996
**	27	Accounting for Pensions by State and Local Governmental Employers	Nov. 1994	June 15, 1997
*	28	Accounting and Financial Reporting for Securities Lending Transactions	May 1995	Dec. 15, 1997
**	29	The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities	Aug. 1995	Dec. 15, 1993
*	30	Risk Financing Omnibus—an amendment of GASB Statement No. 10	Feb. 1996	June 15, 1996
*	31	Accounting and Financial Reporting for Certain Investments and for External	March 1997	June 15, 1997

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		Investment Pools		
*	32	Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—a rescission of GASB Statement No. 2 and an amendment of GASB Statement No. 31	Oct. 1997	Dec. 31, 1998
***	33	Accounting and Financial Reporting for Nonexchange Transactions	Dec. 1998	June 15, 2000
***	34	Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments	June 1999	Phased by size
**	35	Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34	Nov. 1999	Phased by size
**	36	Recipient Reporting for Certain Shared Nonexchange Revenues—an amendment of GASB Statement No. 33	April 2000	Same as No. 33
**	37	Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34	June 2001	Same as No. 34
**	38	Certain Financial Statement Note Disclosures	June 2001	Same as No. 34
*	39	Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14	May 2002	June 15, 2003
*	40	Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3	March 2003	June 15, 2004
**	41	Budgetary Comparison Schedules—Perspective Differences—an amendment of GASB Statement No. 34	May 2003	Same as No. 34
**	42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	Nov. 2003	Dec. 15, 2004
***	43	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	April 2004	Phased by size
**	44	Economic Condition Reporting: The Statistical Section	May 2004	after June 15, 2005
***	45	Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions	June 2004	Phased by size
**	46	Net Assets Restricted by Enabling Legislation	Dec. 2004	June 15, 2005
**	47	Accounting for Terminal Benefits	June	same as

			2005	No. 45
**	48	Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	Sept. 2006	Dec. 15, 2006

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