



May 13, 2016

David Mader
Controller
U.S. Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Dear Mr. Mader:

We recently became aware of an implementation issue pertaining to section 200.431(g)(3) of the *Uniform Guidance* issued by OMB on December 26, 2013. This issue, as contained in the current guidance, will create uncertainty and volatility pertaining to the allowability of pension costs in cost allocation plans.

Specifically, 200.431(g)(3) states that “For entities using accrual based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP.” The Governmental Accounting Standards Board issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, in June 2012*. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

GASB 68 brought substantial and improved changes to accounting for pensions, including a clear separation between funding and accounting for pension costs. As a result, Federal cost negotiators are now allowing only the “GASB 68 computed retirement expense” rather than what the state actually contributed toward funding the pension cost based on actuarial calculations.

From a practical standpoint, this means there is no longer a clear alignment with pension funding by a state and the allowability of pension costs for reimbursement by the Federal government. For example, states that are funding more than the GASB 68 calculated pension cost are being informed that the additional amount is not in compliance with 200.431(g)(3), and therefore, the difference would be disallowed. One state reported that its gross GASB 68 pension expense was \$152 million while the amount funded for pensions based on actuarial determined rates was \$214 million. While it varies, the federal participation is approximately 20 percent of the gross – clearly, this is significant and a major impact on the amount this state can recover from the Federal government. Conversely, states that are funding less than the GASB 68 calculated pension cost may be allowed to recover more costs than were actually funded.

We believe these are unintended consequences that should be examined closely by OMB. In the interim, we believe OMB should provide an exception to the provisions of 200.431(g)(3) and continue to allow the actual pension costs that are funded. We also ask that during the consideration and examination of these consequences and our exception request, OMB carefully review all sections of 200.431(g) to help avoid other unintended interpretations, consequences and conflicting language. If helpful, we would be happy to provide examples of some of our concerns with this section.

National Association of State
**Auditors, Comptrollers
and Treasurers**



While our primary concern at this time is with allowability of pension costs, we would also like to make OMB aware that the same situation will result with the application of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is effective for fiscal years beginning after June 15, 2017.

Should you have any questions or wish to discuss our request further, please contact Kinney Poynter, NASACT executive director, at (859) 276-1147, or me at (515) 281-4877.

Sincerely,

A handwritten signature in black ink that reads "Calvin McKelvogue". The signature is written in a cursive style.

Calvin McKelvogue
President, NASACT
Chief Operating Officer, Iowa

cc: Darryl Mayes, U.S Health and Human Services, Division of Cost Allocation
Janet Turner, U.S. Health and Human Services, Division of Cost Allocation